Strategic Housing Market Assessment

South Essex

Executive Summary

May 2016

Turley
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1. Turley – in partnership with specialist demographic consultancy Edge Analytics – were commissioned by the Thames Gateway South Essex (TGSE) authorities[1] of Basildon, Castle Point, Rochford, Southend-on-Sea and Thurrock to prepare a Strategic Housing Market Assessment (SHMA).

2. The assessment will form an important part of the evidence base used to set future housing requirements in each of the TGSE authorities as respective Local Plans are developed, and has been prepared in accordance with the National Planning Policy Framework (NPPF) and Planning Practice Guidance (PPG).

Defining the Housing Market Area

3. The PPG highlights the importance of considering housing needs across functional housing market area (HMA) geographies, acknowledging that this often extends beyond local authority boundaries. The SHMA analyses a range of spatial indicators – in line with the PPG – to determine the extent to which TGSE represents a single HMA, and the evidence strongly indicates that TGSE continues to represent an appropriate HMA across which needs can be robustly assessed. There is a containment of moves within this geography, while there is a broad commonality in house prices, with a marked distinction compared to adjacent areas. There is also a strong level of containment with regards to commuting, although London does clearly represent an important place of work for residents.

Objective Assessment of Need

4. In objectively assessing housing needs, a stepped methodology should be followed in order to comply with the NPPF and PPG. The PPG identifies the latest 2012-based sub-national household projections (SNHP) as the 'starting point' for the estimate of overall need, which would indicate a need for approximately 2,886 dwellings per annum over the period from 2014 to 2037, allowing for vacancy.

5. However, it is noted within the PPG that the level of projected need implied by the 'starting point' should be adjusted to reflect:

    • Local demographic factors and evidence, recognising that the household projections may require adjustment to reflect factors which are not captured in past trends;

    • The need to support economic growth based upon an assessment of likely future job growth; and

    • The need to take account of appropriate market signals, including market indicators of the balance between the demand for and supply of dwellings and consideration of the calculated need for affordable housing.

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[1] Unless otherwise specified, references to Basildon, Castle Point, Rochford, Southend-on-Sea and Thurrock relate to the whole administrative area of each local authority

6. The level of population growth projected under the 2012-based sub-national population projections (SNPP) – which underpin the household projections – has been analysed in detail within the SHMA, in the context of longer-term and more up-to-date population evidence. Following this analysis, Edge Analytics conclude that the 2012 SNPP represents a robust demographic starting point from which to consider housing needs across TGSE.

7. The analysis has highlighted the important relationship between London and TGSE authorities, with evidence of higher levels of population growth in Basildon and Thurrock in particular over more recent years which has coincided with an increased flow from London. Furthermore, evidence prepared to underpin the Further Alterations to the London Plan (FALP) assumes that the outflow of migrants from London to neighbouring authorities will increase beyond the level implied by the 2012 SNPP, in order to more closely reflect pre-recession trends. It is considered appropriate to uplift the assumed level of net migration to TGSE over the projection period to 2037, generating a need for approximately **3,070 dwellings per annum** to reflect a greater level of population growth as a result of anticipated growth pressures from London.

8. The PPG is also clear in expecting local authorities to take employment trends into account when considering housing needs, by considering the scale of labour force growth required to support likely job creation over the plan period. It is noted that the Councils are in the process of commissioning additional evidence in the form of an Economic Development Needs Assessment (EDNA) which will assess likely future job growth in TGSE alongside implied labour-force behaviours. In the absence of this evidence, this report concludes that a job growth of 0.7% per annum is reflective of a reasonable likely level of growth over the projection period. This is based upon an appraisal of historic trends and the forecasts prepared by two reputable forecasting houses.

9. The demographic scenarios developed in this assessment – in particular when there is an uplift to allow for increased flows from London – would generate a sizeable growth in the population of TGSE, and subsequently grow the labour force. The analysis indicates that the elevated growth in population factoring in the London adjustment could support this identified level of 0.7% job growth across TGSE. The scale of associated labour force growth is, however, dependent upon a range of factors, including commuting patterns, unemployment and future changes to economic activity rates.

10. There is considerable uncertainty around how labour-force behaviours will change in the future, and the modelling which has informed this assessment indicates that a modest further uplift to housing provision could on this basis be required to support the level of job growth forecast in TGSE. On this basis it is recommended that a further uplift of 460 dwellings per annum to **3,530 dwellings per annum** could be reasonably required to support the identified future level of job growth in the area. This takes account of a range of modelling sensitivities applied to ensure a level of flexibility in supporting likely job growth.

11. Analysis of market signals within the SHMA confirms that whilst TGSE is – in absolute terms – an area with comparatively low house prices when compared with many neighbouring areas, it is apparent that it demonstrates symptoms of worsening market

signals, in the context of the PPG. The picture is by no means consistent across the market signals, nor does the area as a whole – or any one authority – demonstrate a significant or consistent level of market imbalance when compared in particular against national benchmarks. Unlike many areas in and around London and across the southern regions, there are comparatively large parts where prices and rents are relatively low and where there is evidence of a demand for housing as a result.

12. Overall, the evidence points towards affordability pressures across the HMA, on which basis it is considered appropriate to apply an upward adjustment to the implied housing need from the household projections. The analysis in the SHMA has identified within the household projections an assumption – in converting the population into households – that there will be only a limited improvement in household formation rates amongst younger people. This follows a historic period in which the household formation rates of younger households have fallen. This has coincided with a period of worsening market conditions, reflected in the market signals and increasing affordability issues. In order to positively respond to the moderate worsening in market conditions – which may have constrained the formation of new households – it is considered appropriate to apply a positive adjustment to household formation rates amongst younger age groups. This reverses the decline in household formation rates amongst younger age groups – where this has not already been anticipated within the 2012 SNHP – to reach a level last seen in 2001. At this point, the ratio between house prices and earnings was at the long-term average level, and a return to this set of market conditions implies a healthier and more sustainable housing market. This adjustment when applied to the adjusted projections of population growth to factor in the impact of London and to ensure that employment growth is supported elevates the need for housing by a further 7%.

13. Collectively this has led to the identification of a range of **objectively assessed need for between 3,275 and 3,750 dwellings per annum** across the TGSE housing market area. In composite, the adjustments applied uplift the 'starting point' of the 2012 SNHP by between 13 – 30%. This captures uplifts applied in relation to household formation rates and positive adjustments to population projections, while enabling a level of flexibility in ensuring that the identified level of housing need supports identified strong employment growth potential across TGSE. These are all important factors which suggest that there will be a sustained need for new housing in the HMA.

14. Provision within this range would more than double the recent historic average annual rate of new housing completions in TGSE, thereby significantly boosting supply as advocated by the NPPF. This would be anticipated to have an impact on improving affordability recognising the scale of the uplift cumulatively from the 'starting point' demographic projection and historic levels of supply. This would also support a continued level of job growth through a sustained growth in the labour force, although this should be further considered within the context of the findings of future economic evidence to be commissioned by the TGSE authorities.

15. The SHMA has identified a range of OAN for the HMA. This recognises that the authorities are undertaking further work through the preparation of an Economic Development Needs Assessment (EDNA) to appraise the anticipated economic potential of the area. In recognising the evidence of strong need for housing of all tenures – in the context of the market signals evidence and the calculation of affordable

housing need – as well as the area's stated growth ambitions, **this study concludes that weight should be given to the upper end of the OAN range** in the development of housing policy and the assessment of housing land supply.

16.   As advocated by the PPG, housing needs have been assessed across the TGSE housing market area. In order to inform Local Plan preparation, consideration has also been given to the scale of need within each of the individual authorities over the period from 2014 to 2037. This is summarised in the following table.

Figure 1.1:   Summary of Objectively Assessed Need Range

	Lower end of range	Upper end of range
Basildon	763	837
Castle Point	326	410
Rochford	312	392
Southend-on-Sea	953	1,132
Thurrock	919	973
TGSE	**3,272**	**3,744**

Source: Turley, 2015; Edge Analytics, 2015

17.   In accordance with the PPG, the assessment of housing need has been undertaken on a 'policy-off' basis. In taking the OAN forward into policy, individual authorities will need to consider the implications of potential policy factors including, for example, the ambitions for higher than forecast levels of job growth, the viability of delivering affordable housing need, as well as supply factors such as land availability, infrastructure capacity and development viability or constraints.

Affordable Housing Need

18.   The PPG also requires local authorities to separately assess the need for affordable housing, by identifying those households in current need and estimating future newly arising need, balanced against supply. This indicates that there is a significant level of unmet and likely future need for affordable housing across TGSE, with a calculated need for 1,877 affordable homes annually over the next five years to clear the backlog and meet newly arising needs. Once the backlog is cleared, only newly arising needs will need to be met, requiring 1,767 affordable homes annually over the remainder of the projection period. As summarised in the following table, there is a need for affordable housing throughout TGSE, although it is notable that the sizeable committed supply of new affordable housing in Thurrock is assumed to clear the backlog of households in greatest need within the next five years.

Figure 1.2: Affordable Housing Need Assessment

	Annual shortfall in affordable housing to meet current backlog	Annual net new need	Net annual affordable housing need (five years)
Basildon	103	152	**254**
Castle Point	62	236	**298**
Rochford	59	210	**268**
Southend-on-Sea	77	573	**650**
Thurrock	-191	597	**406**
TGSE	**110**	**1,767**	**1,877**

Source: Turley, 2015

19.   The assessment also seeks to consider how various intermediate products can play a role in meeting the need for affordable housing, by identifying households who are unable to afford market housing but can afford intermediate products. With the exception of Thurrock, this suggests that shared ownership requires a similar income to that required to privately rent, suggesting that this product provides households with an option to choose between the flexibility of the private rented sector and the opportunity to secure and invest in a shared ownership property. Affordable rent can also play a role in meeting needs by lowering the costs associated with entry-level market housing, although many other intermediate products are only likely to provide alternative options for households who can already afford to privately rent rather than playing a role in meeting the needs of households unable to afford this tenure.

20.   It is important to recognise that the affordable housing needs assessment is based on an entirely separate methodology to that employed to objectively assess the need for housing in TGSE. There is a complex relationship between market housing and affordable housing, with existing households in the private market, for example, vacating a property if their need for affordable housing was met.

21.   However, given the sizeable need for affordable housing identified through this assessment, it will be important for the Councils to seek to maximise the delivery of affordable housing through the provision of market housing. Indeed, as set out above, this strongly suggests that weight should be placed upon the upper end of the range of assessed housing needs as being representative of the full OAN in accordance with the PPG and NPPF. As noted at paragraph 16, this OAN will need to be considered alongside other factors in the development of subsequent housing requirements within policy.

Size and Type of Housing Needed

22.   Following the recommendation of an OAN, the PPG requires a further consideration of the type and size of housing required. This can be analysed by considering trends in the current population, with future change in the demographic profile assumed to shape

future demand for different types and sizes of property. This indicates that there will be a future demand for property of all sizes and types, with a specific demand for family sized housing. There will also be a future demand for flats, although a continuation of recent levels of supply could result in an overprovision of flats relative to the suggested demand. This does not, however, take account of factors which could impact upon future trends, such as the increased appeal of flats due to their lower cost.

23.   Over the projection period, there will also be a specific need generated by older people, with this age group projected to grow considerably over the period to 2037 within the HMA. This growth could generate an additional demand for specialist housing, based on estimated prevalence rates, resulting in a suggested need for 330 – 350 additional specialist housing bedspaces annually. This includes sheltered and extra care housing, and provision of this type of accommodation will contribute towards meeting the objectively assessed need. Outside of the OAN, however, is an assumed increase in the communal population, which is not converted into private dwellings and is therefore additional to the OAN. This is entirely attributable to people aged 75 and over, indicating that there will be an additional need for approximately 150 communal bedspaces annually across TGSE over the projection period, in addition to the identified OAN.

24.   Consideration is also given to the needs of households looking to build their own homes, with the Government promoting the growth of this sector and implementing a new Right to Build, which gives custom builders the right to a plot from local authorities. Local authorities are expected to establish local registers of demand, which will provide a useful future mechanism for monitoring demand for self-build and custom building housing across TGSE. This should be taken into account in developing respective Local Plans.

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