Appendix 8

Report on the West Surrey SHMA
by Neil MacDonald, NMSS

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A Review of the West Surrey SHMA as it relates to the Objectively Assessed Housing Needs of Waverley

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This report has been prepared for local parish councils.

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NMSS take considerable care to ensure that the analysis presented is accurate but errors can slip in and even official data sources are not infallible, so absolute guarantees cannot be given and liability cannot be accepted. Statistics, official or otherwise, should not be used uncritically: if they appear strange they should be thoroughly investigated before being used.
A Review of the West Surrey SHMA as it relates to the Objectively Assessed Housing Needs of Waverley

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A Review of the West Surrey SHMA as it relates to the Objectively Assessed Housing Needs of Waverley

Executive Summary

Aim
i. This report reviews the GL Hearn West Surrey Strategic Housing Market Assessment, Final Report, September 2015 (the ‘SHMA’) as it relates to the full objectively assessed housing needs (the ‘full OAN’) of Waverley District.

Approach
ii. The SHMA concludes that the full OAN of Waverley District is 519 homes a year for the plan period – 2013-33. This is made up as follows:

<table>
<thead>
<tr>
<th>Homes a year</th>
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<tbody>
<tr>
<td>Demographic projection</td>
<td>493</td>
</tr>
<tr>
<td>Improving affordability</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>519</strong></td>
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iii. The SHMA concludes that (unlike Guildford) there is no need to add additional homes in Waverley to support either economic growth or the potential growth in the number of students at the University of Surrey. This note therefore focuses exclusively on demographically based estimate of the OAN and the case for adding additional homes to improve affordability.

Summary
iv. The key issue emerging from this report is the significantly different picture painted by the most recent projections and population statistics from that set out in the SHMA. Whilst the SHMA suggests that the full objectively assessed need for housing in Waverley is 519 homes a year 2013-33, the analysis in this report indicates that an up to date estimate would lie in the range 400 +/- 30 homes a year.

v. The key points are:
   a. The SHMA is based on DCLG’s 2012-based household projections which suggested a need for 486 homes a year. Those projections have been updated to reflect the 2013 Mid-Year Estimates resulting in a slightly increased estimate of the number of homes needed of 493 a year 2013-33.
   b. It is now possible to roll forward the data sets used by two years. Using the 2014-based DCLG projections (published July 2016) suggests a housing need of 395 homes year. Updating this with the 2015 Mid-Year Estimates gives a figure of 372 homes a year.
   c. Some variability in the projections is to be expected as the ONS uses short trend periods for projecting migration – 5 years for flows to and from other parts of the UK and 6-years for international flows. However, an
examination of the data for flows both within the UK and internationally suggests that there is something more here than year to year volatility or even cyclical variations in flows. Even in 2013-14 and 2014-15 there is little evidence that flows are returning to pre-recession levels, indicating that flows may settle at lower levels. On this basis the 2014-based population projections (which are based on flows within the UK over the period 2009-14) or those projections updated for the 2015 MYE (and so based on 2010-15) would be the appropriate basis on which to plan.

d. A widely used response to the variability in the ONS population projections is to adjust them to reflect 10-year flows. Adjusting the 2014 SNPP to reflect flow over the period 2005-15 suggests that 441 homes a year are needed. However, this brings in flows from the years before the economic downturn. It is doubtful that this is appropriate as there is scant evidence that a return to those flow patterns is happening. The report therefore concludes that housing need at that level should be regarded at the fringes of the plausible range, if not beyond.

e. Given that projections based on periods since the recession suggest housing need of 395 and 372 homes a year and there is little indication of a return to pre-recession flow levels, it is suggested that 400 homes +/- 30 should be regarded as the plausible range for the demographic OAN. This brings in the lower figure obtained by updating the 2014 SNPP for the 2015 MYE (372 homes a year) and stops just short of the 10-year UK flow figure which seems high given that there is little indication of a return to pre-recession flows.

vi. The SHMA argues that an allowance should be made to improve affordability by adjusting the household formation rates of 25-34 year olds so that, at minimum, they return to their 2001 level by 2033. This report suggests that the high price of housing and poor affordability in Waverley is a reflection of its desirability and that this is not likely to be affected by increasing the number of homes built above the demographic OAN – a view which has recently been endorsed by an Inspector determining an appeal in Cotswold (which is a similarly desirable area). Moreover, the changes in affordability that have been seen in the area are not out of line with those seen in the rest of Surrey, suggesting that there is not a case for singling out Waverley for an affordability adjustment. The report therefore concludes that there is no case for an affordability adjustment.

Conclusion

vii. The SHMA does not suggest that there is a need to add additional homes to support job growth or increased student numbers. In the absence of a clear case for an affordability adjustment, the demographic OAN should therefore be taken as the full OAN i.e. 400 +/- 30 homes a year over 2013-33.
A Review of the West Surrey SHMA as it relates to the Objectively Assessed Housing Needs of Waverley

1. Introduction
1.1. This report reviews aspects of the GL Hearn West Surrey Strategic Housing Market Assessment, Final Report, September 2015 (‘the SHMA’) as it relates to full Objectively Assessed housing Needs (‘the full OAN’) of Waverley District. The intention is to provide an evidence base for use by local parish councils in making representations on the Waverley Local Plan.

2. Approach
2.1. The SHMA concludes that the full OAN of Waverley District is 519 homes a year for the plan period – 2013-33. This is made up as follows:

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2.2. The SHMA concludes that (unlike Guildford) there is no need to add additional homes in Waverley to support either economic growth or the potential growth in the number of students at the University of Surrey. This note therefore focuses exclusively on demographically based estimate of the OAN and the case for adding additional homes to improve affordability (and is not a full review of the OAN). It compares the figures suggested by GL Hearn with analysis using the NMSS model and the latest Office for National Statistics (ONS) and Department for Communities and Local Government (DCLG) statistics and projections.

3. The demographic OAN
3.1. The demographic OAN of a local authority area is an estimate of its need for housing based solely on demographic considerations without any allowance for factors such as market signals, affordable housing or the homes which might be needed to support economic growth.
3.2. The Government’s Planning Practice Guidance\(^1\) (PPG) stipulates that the starting point for estimating an OAN should be the DCLG’s latest household projections. It acknowledges, however, that it may be necessary to adjust those projections to take account of factors that are not reflected in the trends on which they are based.

3.3. GL Hearn and its collaborators use the DCLG’s 2012-based household projections\(^2\) as their starting point as these were the most recent projections when the SHMA was prepared. In arriving at the SHMA estimate of the demographic OAN, GL Hearn discuss the component parts of the latest DCLG projections but conclude that it is not necessary to make any adjustments to them apart from updating them to reflect the 2013 Mid-year Population Estimates\(^3\). This gives an estimate of 493 homes a year for the period 2013-33 using an assumption that 4.7% of homes are either empty or used as second homes\(^4\). Had GL Hearn used the latest DCLG projections without adjustment and applied the same empty and second homes rate they would have concluded that the demographic OAN was 486 homes a year 2013-33, not 493. The difference is not, however, significant being well within the error margins of this type of analysis.

3.4. Since the publication of the SHMA DCLG have published the 2014-based population projections\(^5\) (in July 2016). These were based on the ONS’s 2014-

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\(^1\) The Planning Practice Guidance was launched by the Department for Communities and Local Government (DCLG) on 6 March 2014 as a web-based resource and has been periodically updated since then. It is available at [http://planningguidance.planningportal.gov.uk/](http://planningguidance.planningportal.gov.uk/)


\(^3\) Each year the ONS produces Mid-year Population Estimates. These give the ONS’s estimate of the population of local authorities at 30 June in the year in question. By updating the projection to reflect the 2013 Mid-year Estimates GL Hearn have sought to give a more up to date picture. However, it is not possible for a consultant to replicate exactly the method used by the ONS and it is possible that inaccuracies may have been introduced in the updating process. NMSS have not investigated whether this is the case. The latest mid-year estimates are the Annual Mid-year Population Estimates, 2015 which were published on 23 June 2016 and are available at [https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/latest](https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/latest)

\(^4\) See SHMA paragraph 4.59 on page 65.

based Sub-national Population Projections\textsuperscript{6} (the “2014 SNPP”) that were published in May 2016. Also, in June 2016 the ONS published the 2015 Mid-Year Populations Estimates\textsuperscript{7}. These three releases update the sources used by GL Hearn by two years and give a markedly different picture. Using the same empty and second homes percentage:

- the ‘as published’ DCLG 2014 projection would suggest a demographic OAN of 395 homes a year 2013-33; and,
- updating the DCLG 2014 projections to reflect the 2015 Mid-Year Estimates would give a figure of 372 homes a year 2013-33.

3.5. Whilst there would need to be good reasons for not updating the analysis to reflect the latest projections and population data, this should not be done uncritically. The next section of this note therefore explores why the new projections suggest such different results and whether they should be used ‘as published’ or with the kind of adjustments which the PPG acknowledges may be necessary.

**Reasons for the differences in the new projections**

3.6. The main reason why the new projections are suggesting a much lower homes requirement is that the new population projections (the 2014 SNPP) envisage that the population of Waverley will grow much less than anticipated in the previous projections (the 2012 SNPP):

- The 2012 SNPP envisaged that the population would grow from 122,600 in 2013 to 139,000 in 2033, an increase of 16,400 or 13.4%
- The 2014 SNPP envisages that the population will grow from 122,400 in 2013 to 135,900 in 2033, an increase of 13,500 or 11.0%.

3.7. To understand why the new projections are suggesting different results it is necessary to understand how they are constructed. The starting point is the fact that the future population of any area is its current population plus births, less deaths plus net migration into the area. Net migration can be divided into internal migration – migration to and from the rest of the UK – and international migration – flows to and from other countries. These six factors – births, deaths and the internal and international flows in and out – are known as the ‘components of change’. The ONS constructs its projections by making


projections for each of the components of change and applying these to the base population one year at a time. After each year's births, deaths and migration flows have been taken into account a new base population is established to which the next year's births, deaths and migration flows are applied. The cycle then continues to the end of the projection period.

3.8. Chart 1 (below) shows the projections for the six components of change in the 2012 and 2014-based ONS population projections for Waverley over the period 2013-33. Note that the flows to and from the rest of the UK dwarf the others by a considerable margin (as is the case for most local authority areas). Note also that the figures given are for the entire 20 year period – hence the large numbers.

3.9. The differences between the individual components of the two projections are not large and are more clearly seen if they are plotted separately – as in Chart 2:

3.10. As is clear from Chart 2, the big change is the lower projected flow into Waverley from the rest of the UK. The lower international ‘in’ and ‘out’ flows are by no
means insignificant but they partially cancel each other out as both the inflow and the outflow are smaller in the 2014 SNPP. The changes to the numbers of births and deaths are relatively small, but the lower births and higher deaths will both contribute to lowering the projected population increase.

3.11. What follows concentrates on the larger changes – the changes to the internal and international migration flows.

**Projections for flows to and from the rest of the UK**

3.12. The ONS project flows to and from local authorities in England by calculating flow rates in a trend period of 5 years up to the base date of their projections. For the 2012 SNPP (on which the DCLG 2012-based projections are based) the trend period was 2007-08 to 2011-12 inclusive. For the 2014 SNPP the period was 2009-10 to 2013-14. The period used for the 2012 SNPP neatly encapsulated the recent economic downturn and recession during which flows to and from many parts of the country were below longer term trends. The later period covers the recovery from the downturn. However, the impact on flows to and from local authority areas has varied significantly across the country: each needs to be considered on its merits.

3.13. Charts 3a shows the historical data for flows to Waverley from the rest of the UK together with the 2012 SNPP projections for those flows. The trend period used in the 2012 SNPP (2007-12) is shaded in blue. It includes data from 5 years.

3.14. Chart 3b moves the trend period forward two years to the period used for the 2014 SNPP and add in the 2014 SNPP projection for the inflow.
3.15. As a result of moving the trend period forward two years two years drop out of the period (2007-08 and 2008-09, with yellow circles) and two years come into the trend period (2012-13 and 2013-14, with red squares). As the average of the flow rates in the years which drop out of the trend period is higher than the average of the years which come into the trend period the average flow rate over the trend period falls and the projected flow is lower in the 2014 SNPP than in 2012 SNPP.

3.16. This change in the projected flow as a result of the difference between the data points entering and leaving the trend period is an entirely mechanical process: the important question is whether this mechanistic change produces a projection which is likely to be a more up to date view of the longer term flow?

3.17. Many have criticised the ONS for using a method that relies on only five trend points and so is subject to significant variation from projection to projection as two of the five data points (i.e. 40%) change each time. A widely used alternative is to adjust the ONS projections to reflect 10-year trend periods (although this is not without technical complications). Chart 3c show the impact which using the period 2005-06 to 2014-15 (the latest ten year period for which data is available).
3.18. Using this ten-year period brings in the higher flow rates in the years 2005-07 with the result that the average flow rate is higher than in either 2012 SNPP or 2014 SNPP. However, the question remains, does this represent a more likely view of the longer term trend?

3.19. The key issue is whether the higher flows before 2008 represent a higher flow pattern that is likely to be re-established? There was what appears to have been quite a significant drop in the inflow between 2007-08 and 2008-09 coinciding with the economic downturn. However, the latest data up to June 2015 (shown in the charts 3a – 3c above) does not suggest that a return to higher flows is yet underway. Indeed, the flows in the last five years are all well below the average flow seen in the period 2001-07. The pragmatic approach would be to recognise that this is an area of uncertainty and that the 2014 SNPP and that projection modified for ten-year flows should be thought of as different ends of plausible range of likely outcomes.

3.20. Chart 4 is the equivalent of Chart 3c for flows from Waverley to the rest of the UK.
3.21. For this flow the differences between the 2012 SNPP and the 2014 SNPP are small as the difference between the average of data points which drop out of the ONS’s trend period and those which enter it is small. The ten-year projection brings in more, higher, early year flows with the result that the outflow projected on that basis is higher. Again the 2014 SNPP and the 2005-15 ten-year flow adjustment to it could be thought of as ends of a plausible range.

**International migration**

3.22. The ONS project international migration to and from local authorities by, in effect, disaggregating their national projection for international flows. Chart 5 shows the 2012-based National Population Projection (2012 NPP) and its 2014-based successor, the 2014 NPP. The former underpins the 2012 SNPP and the later the 2014 SNPP. As can be seen, both national projections are below the net flow seen in the previous 10 years and about half of the net flow suggested by the most recent data. The 2014 NPP settles to a slightly higher long term net flow: 170,000 people a year rather than 150,000. As result, all other things being equal, you would expect net international flows into an authority to be slightly larger in the 2014 SNPP than in the 2012 SNPP.
3.23. Chart 6 is the equivalent for international inflows of Chart 4. The detailed method used by the ONS to project these flows is somewhat different, in effect using historic data for international flows into and out of authorities over a six year period to scale the national flow projections. However, similar principles can be applied in interpreting Chart 6, except that the two years that drop out of the trend period when moving from 2012 SNPP to 2014 SNPP are 2006-07 and 2007-08 (not 2007-08 and 2008-09).

3.24. In this case the data points which drop out of the trend period (yellow circles) are significantly higher than those which enter it (red squares) resulting in a lower projected international inflow notwithstanding that the national projected net inflow which is being disaggregated is larger.

3.25. The discrepancy between the national projections which underpin both the 2012 and 2014 SNPPs and the recent flow levels has led some to suggest that there should be a substantial uplift to the projected net international flows into local authorities to reflect a more realistic view of future international migration. Whilst there may be a case for some uplift, it would be wrong to uplift the
projected international flows for individual local authorities by some standard national factor as the discrepancy between what has happened recently and what is projected varies considerably from one authority to another. A better approach would be to adjust the projected flows to and from individual authorities to reflect what has actually happened in those areas.

3.26. Chart 6 shows the impact of adjusting the inflows to reflect the actual flows into Waverley in the period 2005-15 (the dark grey line “2014 SNPP + 05-15 international”, the trend period for which is shaded in blue). As can be seen, the ten-year trend period brings in several years with higher inflows with the result that the projected inflow is larger than in either 2012 SNPP or 2014 SNPP. However, the historic data in Chart 6 shows a steady decline in the net international inflow in which the economic downturn does not seem to have played much part. There is also very little indication of a recovery in flows towards the pre-recession levels. Whilst again we might regard the adjusted and unadjusted 2014 SNPP projections as ends of a range, the 2014 SNPP seems more plausible based on the recent data.

3.27. Chart 7 is the equivalent of Chart 6 but for international outflows. In this instance the 2014 SNPP and 2014 SNPP + 10 year adjustment lines are virtually on top of each other. As with international inflows, the 2014 SNPP projection for international outflows is smaller because the two data points which enter the trend periods in the move form 2012 SNPP to 2014 SNPP are lower than the two which leave.

3.28. Again there seems to be a falling trend which has only been slightly affected by the economic downturn and no indication of a return to earlier, higher, outflows. That suggests that the 2014 SNPP is to be preferred to the 2012 SNPP.

**Updating to reflect the latest historical data from the 2015 Mid-Year Estimates**

3.29. It is a consequence of how long it takes to produce a full, 25-year set of official projections that shortly after the 2014-based Sub-national Population Projections
were published in May (2016) the next year’s estimates for the actual population were published in June as the 2015 Mid-Year Estimates. Although it is not possible to do a full re-working of the 2014 SNPP to replicate completely the ONS methodology, a reasonable approximation can be made. This is what GL Hearn did when they updated the 2012 SNPP to reflect the 2013 MYE and updating the 2014 SNPP with the 2015 MYE would be the up to date equivalent.

3.30. Chart 8 (below) compares the components of change for the 2014 SNPP and the 2014 SNPP updated to reflect the 2015 MYE. The differences between the individual components is small and they can only be accurately seen if they are plotted separately as in Chart 9.

3.31. As can be seen from Chart 9, the biggest difference in the projected components of change is the lower flow into Waverley from the rest of the UK. This is caused by the trend period being updated from 2009-14 to 2010-15 which result in a
data point entering the trend period which is slightly lower than the one that leaves it – which can just about be detected in Chart 3b above. However, even this change only amounts to 650 people over 20 years or 33 people a year.

3.32. There is an even smaller increase in the flow out to the rest of the UK, which combines with the reduced flow in to reduce the population increase projected. The changes to births and deaths are simply as a result of the same fertility and mortality rates being applied to slightly different number of people. The changes to international migration are negligible.

3.33. The overall impact of these small changes is to reduce the projected population increase from 13,500 2013-33 to 12,100, a fall of 1,400. When worked through to a housing need figure using DCLG’s 2014-based projections and GL Hearn’s empty and second homes percentage this gives a housing need figure of 372 homes a year 2013-33. The difference from the figure of 395 homes a year obtained by using the ‘as published’ 2014-based DCLG projections should not be regarded as significant as it is caused by small changes in individual data points – changes which are well within the error margins for such figures. However, there is no reason to regard the updated figure as any less plausible that the ‘as published’ figure. Both should be taken into account in any discussion of the range within which the OAN falls.

Errors in the historical data: Unattributable Population Change (UPC)

3.34. In theory, the population measured in the 2001 census plus births, less deaths, plus net migration flows in the interim, should equal the population measured in the 2011 census. This is, however, never the case: there is always a discrepancy known as ‘Unattributable Population Change’ (UPC). As we have high quality systems for registering births and deaths, the errors are likely to be in some or all of the census estimates for 2001 and 2011 and the migration flows, both internal and international.

3.35. The key point to note is that if there are errors in the estimates of past migration flows then projections based on those estimates are likely to be inaccurate.

3.36. The SHMA simply notes that in Waverley’s case the “Levels of UPC are fairly moderate”\(^8\) and does not discuss it in any depth, although a sensitivity analysis is carried out which suggests that adjusting for UPC would reduce Waverley’s demographically-based housing need from 493 homes a year 2013-33 to 472 homes a year\(^9\), a difference of 21 homes a year.

3.37. For Waverley, UPC is negative which means that the combined effect of applying the ONS’s best estimates for births, deaths and net migration flows to the 2001 census population estimate is to over-estimate the 2011 census population

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\(^8\) SHMA paragraph 4.38, page 56

\(^9\) SHMA Table 22, page 68
estimate i.e. a negative adjustment is needed to reconcile the two sets if figures. However, UPC is only -9% of the population change recorded between 2001 and 2011, which is small compared with, for example, Guildford for which it was -92% of the observed population change.

3.38. The ONS disaggregates UPC by age and sex in the 2015 MYE - see Chart 10 below.

3.39. As can be seen, the profile is very far from uniform with most of the negative UPC being found in the under 25 age groups. For a significant proportion of older age groups UPC is positive. As under 25 age groups have low household formation rates and older groups have much higher household formation rates, it is by no means certain that adjusting for the overall negative UPC will have the effect of reducing the projected increase in household and hence the number of homes needed.

3.40. The ONS initially took the view that it was unnecessary to make adjustments for UPC and no such adjustments are included in their sub-national population projections. However, they have since produced a very detailed report which discusses the reasons for the errors and seeks to given an indication of their likely scale\textsuperscript{10}. This was accompanied by a data tool which gives an assessment of the possible contribution which the census data and migration flows may have made to the UPC for each authority\textsuperscript{11}.


3.41. Figure 1 (below) reproduces the summary chart for Waverley from the ONS tool. The shaded cells indicate the components of change and age and sex groups in which the ONS analysis suggests that there may be problems with its estimates that could have caused them to under- or overestimate the actual growth in the population. By using this tool to guide which components of change and age/sex are adjusted and then adjusting only those groups to the extent necessary to eliminate the unattributable population change in them, it is possible to produce an adjusted set of historic components of change. That adjusted set can then be used to calculate flow rates and flows in the place of those used in the 2014 SNPP.

Figure 1: ONS Data Tool summary chart for Waverley

3.42. A preliminary analysis using this method has suggested that a UPC adjustment could lead to an increase of 22 in the number of homes needed a year over the period 2013-33, rather than the reduction of 21 found by the SHMA analysis.

3.43. It is not suggested here that this preliminary analysis using the ONS tool is authoritative. It does, however, indicate that not only is the issue of whether to adjust for UPC controversial, but also that the method which should be used make any adjustment is also very much open to debate. It is suggested that in cases like this where UPC is relatively small and the impact of any adjustments is highly uncertain the wisest course is not to make an adjustment.

Conclusions on the population to be planned for

3.44. Table 1 summarises the various population projections referred to in this section.
The key points to note are:

- The starting point for the SHMA was the 2012 SNPP which envisaged a population growth of 16,400 2013-33.
- GL Hearn updated this using the 2013 MYE. This slightly reduced the population increase projected to 16,300 (but slightly increased the number of homes needed from 486 a year 2013-33 to 493 as can happen owing to differences in the population age profiles as different age groups have different household formation rates).
- The 2014 SNPP has a lower population increase (13,500 2013-33), largely due to a lower projected flow from the rest of the UK. This is one example of a migration flow which has fallen in size and not recovered since the economic downturn.
- Updating the 2014 SNPP to reflect the 2015 Mid-Year Estimates (without any other adjustments) reduces the population increase to 12,100 due to a series of small changes in the data points that drop out of and enter the trend periods as the source datasets are moved forward one year.
- Using a ten-year trend period for flows to and from the rest of the increases the 2014 SNPP’s projected population increase significantly to 16,000, an increase of 2,500 people over the 2014 SNPP for the period 2013-33. This is due to the longer trend period bringing in higher flows from before the recession. However, there are serious doubts as to whether this is appropriate as flows in the last three years show no sign that they are likely to recover to those levels.
- The impact of adjusting the international flows to reflect ten-year flows is smaller: it only increases the population increase projected in the 2014 SNPP from 13,500 to 13,900, an increase of 400 over 20 years. It is also questionable whether this adjustment is appropriate as international flows show no sign of return to pre-recession levels.
- Adjusting both flows to and from the rest of the UK and international flows to reflect ten-year flow rates would increase the projected population increase to 16,500 but it is highly doubtful as to whether this is appropriate as neither the UK or international flows are showing signs of returning to pre-recession rates.

In summary, the new projections and population data suggest that the population for which housing should be planned for probably lies in the range 12,100 to 16,000 people over the period 2013-33. Figures towards the top of this range can only be justified on the basis that net migration flows will return to the rates seen...
prior to the recession and at present they show little sign of doing so.

**Household formation rates**

3.47. To turn an estimate for the population of an area into an estimate of the number of households in that area, a view needs to be taken of how that population will group itself into households.

3.48. A simple example may help to illustrate the issue here. Consider a town with a population of 10,000 people. If they were all to live on their own, 10,000 homes would be needed. Alternatively, if they were all to live in families of four only 2,500 homes would be needed. In the real world, average households sizes tend to be somewhere in between one and four: the average for England in 2014 was 2.38\(^1\).\(^2\)

3.49. Household formation rates measure the tendency of a group of people to form separate households (or more exactly, the probability that a person in a group would be a ‘household representative person’ – what in less politically correct days was called a ‘head of household’). A household formation rate of 1 means that everyone in a group is a household representative person and that there are as many households as people in the group. A household formation rate of 0.5 means that half of the people in the group are household representative persons and that there are half as many households as people.

3.50. DCLG household projections are based on applying their projections for how household formation rates will change in the future to the sub-national population projections produced by ONS.

3.51. In the SHMA, GL Hearn use the DCLG’s 2012-based household formation rates without adjustment in estimating the demographic OAN. They note that the 25-34 age group is projected to have significantly lower household formation rates than projected in the 2008-based projections but make no adjustment for this at this stage in their analysis (although they return to the topic in their discussion of market signals). This is consistent with the NMSS view that the 2012-based household formation rates should be used ‘as published’. That view has been set out in a number of papers and reports\(^3\) and is not elaborated on here as it is not a point of difference.

3.52. The household formation rates in the new, 2014-based DCLG household projections are very close to those in the 2012-based set. Chart 11 (below)

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\(^1\) Source ONS, Families and Households 2014

compares the Stage 1 age/sex household formation rates (otherwise known as household representative rates or HRRs) in the two projections. Once again the two sets are so close that the differences can only be seen accurately if they are plotted separately as in Chart 12.

3.53. A difference of 1% in the household formation rates means that that for a given number of people in that age/sex group the new projections would suggest that 1% more households would be formed. As can be seen from Chart 12, there are only three age/sex groups for which the difference between the two sets of projections exceeds 1%; most are much smaller.

3.54. The overall conclusion is that the changes to household formation rates between the 2012 and 2014-based projections is not material: it typically only affect the number of homes need by 1 a year.

**Empty and second homes**
3.55. In order to ensure that there are sufficient homes to accommodate the likely increase in households, allowance needs to be made for homes that will at any one time be empty or used as second homes, and so not be used as a household’s main home. There is a range of reasons why homes may be empty: they may be rental properties during void periods between tenancies; be pending sale after a death; undergoing refurbishment or otherwise not in a habitable condition; or be in unpopular locations.

3.56. In the SHMA, GL Hearn use data from the 2011 census for “household spaces with no usual residents” which they say can be used as a proxy for empty vacant and second homes. However, a home with no usual resident is not necessarily a home which would ordinarily be thought of as being an empty or second home. The category includes homes that are occupied by people who do not qualify as ‘usual residents of the UK’ and properties that are used as commercial holiday lets and as such are not part of the ordinary housing stock which is available to meet housing need. In some cases, the census figures will also reflect judgements made by census enumerators when census forms are not returned.

3.57. The alternative source of data for empty and second homes is the council tax database. As revenue depends on the database, councils go to considerable lengths to ensure that it is fully up to date and accurate. It has the added advantage of being refreshed annually unlike the census data which cannot be updated between censuses. NMSS therefore believe that it is the better source for estimates of empty and second homes.

3.58. For Waverley the difference between the 2011 census figure for household spaces with no usual residents (4.7%) and the council tax base figure (3.26% using the 2015 Council Tax database) is modest. Using the Council Tax figures would produce numbers that are 1.5% lower than those obtained using the census figures. This difference is hardly significant so this report continues to use the SHMA’s higher figure.

A revised assessment of the demographic OAN

3.59. Using the 2015 council tax database estimate of empty and second homes, and the population projections discussed above produces the following scenarios:

<table>
<thead>
<tr>
<th>Homes a year</th>
<th>2013-33</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting point: DCLG 2014 (based on 2014 SNPP)</td>
<td>395</td>
</tr>
<tr>
<td>Updating 2014 SNPP to reflect the 2015 MYE</td>
<td>372</td>
</tr>
</tbody>
</table>

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14 SHMA paragraph 3.17, page 37

15 For 2011 census purposes, a usual resident of the UK is anyone who, on census day, was in the UK and had stayed or intended to stay in the UK for a period of 12 months or more, or had a permanent UK address and was outside the UK and intended to be outside the UK for less than 12 months.
3.60. Given the difficulty in justifying the 10-year UK flow adjustment that brings in the higher pre-recession flows when there scant evidence that flow rates are returning to those levels, that scenario should be regarded as on the fringes of the plausible range. That might suggest a range of 400 homes a year +/- 30 over the period 2013-33 as the demographic OAN, reflecting the considerable uncertainties evident from the analysis.

3.61. This compares with the SHMA figure of 493 homes a year 2013-33. That figure now seems beyond the plausible range that is supportable by the latest projections and population data. The ‘2014 SNPP updated by 2015 MYE’ figure of 372 is the figure obtained by using a similar approach to that used in the SHMA but with the latest input data.

4. Market signals: improving affordability

4.1. The Government’s Planning Practice Guidance (PPG) makes it clear that those planning for housing are expected to take account of ‘market signals’:

“The housing need number suggested by household projections (the starting point) should be adjusted to reflect appropriate market signals, as well as other market indicators of the balance between the demand for and supply of dwellings. Prices or rents rising faster than the national/local average may well indicate particular market undersupply relative to demand.”

4.2. The SHMA conclusion on market signals is as follows:

The SHMA evidence indicates that affordability pressures in the West Surrey HMA are notable. House prices are above the South East average. Entry level house prices are 11 or more times the typical earnings of younger households compared to a ratio of 6.4 nationally although this is largely unchanged for some years. Over the 2001-11 decade, housing costs increased relative to earnings; whilst household formation and home ownership both fell.

4.3. GL Hearn note there is no guidance on how an adjustment for market signals should be calculated if they are found to be justified. They propose that the adjustment should be based on returning the household formation rates of 25-34 year olds back to the levels they were at in 2001. This produces an additional 26

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16 Planning Practice Guidance, Paragraph: 019 Reference ID: 2a-019-20140306

17 SHMA paragraph 10.29, page 168
homes a year\textsuperscript{18}.

4.4. The key issue here is whether GL Hearn have correctly reflected the PPG’s approach to market signals. The above extract from the PPG above refers to ‘prices or rents rising faster than the national/local average’. This is important. Higher prices than in other areas may not necessarily indicate a particular problem but may simply reflect the mix of housing in an area or particular features which are thought desirable such as proximity to transport links, city centres, attractive countryside etc. For example, prices in central London are always going to be higher than elsewhere given the value those renting or buying homes attach to a central location – advantages that are inevitably limited to a finite number of properties no matter how adequate the supply of homes is in London as a whole. On the other hand, prices rising faster than other areas may indicate a supply problem.

4.5. This is reinforced by the Planning Advisory Service's (PAS) technical advice note on Objectively Assessed Needs and Housing Targets\textsuperscript{19} which advises that:

“Proportional price change is generally a better indicator than absolute price, because a comparatively high price may indicate either comparatively high demand (an attractive area, better housing stock) or low supply (possibly due to planning). But if prices in an area are rising faster than elsewhere, this suggests that supply is tightening compared to other places – unless for some reason the area is becoming more desirable over time.”

4.6. Further weight has been given to this interpretation of the PPG by the decision made by a planning inspector on an appeal in Cotswold District\textsuperscript{20} – an area which also has a high affordability ratio. He said:

“A house in the Cotswolds costs more than other places at least partly because it offers attractions that do not exist elsewhere. The same applies to the Chilterns (also offering swathes of AONB landscape and where similar differentials exist) and to Kensington and Chelsea (currently the place where the ratio of lower quartile prices to incomes is the highest in the land). Because location is an integral characteristic of any dwelling, there are numerous geographical discontinuities in housing markets……It follows that a significant increase in the stock of houses in Cotswold would be likely to

\textsuperscript{18} SHMA Figure 63, page 170

\textsuperscript{19} See paragraph 7.13 of Objectively Assessed Need and Housing Targets: Technical advice note, Second edition, July 2015, Planning Advisory Service
http://www.pas.gov.uk/documents/332612/6549918/OANupdatedadviceNote/f1bf748-11fc-4d93-834c-a32c0d2c984d

\textsuperscript{20} The appeal related to a site in Mickleton: ref – APP/R3650/A/14/2223115
result, not in a noticeable decrease in house prices or improvement in affordability, but in new residents with the wherewithal to pay the prices sought...In my view the evidence adduced does not demonstrate that market signals warrant an increase in the objectively assessed need for housing in the District of Cotswold.”

4.7. Those conclusions would be equally true if “Waverley” were substituted for “Cotswold”.

4.8. Following this approach, Chart 13 (below) compares Waverley’s lower quartile ratio with other Surrey districts and England, showing Waverley to have moved broadly in line with other Surrey authorities but to have been much higher than the England average:

![Chart 13: Lower quartile price earning affordability ratios: Surrey and England](source: DCLG Live Table 576)

4.9. It is easier to see the relative rates at which affordability ratios have changed if they are presented as indices as in Chart 14 (which sets the index for each authority at 100 in 1997):

![Chart 14: Lower quartile price earning affordability ratio indices: Surrey and England](source: DCLG Live Table 576)
4.10. As can be seen from the above chart, Waverley’s rate of increase has been very much in the middle of this set of comparator authorities for most of the period. Latterly it has moved closer to the top and over the period 1997 to 2015 it has been third in terms of increase in affordability ratio amongst the Surrey districts. However, this is a fairly tight field: had Waverley’s increase in its affordability ratio been 6% lower it would have been in the lower half of the field.

4.11. The above analysis suggests that there is no reason to single Waverley out for a market signals/affordability uplift. To do so would have no noticeable impact on the affordability of properties in the area: it would simply result in more people moving to the area to occupy any additional homes built.

4.12. As a footnote, it might be noted that, had GL Hearn applied the same approach that they applied in the SHMA using the most recent data they would have concluded that the full OAN for Waverley was 399 homes a year 2013-33. (This calculation is on the basis that the latest household projection (DCLG 2014) should be updated with the with the latest mid-year estimates (2015 MYE) and that the household formation rates for 25-34 years should be adjusted so that at a minimum they were no lower than they were in 2001.)

5. Conclusions

5.1. The key issue emerging from this report is the significantly different picture painted by the most recent projections and population statistics from that set out in the SHMA. Whilst the SHMA suggests that the full objectively assessed need for housing in Waverley is 519 homes a year 2013-33, the analysis in this report indicates that an up to date estimate would lie in the range 400 +/- 30 homes a year.

5.2. The key points are:
- The SHMA is based on DCLG’s 2012-based household projections which suggested a need for 486 homes a year. Those projections have been
updated to reflect the 2013 Mid-Year Estimates resulting in a slightly increased estimate of the number of homes needed of 493 a year 2013-33.

- It is now possible to roll forward the data sets used by two years. Using the 2014-based DCLG projections (published July 2106) suggests a housing need of 395 homes year. Updating this with the 2015 Mid-Year Estimates gives a figure of 372 homes a year.
- Some variability in the projections is to be expected as the ONS uses short trend periods for projecting migration – 5 years for flows to and from other parts of the UK and 6-years for international flows. However, an examination of the data for flows both within the UK and internationally suggests that there is something more here than year to year volatility or even cyclical variations in flows. Even in 2013-14 and 2014-15 there is little evidence that flows are returning to pre-recession levels, indicating that flows may settle at lower levels. On this basis the 2014-based population projections (which are based on flows within the UK over the period 2009-14) or those projections updated for the 2015 MYE (and so based on 2010-15) would be the appropriate basis on which to plan.
- A widely used response to the variability in the ONS population projections is to adjust them to reflect 10-year flows. Adjusting the 2014 SNPP to reflect flow over the period 2005-15 suggests that 441 homes a year are needed. However, this brings in flows from the years before the economic downturn. It is doubtful that this is appropriate as there is scant evidence that a return to those flow patterns is happening. The report therefore concludes that housing need at that level should be regarded at the fringes of the plausible range, if not beyond.
- Given that projections based on periods since the recession suggest housing need of 395 and 372 homes a year and there is little indication of a return to pre-recession flow levels, it is suggested that 400 homes +/- 30 should be regarded as the plausible range for the demographic OAN. This brings in the lower figure obtained by updating the 2014 SNPP for the 2015 MYE (372 homes a year) and stops just short of the 10-year UK flow figure which seems high given that there is little indication of a return to pre-recession flows.

5.3. The SHMA argues that an allowance should be made to improve affordability by adjusting the household formation rates of 25-34 year olds so that, at minimum, they return to their 2001 level by 2033. This report suggests that the high price of housing and poor affordability in Waverley is a reflection of its desirability and that this is not likely to be affected by increasing the number of homes built above the demographic OAN – a view which has recently been endorsed by an Inspector determining an appeal in Cotswold (which is a similarly desirable area). Moreover, the changes in affordability that have been seen in the area are not out of line with those seen in the rest of Surrey, suggesting that there is not a case for singling out Waverley for an affordability adjustment. The report therefore concludes that there is no case for an affordability adjustment.

5.4. The SHMA does not suggest that there is a need to add additional homes to
support job growth or increased student numbers. In the absence of a clear case for an affordability adjustment, the demographic OAN should therefore be taken as the full OAN i.e. 400 +/- 30 homes a year over 2013-33.