



**GL Hearn**

Part of Capita Real Estate

# Review of Housing Needs Evidence across West Surrey HMA

**For Guildford Borough Council**

Final Report

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## **Prepared by**

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## 1 INTRODUCTION

1.1 Guildford Borough Council has commissioned GL Hearn to prepare a report which brings together evidence on Objectively Assessed Housing Need (OAN) across the West Surrey Housing Market Area (HMA).

1.2 The report has been commissioned to sit alongside with West Surrey SHMA: Guildford Addendum ('the Addendum'), which was commissioned in the context set out in Paragraph 2a-007 of Planning Practice Guidance on *Housing and Economic Development Needs Assessments*, which outlines the following:

*"Local planning authorities should assess their development needs working with the other local authorities in the relevant housing market area ... in line with the duty to cooperate. This is because such needs are rarely constrained precisely by local authority administrative boundaries.*

*Where Local Plans are at different stages of production, local planning authorities can build on the existing evidence base of partner local authorities in their housing market area but should co-ordinate future housing reviews so that they take place at the same time."*

1.3 The relevant housing market area covers West Surrey, comprising the local authorities of Waverley and Woking together with Guildford.

1.4 The three HMA local authorities jointly commissioned the 2015 West Surrey SHMA. This took forward draft SHMA reports which had been prepared previously by GL Hearn for Waverley and Guildford, and reflected work undertaken to define the HMA geography.

1.5 The 2015 SHMA took account of information available at that time, including 2012-based Household Projections and 2015 economic forecasts. Since its preparation, new 2014-based Population and Household Projections have been issued by ONS/CLG, the UK has voted to withdraw from the EU with implications on the economic outlook, and further population estimates and economic forecasts have been published.

1.6 The PPG is clear in Para 2a-016 that wherever possible, local needs assessment should be informed by the latest information. It is against this context that GBC decided to update its evidence base. Updated evidence was also needed to ensure that it covered a period of 15 years from the point of adoption of the plan to accord with NPPF Paragraph 157.

1.7 GBC approached both its HMA partners, Waverley and Woking, with a view to commissioning a HMA-wide update to the SHMA. However the three authorities plans' were at different stages of preparation, with Waverley having undertaken the Regulation 19 consultation on its' Local Plan based on the 2015 SHMA, and Woking having an adopted Core Strategy and not having

commenced work on its Review. In this context the three authorities agreed that Guildford would prepare a SHMA Addendum to provide an updated assessment of OAN for the Borough using a consistent approach and methodology to the 2015 SHMA (see Addendum Para 1.3). The SHMA Addendum did this.

- 1.8 In the context of Paragraph 2a-007 of the PPG, this report seeks to bring together the evidence base on housing need of the three HMA authorities, setting out the latest position. In doing so, it takes account of Waverley Borough's Local Plan examination hearings which have considered the OAN for Waverley Borough; together the Guildford SHMA Addendum. It is prepared in a context where there is an ongoing commitment of the three authorities to joint working to assess and meet the HMA's housing needs as set out in the *West Surrey Statement of Common Ground*.

## **2 THE WEST SURREY SHMA**

- 2.1 The West Surrey SHMA identified that the boroughs of Guildford, Waverley and Woking together constitute a functional housing market area, as the best fit to a local authority geography. It identified links and housing market inter-relationships with adjoining authorities including East Hampshire, Rushmoor, Surrey Heath, Runnymede and Elmbridge; but these authorities all fall within HMAs with other authorities.
- 2.2 The SHMA assessed housing needs following the approach set out in Planning Practice Guidance, considering needs over the period from 2013 to 2033. 2013 was the appropriate starting point as this represented the latest demographic data available when the modelling work was undertaken.
- 2.3 The latest official demographic projections available at that time were 2012-based Sub-National Population Projections and Household Projections. The SHMA modelled a number of sensitivities, considering alternative scenarios for migration but concluded essentially that the 2012-based projections were sound, albeit that there were some uncertainties regarding demographic trends and data relating to Guildford.
- 2.4 Scenarios for economic growth were then overlaid to consider whether there was a basis for adjusting upwards the housing need to support the economy. The SHMA considered the economic development needs evidence for each authority, drawing on studies and analysis undertaken by AECOM for Guildford and Woking; and by Atkins for Waverley. Holding the 'commuting ratio' stable, but modelling improvements in economic participation based in particular on trends towards increased health and life expectancy amongst older age groups and later retirement, it considered the housing need which would be required to support economic growth. This was higher than the 'demographic need' in Guildford and Woking suggesting that the economy could drive above-trend

in-migration. The SHMA found that across the HMA the level of housing provision required to support economic growth was 27% higher than that based on demographic trends alone.

- 2.5 The SHMA also considered the affordable housing need, identifying an annual need from 1,144 households requiring support in meeting their housing needs across the HMA, of which 455 households were in Guildford. Based on current local policies, it identified that it would not be deliverable to meet this need in full; nor would it necessarily be necessary given that net additional dwellings would only arise from concealed and homeless households.
- 2.6 Considering evidence from market signals, the SHMA found notable affordability pressures with entry level house prices more than 11 times earnings of younger households; and evidence that over the 2001-11 decade, home ownership and household formation both fell.
- 2.7 Responding to the affordable housing need and market signals evidence, which are related to one another, and taking account of the 27% upward adjustment through enhanced migration to the area which had already been made; the SHMA concluded that a further adjustment to household formation rates would be warranted returning household formation for those aged 25-34 to 2001 levels. It concluded on this basis in identifying an OAN for 1,729 dpa across the HMA with a split by authority as shown below.

**Table 1: West Surrey SHMA OAN Conclusions, dpa 2013-33**

|  | <b>Guildford</b> | <b>Waverley</b> | <b>Woking</b> | <b>HMA</b> | <b>Source</b>    |
|--|------------------|-----------------|---------------|------------|------------------|
| <b>Demographic-led Need</b>                | 517              | 493             | 341           | 1352       | SHMA Table 20    |
| <b>Economic-led Need</b>                   | 637              | 319             | 471           | 1427       | SHMA Table 31    |
| <b>Need with Affordability Adjustments</b> | 668              | 519             | 517           | 1527       | SHMA Table 53/55 |
| <b>Student Growth Adjustment</b>           | 25               |                 |               |            |                  |
| <b>OAN</b>                                 | 693              | 519             | 517           | 1729       | Paras 10.37-39   |

- 2.8 In Guildford's specific case, the OAN included an upward adjustment of 25 dpa to support student population growth which was based on the growth in students expected by Surrey University and the expected split living on campus/ in halls as against in the wider housing market; alongside the growth in the population of student age groups which was already captured within the demographic projections.
- 2.9 As Table 1 shows, the aggregate adjustments within the OAN calculation increased the need from the starting point of 1,352 dpa to an OAN of 1,729 dpa – an increase of 28%. This aggregate scale of adjustments could, GL Hearn considers, reasonably be expected to support an improvement in affordability, not least in that it would represent a substantial increase in housing supply over historic levels as well as the demographic need.

**3 THE GUILDFORD SHMA ADDENDUM**

- 3.1 As outlined in Section 1 above, the Guildford SHMA Addendum was commissioned against a context whereby local plans were at different stages of preparation. At its time of preparation Waverley BC had undertaken its Regulation 19 Pre-Submission Consultation and submitted its Local Plan for examination in December 2016. Woking BC had not (and has not) commenced a review of its strategic policies including the housing requirement.
- 3.2 GBC discussed the joint commissioning of an OAN update with its HMA partners, but given the different local plan timeframes there was not an appetite for a joint assessment, and the authorities discussed and agreed the scope of the Guildford-specific addendum including that it would adopt a consistent approach and methodology to the joint 2015 SHMA. Guildford BC, as the commissioning authority, shared the draft Addendum findings with its partner HMA authorities and discussed it with them prior to its finalisation. Waverley and Woking BC raised no issues regarding its contents.
- 3.3 The Addendum aligns to a plan period of 2015-34. The starting point relates to the then latest ONS Mid-Year Population Estimates with the end point seeking to ensure a 15 year time period is covered from the point of adoption of the plan. The approach is methodologically consistent to that in the 2015 SHMA.
- 3.4 As a starting point it considered the latest, 2014-based Household Projections. The approach is again consistent to that in the PPG and the 2015 SHMA. Whilst a sensitivity testing was included, considering alternative migration scenarios and the inter-relationship with London (again a consistent approach to the 2015 SHMA), it concluded that the latest official projections represented a robust basis for drawing conclusions on the demographic need.
- 3.5 GL Hearn note that the 2014-based Household Projections considered across the HMA (1,241 dpa 2013-33) result in a 5% lower housing need than the 2012-based Household Projections (1,313 dpa, 2013-33). This evidence was presented at the Waverley Local Plan examination. However for Guildford, the 2014-based demographic projections suggest a higher need than the 2012-based set. Taking the 2014-based Household Projections for Guildford would therefore not result in an unmet housing need.

**Table 2: Comparing 2012- and 2014-based Household Projections across West Surrey HMA<sup>1</sup>**

| 2013-33          | 2012-based | 2014-based | Change |
|------------------|------------|------------|--------|
| <b>Guildford</b> | 511        | 570        | 12%    |
| <b>Waverley</b>  | 465        | 378        | -19%   |
| <b>Woking</b>    | 337        | 293        | -13%   |
| <b>HMA</b>       | 1313       | 1241       | -5%    |

<sup>1</sup> Drawn from Waverley EIP Matters Statement

- 3.6 Furthermore it can be seen that the change in the plan period from 2013-33 to 2015-34 results in an increase in the starting point need for Guildford from 570 dpa (from Table 2 above) to 557 dpa (as shown in Addendum Table 9). The change in timeframe has thus not resulted in an unmet housing need. The Addendum additionally takes account of more recent ONS Mid-Year Population Estimates which resulted in a rebased scenario showing 577 dpa.
- 3.7 The Addendum moved on in Section 4 therein to consider employment growth and the relationship between this and housing need. It took account of the latest econometric forecasts from Experian, Oxford and Cambridge for the 2015-34 period from November/December 2016. Using a consistent approach to that in the 2015 West Surrey SHMA, the average growth rate projected by these was applied to the baseline employment in the Borough resulting in expected employment growth of 12,900 jobs between 2015-34. These latest forecasts postdate the UK's decision to leave the EU.
- 3.8 The Addendum used a consistent approach to modelling commuting and double jobbing to the SHMA, and modelled the SHMA assumptions on economic participation as well as alternative scenarios. Using its preferred economic participation assumptions, the economic-led housing need in Guildford was for 579 dpa. Using the SHMA's assumptions would have resulted in a very similar figure (584 dpa, Figure 16) with the difference being so small as to be *de minimus*.
- 3.9 The Addendum updated the affordable housing need, identifying a need for 517 dpa, 8% higher than the need for 478 dpa shown in the 2015 SHMA. The market signals evidence pointed to house prices having increased in the Borough, to rental values which were the same, and an LQ affordability ratio which had worsened slightly from 10.9 to 11.5.
- 3.10 Adopting a consistent approach to the 2015 SHMA, an adjustment to improve affordability was modelled returning household formation rates for those aged 25-34 to their 2001 level over the plan period. This resulted in a need for 631 dpa, when applied to the economic-led need.
- 3.11 Using a consistent approach to the SHMA, the Addendum concluded that a similar adjustment of 23 dpa was required to support growth in the student population.
- 3.12 Drawing the evidence together, the Addendum identified an OAN for 654 dpa in Guildford Borough (2015-34). This was 39 dpa lower than the need shown in the SHMA, but as a result of a lower upward adjustment being necessary to support economic growth. Table 3 shows the OAN findings on a comparable basis.

**Table 3: OAN Findings for Guildford in the 2015 SHMA and 2017 Addendum**

|  | 2015 SHMA | 2016 Addendum |
|--|-----------|---------------|
| <b>Starting Point Demographic Projection</b> | 517       | 557           |
| <b>Economic-led Need</b>                     | 637       | 579           |
| <b>Need with Affordability Adjustments</b>   | 668       | 631           |
| <b>Student Growth Adjustment</b>             | 25        | 23            |
| <b>OAN</b>                                   | 693       | 654           |

- 3.13 As Table 1 shows, the aggregate adjustments within the OAN calculation increased the need from the starting point of 557 dpa to an OAN of 654 dpa – an increase of 17%. This aggregate scale of adjustments could, GL Hearn considers, reasonably be expected to support an improvement in affordability, not least in that it would represent a substantial increase in housing supply over historic levels (c. 300 dpa) as well as the demographic need.
- 3.14 The reduction in the OAN for Guildford is principally related to lower expected employment growth over the period to 2034. In preparing this Paper, GL Hearn has compared the average of employment growth forecasts from Cambridge Econometrics, Oxford Economics and Experian based on the 2015 datasets which fed into the West Surrey SHMA, with the Autumn 2016 datasets which informed the Addendum. Considering employment growth over the period to 2033, this being consistent with the SHMA timeframe and a time period covered in all of the forecasts, the latest evidence shows a reduction in employment growth forecast of 8% across the Housing Market Area, with the strongest reduction in growth expected in Guildford which over this period reduces by 15%. The reduction across the HMA indicates that this is not simply an issue of an alternative ‘distribution’ of employment growth but an overall reduction which can be expected to reduce the housing need across the West Surrey HMA.

#### **4 WAVERLEY’S LOCAL PLAN EXAMINATION**

- 4.1 Waverley BC’s submitted Local Plan made provision for 9,861 dwellings over the 2013-32 period, equivalent to 519 dpa, based on the OAN identified in the 2015 West Surrey SHMA.
- 4.2 At the Examination Hearings, the Inspector heard evidence on OAN from a range of parties. He identified that consideration needed to be taken of the 2014-based Population and Household Projections and that a higher uplift should be made to tackle affordability in response to the market signals evidence, to increase provision of affordable homes and to take into account anticipated changes in migration from London to Waverley. On this basis he provisionally identified an OAN for 507 dpa.
- 4.3 The Waverley OAN figure of 507 dpa was 12 dpa (2%) lower than that identified in the 2015 West Surrey SHMA (519 dpa).

- 4.4 The Waverley Inspector’s approach was in effect to look afresh at the OAN evidence and undertake his own calculations, using the 2014-based Household Projections as a starting point. This reinforces the need to consider the latest demographic projections.
- 4.5 His provisional calculations of Waverley’s OAN, covering the 2013-32 period, are shown below.

**Table 4: Inspector’s Waverley Provisional OAN Calculations**

| Category  | dpa        | Running total |
|---|------------|---------------|
| <b>Starting point – 2014 population projections</b> | <b>379</b> | <b>379</b>    |
| <b>Vacancy Rate Adjustment of 4.5%</b>              | 17         | 396           |
| <b>Uplift for market signals of 25%</b>             | 99         | 495           |
| <b>Uplift to reflect London migration</b>           | 12         | 507           |
| <b>Uplift to reflect 50% of Woking unmet need</b>   | 83         | 590           |
| <b>TOTAL Housing Requirement</b>                    | <b>590</b> |               |

- 4.6 The 25% adjustment for market signals was applied to the starting point demographic need (with the inclusion of an allowance for vacant homes). This was assessed within a context whereby Waverley’s LQ affordability ratio in 2016 was 15.5.
- 4.7 Guildford’s LQ affordability ratio at the base point of the Guildford OAN in 2015 is 10.9, with the figure in 2016 being 12.2. This is notably below the ratios in Waverley (14.5 and 15.5, as shown below) and indeed those in Woking. This points to Guildford being more affordable than the other two HMA authorities.

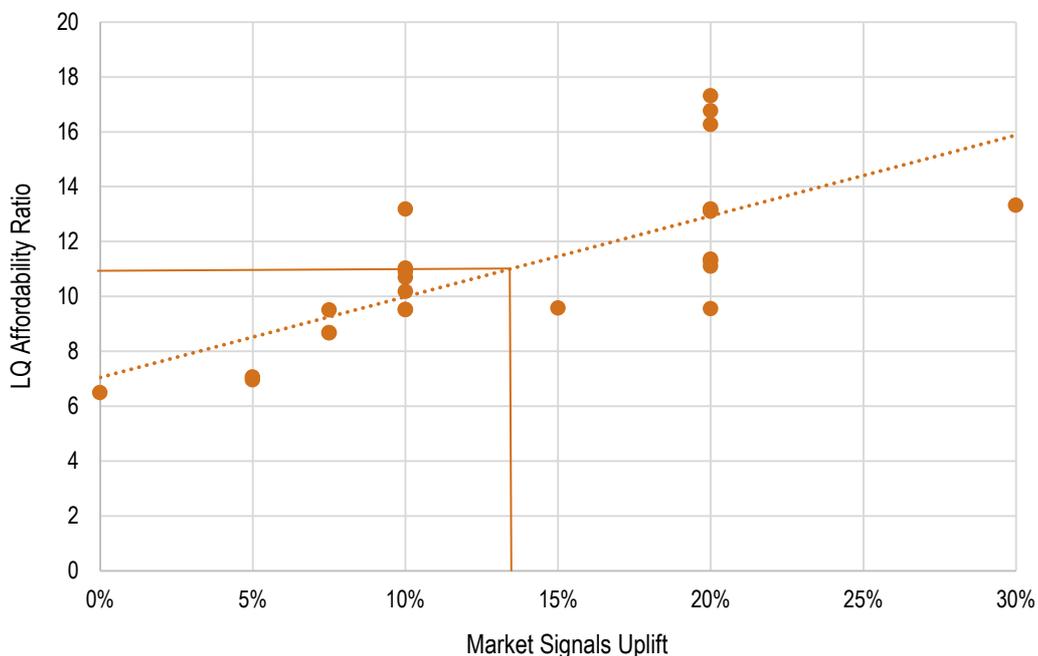
**Table 5: Lower Quartile House Price to Income Ratios, West Surrey HMA Authorities**

|             | Guildford | Waverley | Woking |
|-------------|-----------|----------|--------|
| <b>2015</b> | 10.9      | 14.5     | 14.0   |
| <b>2016</b> | 12.2      | 15.5     | 13.7   |

Source: ONS Ratio of House Prices to Workplace Based Earnings, Table 6c

- 4.8 There is currently no set rule or calculation for what adjustment for market signals would be appropriate. The PPG (2a-020) sets out that it should be reasonable; and related to the extent of affordability constraints and degree to which they have worsened. Planning Inspectors at local plan examinations have consistently applied adjustments to the demographic starting point. However there has been variation in the conclusions drawn on what proportional adjustment would be warranted.
- 4.9 The chart below, drawn from analysis by Lichfields, sets out market signals applied by Inspectors and evidence base studies in other areas. Taking Guildford’s affordability ratio of around 11, we have plotted the equivalent market signals adjustment to this using Lichfield’s best fit line. This would be around a 14% adjustment. This in GL Hearn’s view, supports the Addendum conclusions where the aggregate adjustment on the starting point projections is 17%.

**Figure 1: Benchmarking against Market Signals Uplifts applied in Other Locations**



4.10 This analysis supports the adjustments and conclusions drawn within the Guildford Addendum, where a 17% aggregate adjustment is made, the OAN of 654 being 17% above the demographic starting point (including vacancy allowance) of 557 dpa.

4.11 An upward adjustment for London migration is not appropriate in a context whereby the emerging London Plan Review is informed by 10 year migration trends; and thus the equivalent scenario for Guildford would be a need for between 521 – 584 dpa (Addendum Table 9), the midpoint of this being 553 dpa which broadly aligns with the SNPP.

## 5 OAN ACROSS THE HOUSING MARKET AREA

5.1 The Waverley EIP Inspector has provisionally identified an OAN for Waverley of 507 dpa (2013-32). The Guildford Addendum using a consistent approach shows a need for 654 dpa in Guildford Borough (2015-34). The latest OAN evidence for Woking remains the 2015 SHMA identifying a need for 517 dpa. Taken together the evidence would point to a need for 1,678 dpa across the HMA. This is a modest 3% below that identified in 2015 SHMA, principally reflecting lower expected employment growth as shown by late 2016 econometric forecasts.

5.2 This figure is arguably an optimistic one as it may over-estimate the housing need in Woking, noting that the latest official household projections point to a lower level of growth; whilst economic forecasts for the Borough have fallen by 6% from those considered at the time of the 2015 SHMA.