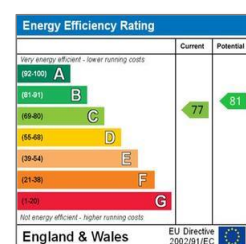




## West Essex and East Hertfordshire Strategic Housing Market Assessment

Establishing the  
Full Objectively Assessed Need  
July 2017





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# 1. Introducing the Study

## Overview of the process for establishing FOAN

- 1.1 Opinion Research Services (ORS) was jointly commissioned by the local authorities of West Essex (Epping Forest, Harlow and Uttlesford) and East Hertfordshire to review the evidence that has been prepared relating to the overall housing need and establish the Full Objectively Assessed Need (FOAN) for the combined Housing Market Area (HMA) and each of the local planning authorities.
- 1.2 In undertaking this review, the following information sources have been considered:
- » CLG 2012-based household projections, published in February 2015;
  - » The original Strategic Housing Market Assessment (SHMA), published in September 2015;
  - » CLG 2014-based household projections, published in July 2016;
  - » The SHMA interim demographic update, published in August 2016;
  - » ONS population estimates up to mid-2016, the most recent data published in June 2017; and
  - » Greater London Authority (GLA) 2016-based household projections, published in July 2017.
- 1.3 This evidence has been considered in the context of Planning Practice Guidance (PPG) in order to establish the FOAN taking account of all relevant information.

## Starting point estimate of overall housing need

- 1.4 Paragraph 159 of the National Planning Policy Framework (NPPF) states that “*Local Planning Authorities should have a clear understanding of housing needs in their area*”, and that they should assess their full housing needs to identify the scale of housing “*that the local population is likely to need over the plan period which meets household and population projections, taking account of migration and demographic change*”. Therefore, from the Framework it is clear that the assessed housing needs should meet household and population projections which take account of migration and demographic change.

## CLG household projections

- 1.5 PPG states that “*household projections published by the Department for Communities and Local Government should provide the starting point estimate of overall housing need ... The household projections are trend based, ie they provide the household levels and structures that would result if the assumptions based on previous demographic trends in the population and rates of household formation were to be realised in practice*” [ID 2a-015].

- <sup>1.6</sup> At the time of the original SHMA, the CLG 2012-based household projections provided the latest figures. These identified a growth of 49,638 households across the HMA over the 22-year period 2011-2033. Allowing for vacancies and second homes, this represented a housing need of 51,627 dwellings.
- <sup>1.7</sup> The CLG 2014-based household projections have since been published. These figures identify a growth of 50,697 households across the HMA over the same period, which represents a housing need of 52,728 dwellings. This includes:
- » 17,243 households and 17,785 dwellings in East Hertfordshire;
  - » 14,374 households and 15,049 dwellings in Epping Forest;
  - » 7,653 households and 7,903 dwellings in Harlow; and
  - » 11,427 households and 11,991 dwellings in Uttlesford.
- <sup>1.8</sup> This provides the most up-to-date starting point estimate of overall housing need.

## Alternative household projections

- <sup>1.9</sup> Whilst the CLG household projections provide the starting point estimate of overall housing need, PPG recognises that *“the household projections published by the Department for Communities and Local Government ... have not been tested”* [ID 3-030].
- <sup>1.10</sup> On this basis, PPG allows for these projections to be adjusted *“based on alternative assumptions”*; however, it notes that *“any local changes would need to be clearly explained and justified on the basis of established sources of robust evidence”* [ID 2a-017]. PPG also confirms that *“wherever possible, local needs assessments should be informed by the latest available information”* [ID 2a-016] and states that *“account should also be taken of the most recent demographic evidence including the latest Office of National Statistics population estimates”* [ID 2a-017].
- <sup>1.11</sup> Therefore, given that the CLG household projections have not been tested, PPG accepts that there will be reasons to depart from them where there is justification to use alternative assumptions and take account of the latest available information. Nevertheless, any alternative household projections would still need to be trend based and use *“assumptions based on previous demographic trends in the population and rates of household formation”* [ID 2a-015].
- <sup>1.12</sup> It is important to recognise that there is an important distinction between **household projections** (which must, by definition, be based on past trends projected forwards) and **household forecasts** which reflect what might happen if past trends did not continue. On this basis, even when a different household projection is used as the basis for assessing overall housing need, any alternative assumptions must necessarily be established using evidence from previous demographic trends.

## Adjustments to household projection-based estimates of housing need

- 1.13 PPG confirms that *“household projections do not reflect unmet housing need”* and as a consequence *“the **household projection-based estimate of housing need** may require adjustment to reflect factors affecting local demography and household formation rates which are not captured in past trends”* [ID 2a-015, emphasis added].
- 1.14 The PPG goes on to note that *“formation rates may have been suppressed historically by under-supply and worsening affordability of housing”* and that *“the assessment will therefore need to reflect the consequences of past under delivery of housing”* [ID 2a-015].
- 1.15 This same advice is repeated when considering how to take account of market signals, where the PPG confirms that *“the **housing need number suggested by household projections** (the starting point) should be adjusted to reflect appropriate market signals”* [ID 2a-019, emphasis added] and *“upward adjustment to planned housing numbers **compared to ones based solely on household projections**”* [ID 2a-020, emphasis added].
- 1.16 The market signals indicators relating to *“overcrowding, concealed and sharing households”* [ID 2a-019] are a reflection of household formation rates which may have been suppressed historically; whereas indicators on the *“Rate of Development”* would reflect any past under delivery of housing and indicators relating to *“Affordability”, “House Prices”* and *“Rent”* would all reflect any worsening affordability of housing.
- 1.17 There is therefore a fundamental relationship between any adjustment to the household projection-based estimates of housing need to take account of *“household formation rates which are not captured in past trends”* [ID 2a-015] and any *“upward adjustment to planned housing numbers”* [ID 2a-020] to reflect appropriate market signals.

## Responding to housing market signals

- 1.18 When establishing the extent of any upward adjustment required in response to housing market signals, PPG identifies that *“the more significant the affordability constraints ... and the stronger other indicators of high demand ... the larger the improvement in affordability needed and, therefore, the larger the additional supply response should be”* [ID 2a-020].
- 1.19 It is important to recognise that the market signal indicators are a reflection of current and recent rates of housing delivery. If these previous rates of development have been lower than the relevant household projection-based estimate of housing need, the market signals indicators will reflect this. In such cases, an increase in housing delivery to ensure that the housing need number suggested by household projections is provided should in itself help to improve market signals. Therefore, when establishing any percentage increase as a response to market signals, it is more appropriate for this to be considered against past delivery rates rather than being measured against the household projections; as the projections could already identify a need for more housing to be provided.

- 1.20 Where an increase to the household projection-based estimates of housing need is justified, PPG states that “*plan makers should set this adjustment **at a level that is reasonable***” [ID 2a-020, emphasis added] – so it is important to consider the specific drivers for increasing the household projection-based estimate and the likely impact of a higher planned housing supply.
- 1.21 From a rational perspective, there are only three possible consequences of providing housing additional to the household projection-based housing need:
- » More people would live in the area than currently projected by the household projections, so net migration would be higher as a consequence;
  - » More of the people already included in the population would form independent households than currently projected by the household projections, so household formation rates would be higher and the average household size would be lower as a consequence;
  - » More homes would be left vacant, so the vacancy rate would be higher as a consequence.
- 1.22 Given the identified housing market pressures, it is unlikely that the additional housing would be left vacant; so the impact of any market signals uplift would be a balance between increased net migration and reduced household sizes. It is therefore important to take account of these two factors – net migration and average household size – when considering the household projections, in order to ensure that any adjustment is reasonable and can be justified.

### Aligning jobs and workers

- 1.23 PPG also requires employment trends to be taken into account when considering the need for any adjustments to the household projection-based estimates of housing need. Through comparing whether or not “*the supply of working age population that is economically active (labour force supply) is less than the projected job growth*” [ID 2a-018] it is possible to establish alignment between future jobs and workers. Where the labour force supply is less than the jobs growth, the PPG goes on to note that “*this could result in unsustainable commuting patterns*” and that “*plan makers will need to consider how the location of new housing or infrastructure development could help address these problems*” [ID 2a-018].
- 1.24 The Planning Advisory Service (PAS) OAN technical advice note comments (second edition, paragraph 8.2):
- Planning Inspectors have interpreted this to mean that demographic projections should be tested against expected future jobs, to see if housing supply in line with the projections would be enough to support those future jobs. If that is not the case, the demographically projected need should be adjusted upwards accordingly; such adjustments overlap with the adjustments for past supply and market signals.*
- 1.25 Therefore, the extent of any upward adjustment required to the household projection-based estimate of housing need needs to take account of the alignment between jobs and workers. Where extra workers are required, more housing will be needed to allow for higher net migration and draw in additional population.

## Summary and Conclusions

- <sup>1.26</sup> The starting point assessment of overall housing need is the CLG household projections. The most recent projections are the 2014-based figures, which identify a growth of 50,697 households across the HMA over the 22-year period 2011-2033; this represents a housing need of 52,728 dwellings.
- <sup>1.27</sup> The PPG allows for the assessment of housing need to be based on alternative household projections which use different assumptions, providing that any changes are clearly explained and justified on the basis of established sources of robust evidence. Nevertheless, when establishing alternative household projections, it is important that the assumptions are based on evidence from previous trends. They should not seek to predict what might happen if past trends did not continue, as this would be a forecast rather than a projection.
- <sup>1.28</sup> However, this household projection-based estimate of housing need may require adjustment to reflect factors that are not captured in past trends. This could include an adjustment to household formation rates which may have been suppressed historically, an upward adjustment in response to housing market signals or an increase to provide housing for additional workers to ensure alignment with future job growth; though it is important to consider the cumulative impact of any adjustments.
- <sup>1.29</sup> Where it is necessary to increase the household projection-based estimates of housing need, any adjustment must be set “*at a level that is reasonable*” [ID 2a-020]. The impact of any uplift would be a balance between increased net migration and reduced household sizes, when compared to those identified by the underlying household projections.
- <sup>1.30</sup> Finally, when establishing the extent of any uplift, it is more appropriate for this to be considered against past delivery rates rather than being measured against the household projections; for if current and historic rates of development have been lower than the relevant household projection-based estimate of need, the household projections themselves will already identify a need to increase the amount of housing provided.



## 2. Reviewing the Evidence

### Household Projections and the Justification for Adjustment

#### CLG household projections

- 2.1 The CLG household projections provide the starting point estimate of overall housing need [ID 2a-015]:

*Household projections published by the Department for Communities and Local Government should provide the starting point estimate of overall housing need*

- 2.2 The CLG 2014-based household projections were published in July 2016 and these figures identified a growth of 50,697 households across the HMA over the 22-year period 2011-2033, which represents a housing need of 52,728 dwellings. This includes:

- » 17,243 households and 17,785 dwellings in East Hertfordshire;
- » 14,374 households and 15,049 dwellings in Epping Forest;
- » 7,653 households and 7,903 dwellings in Harlow; and
- » 11,427 households and 11,991 dwellings in Uttlesford.

- 2.3 This provides the most up-to-date starting point estimate of overall housing need.

- 2.4 However, PPG recognises that *“the household projections published by the Department for Communities and Local Government ... have not been tested”* [ID 3-030]; and that *“the household projection-based estimate of housing need may require adjustment to reflect factors affecting local demography”* [ID 2a-015]. Given this context, it is evident that the PPG allows for independent household projections to be developed as the basis for establishing the housing need, providing that any local changes are *“clearly explained and justified on the basis of established sources of robust evidence”* [ID 2a-017].

#### Factors affecting local demography

- 2.5 The CLG household projections which provide the starting point estimate of overall housing need are based on the Office for National Statistics (ONS) Sub-National Population Projections (SNPP). This data in turn is based on data from the ONS Mid-Year Estimates (MYE). Whilst the original SHMA identified that the 2012-based sub-national projections for natural growth were consistent with past trends (which is also true of the more recent 2014-based projections), the SHMA identified that there was more variability when net migration was considered (para 3.29):

*East Hertfordshire gained 3,000 migrants between the 2001 and 2011 Census (an average of 300 per year), however the 2012-based SNPP project a net gain of 600 migrants in 2012-13*

*climbing to 920 by 2020-21, with an average gain of 810 each year over the 25-year projection period;*

*Epping Forest gained 1,500 migrants between the 2001 and 2011 Census (an average of 150 per year), however the 2012-based SNPP project a net gain of 600 migrants in 2012-13 climbing to 970 by 2032-33, with an average gain of 870 each year over the 25-year projection period;*

*Harlow had a net outflow of 2,300 migrants between the 2001 and 2011 Census (an average loss of 230 per year), however the 2012-based SNPP project an average gain of 60 migrants each year over the 25-year projection period; and*

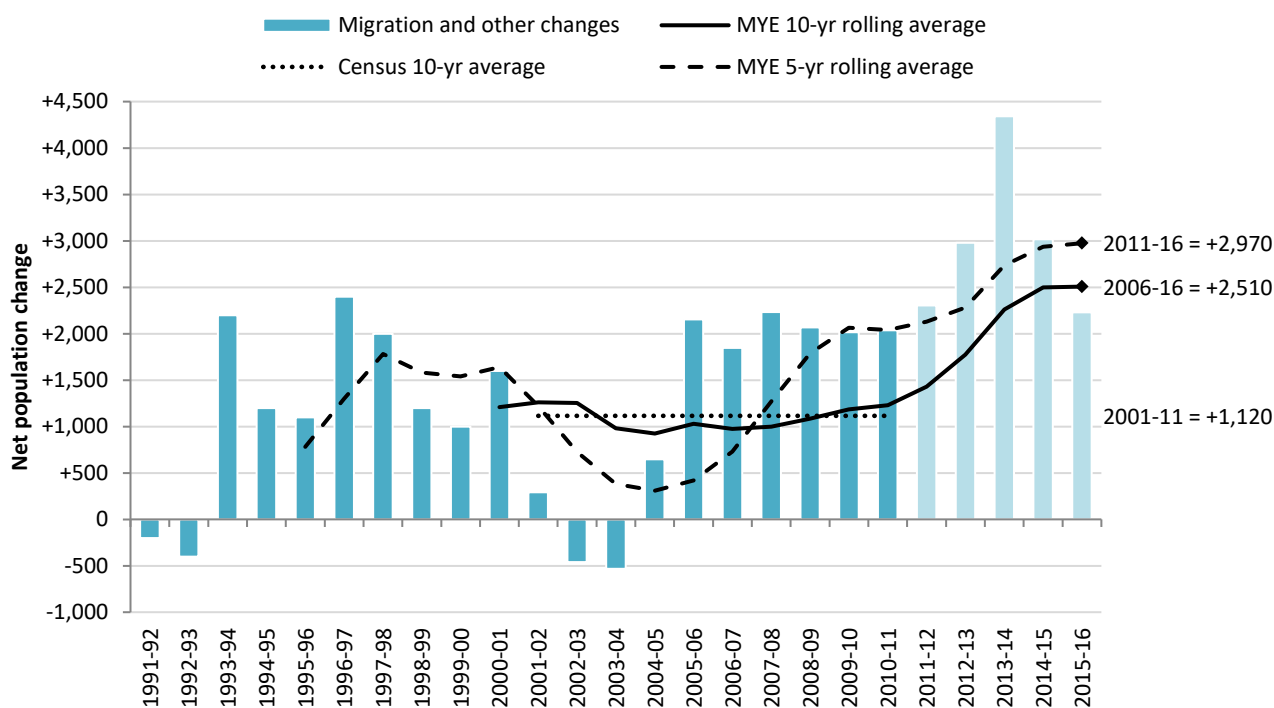
*Uttlesford gained 9,000 migrants between the 2001 and 2011 Census (an average of 900 per year), which is consistent with the 2012-based SNPP which also project an average gain of 900 migrants each year over the 25-year projection period.*

- 2.6 The original SHMA noted significant differences between the reliable long-term trends in migration based on Census data and the projected future levels of migration. This was partly due to the ONS SNPP projecting migration based on relatively short-term trends, but also due to the projections not taking account of the corrections that ONS make to reconcile the MYE component of change data with the Census. Overall, the ONS concluded that the original component of change data for this HMA overestimated population growth by almost 2,000 persons over the period 2001-11.
- 2.7 On this basis, it is evident that the ONS SNPP suggests that the population will increase considerably more than it has in the past due to much higher levels of net migration. Whilst the HMA gained an average of 1,120 persons annually from 2001-2011 due to net migration, the 2012-based SNPP suggests a net gain of 2,640 persons on average each year.
- 2.8 The 2014-based SNPP also identify higher rates of migration than past trends: an average annual gain of 2,850 persons over the 25-year projection period 2014-2039. However, it is important to recognise that both of these projections are based on short-term migration trends.

## Migration trends

- 2.9 Migration is a critical factor when establishing overall housing need. This is recognised at paragraph 159 of the Framework, which explicitly recognises the need to take account of “*migration and demographic change*” when identifying the scale of housing to meet household and population projections. It is clear that assumed rates of future migration are particularly important to the assessment.
- 2.10 Figure 1 shows past net migration trends to the HMA based on the ONS MYE. Data is presented for each year together with 5-year and 10-year rolling averages (dashed line and solid line respectively) and also the 10-year average based on Census data (dotted line).

**Figure 1: Trends in net migration and other changes based on ONS Mid-Year Estimates for the HMA (Note: Solid line shows MYE 10-yr rolling average, dashed line shows MYE 5-yr rolling average, dotted line shows change between 2001 and 2011 Census. Note: Migration and other changes for data from 2011-12 onwards has not been reconciled to Census data; ONS will reissue this data following the next Census)**



- <sup>2.11</sup> It is evident that the estimates have varied widely from year-to-year (ranging from a gain of 4,340 persons to a loss of 530 persons: an overall range of 4,870 persons).
- <sup>2.12</sup> The 5-year and 10-year averages has both consistently shown a gain; however, the 5-year gain has also varied widely over time (averaging between 310 and 2,970 persons: a range of 2,660 persons) whereas the 10-year gain has been more stable (averaging between 930 and 2,510 persons). This still represents a range of 1,580 persons; but from 1991-2001 until 2001-2011, the 10-year average based on MYE data was consistently between 930 and 1,250 persons each year (a range of only 320 persons) – so 10-year net migration trends were stable at  $1,090 \pm 160$  persons over a period covering 21 years of data (1991 through to 2011 inclusive), and this trend was also consistent with the 1,120 average identified based on Census data.
- <sup>2.13</sup> More recently, the 10-year trend has increased up to an average gain of 2,500 persons over the period 2005-2015; however, the latest 10-year average (which covers the period 2006-2016) appears to have broadly stabilised at this level, with an average gain of 2,510 persons. This change has been driven by an increase in estimated net migration over the 3-year period 2012-2015 which totalled 10,340 persons (an average of 3,450 per year) and peaked at a gain of 4,320 persons in 2013-2014. The gain recorded for this 3-year period is comparable to the long-term 10-year average (1,090 persons per year; 10,900 persons over 10 years); therefore, over these 3 years, the number of people moving to the area was broadly comparable to the number that would previously have been expected over 10 years. Furthermore, the gain recorded for the single year 2013-2014 is equivalent to almost half the population gain over the decade 2001-2011.

- 2.14 The original SHMA report considered the basis for establishing migration trends in detail (pages 39-40) and concluded that (para 3.30):

*5-year trend migration scenarios are less reliable: they have the potential to roll-forward short-term trends that are unduly high or low and therefore are unlikely to provide a robust basis for long-term planning.*

*10-year trend migration scenarios are more likely to capture both highs and lows and are not as dependent on trends that may be unlikely to be repeated. **Therefore, we favour using 10-year migration trends as the basis for our analysis.***

- 2.15 This is consistent with the PAS OAN technical advice note, which considers the issue of migration trends in relation to the ONS population projections (paras 6.22 and 6.24, PAS July 2015; emphasis added):

*6.22 A more general problem relates to the ONS forecasting model. To predict migration between local authorities within the UK that model uses a base period of five years (for international migration the period is six years and the figures are controlled to national totals). **This can throw doubt on the projections, because for many areas migration varies widely over time.** Over a number of years one would expect such fluctuations to cancel out, so that long-term trends become apparent. But **a five-year base period does not seem enough for this,** bearing in mind that the ONS projections look ahead 25 years and Local Plans 15 years or longer. This is a main reason why for many areas successive rounds of population projections show very different results.*

*6.24 For all these reasons, in assessing housing need it is generally advisable to test alternative scenarios based on a longer reference, period, probably starting with the 2001 Census (further back in history data may be unreliable). Other things being equal, **a 10-to-15 year base period should provide more stable and more robust projections than the ONS's five years.***

- 2.16 Whilst the CLG household projections provide the starting point for assessing overall housing need, these are informed by 5-year migration trends; but the rate of net migration recorded for the last 5 years is clearly unprecedented in the context of migration estimates for the 25-year period 1991 to 2016. The recent migration figures could be an overestimate; but the ONS data is supported by strong growth across the administrative data sources, so it would appear that actual growth was high.

- 2.17 Given the need to take account of “migration and demographic change” when assessing overall housing need, it is important to understand the impact of the recent spike in net migration. It is also relevant to consider the likelihood of such a peak being repeated again during the projection period, as this could have a material impact on the Objectively Assessed Need (OAN). On this basis, it is appropriate and necessary to establish alternative household projections in order to identify the implications of different migration assumptions.

## Alternative household projections

- <sup>2.18</sup> The CLG household projections provide the starting point for assessing overall housing need. These are based on the ONS sub-national population projections which use 5-year migration trends.
- <sup>2.19</sup> As previously noted, the CLG 2012-based household projections provided the starting point at the time of the original SHMA. These projections identified a growth of 49,638 households across the HMA over the 22-year period 2011-2033, which represented a housing need of 51,627 dwellings. This was based on net migration averaging a gain of 2,640 persons per year over the same period. The CLG 2012-based figures also projected that average household sizes across the HMA would reduce from 2.402 persons per household in 2011 to an average of 2.296 persons by 2033.
- <sup>2.20</sup> The CLG 2014-based household projections identified a growth of 50,697 households (52,728 dwellings) across the HMA over the same period. This was based on net migration averaging a gain of 2,848 persons annually; with average household sizes projected to reduce to 2.320 persons by 2033.

## Original SHMA household projections

- <sup>2.21</sup> Using reliable data from the 2001 and 2011 Census, the original SHMA established independent household projections for the HMA. These figures projected that net migration would average 1,390 persons annually: considerably less than the 2,640 person gain projected by the 2012-based SNPP but still higher than the trend of 1,120 persons per year observed from 2001-2011. As a consequence of this migration, the SHMA projections identified a growth of 36,899 households across the HMA over the 22-year period 2011-2033, which represented a housing need of 38,382 dwellings.
- <sup>2.22</sup> Nevertheless, the original SHMA concluded that this demographic growth would not provide sufficient workers to align with the future jobs forecast. Therefore, the household projection-based housing need was increased to enable higher levels of migration to the area in order to provide the additional workers needed. This uplift led to the assumed net migration being increased to an average of 1,930 persons annually.
- <sup>2.23</sup> In terms of household size, the baseline household projections from the original SHMA projected that the average would reduce to 2.281 persons per household by 2033; however, as a consequence of the increase in net migration to align jobs and workers, the average size was 2.289 persons.
- <sup>2.24</sup> In determining the OAN, the original SHMA proposed an increase to the household projection-based estimates of housing need to reflect appropriate market signals. The purpose of this uplift was to help improve affordability; not through changing migration or further increasing the population, but to respond to household formation rates that may have been suppressed historically by under-supply and worsening affordability of housing. As a consequence of this upward adjustment, the original SHMA identified a housing need of 46,100 dwellings which would provide sufficient housing for 44,318 extra households across the HMA with an average household size of 2.271 persons by 2033.

## Updated SHMA household projections

- <sup>2.25</sup> Following publication of the 2014-based household projections, the SHMA projection was updated to take account of this data, with migration trends were based on ONS mid-year estimates for the period 2005-2015. The mid-year estimates for the period 2005-2015 identified migration trends that were notably higher than trends for the period 2001-2011: an average gain of 2,500 persons each year. This was largely due to the particularly high migration rates recorded for 2012-13, 2013-14 and 2014-15 as previously discussed.
- <sup>2.26</sup> Based on this trend, the updated projections identified a growth of 43,759 households and a housing need of 45,507 dwellings over the 22-year period 2011-2033 with net migration averaging a gain of 2,040 persons each year. This population would provide sufficient workers to align with the jobs forecast, therefore no uplift was needed. The updated SHMA household projections projected that average household sizes would reduce to 2.311 persons by 2033, prior to any adjustment to respond to household formation rates and to reflect appropriate market signals. On this basis, these projections already assume very high rates of migration; so any further increase would require justification primarily based on the need to further reduce average household sizes.

## GLA household projections

- <sup>2.27</sup> The Greater London Authority (GLA) has also produced independent household projections for all local authority areas in England. The projections for the London Boroughs will inform the new London Plan; however, the Inspector examining the previous Further Alterations to the London Plan confirmed that the assumptions taken would be a material consideration for Local Plans across the Wider South East (WSE), and the GLA has therefore published the population and household projections produced by their model for local authorities outside London.
- <sup>2.28</sup> The GLA interim 2015-based projections were shared with local authorities across the WSE in March 2017; and the GLA 2016-based projections were shared on 11 July 2017 when they were published on the GLA website. Both sets include three variant scenarios based on different migration assumptions:
- » A short-term trend, using the 5-year period to the base year;
  - » A central trend, using the 10-year period to the base year; and
  - » A long-term trend, using the period from 2001 to the base year (which provides a 15-year period for the 2016-based projection).
- <sup>2.29</sup> On this basis, the GLA interim 2015-based projections central variant uses migration trends for the period 2005-2015, which is the same period used for the SHMA interim update. However, the SHMA projection is based on migration trends both to and from the HMA whereas the GLA model for domestic migration is based on a matrix – so an out migrant from one area will be an in migrant to another. As a consequence, migration to the HMA is not based on previous trends of such moves, but instead is based on trends in

moves from other places that have functional linkages with the HMA in terms of migration. This is a fundamental difference, so the results from the two models won't necessarily be the same.

<sup>2.30</sup> The GLA 2016-based projections central variant identifies a growth of 47,248 households and a housing need of 49,116 dwellings over the period 2011-2033, with net migration averaging a gain of 2,809 persons annually and household sizes projected to reduce to 2.315 persons by 2033. The short-term trend variant identifies a growth of 48,238 households (50,144 dwellings) based on net migration at 2,965 per year and household sizes reducing to 2.316 persons on average; whereas the long-term trend variant identifies a growth of 44,332 households (46,092 dwellings) based on net migration at 2,444 per year and household sizes reducing to 2.310 persons.

## Summary of household projection key outputs

<sup>2.31</sup> Figure 2 sets out the key outputs from the range of different household projections for the HMA, which includes a summary of:

- » Household growth over the 22-year period 2011-2033;
- » The associated housing need estimate for the same period;
- » Average annual net migration projected from 2011-2033; and
- » Average household size projected by 2033.

<sup>2.32</sup> The CLG 2014-based figures project the highest rate of household growth (and therefore yield the highest overall housing need) with a projected gain of 2,848 persons annually due to net migration and an average of 2.320 persons per household by 2033.

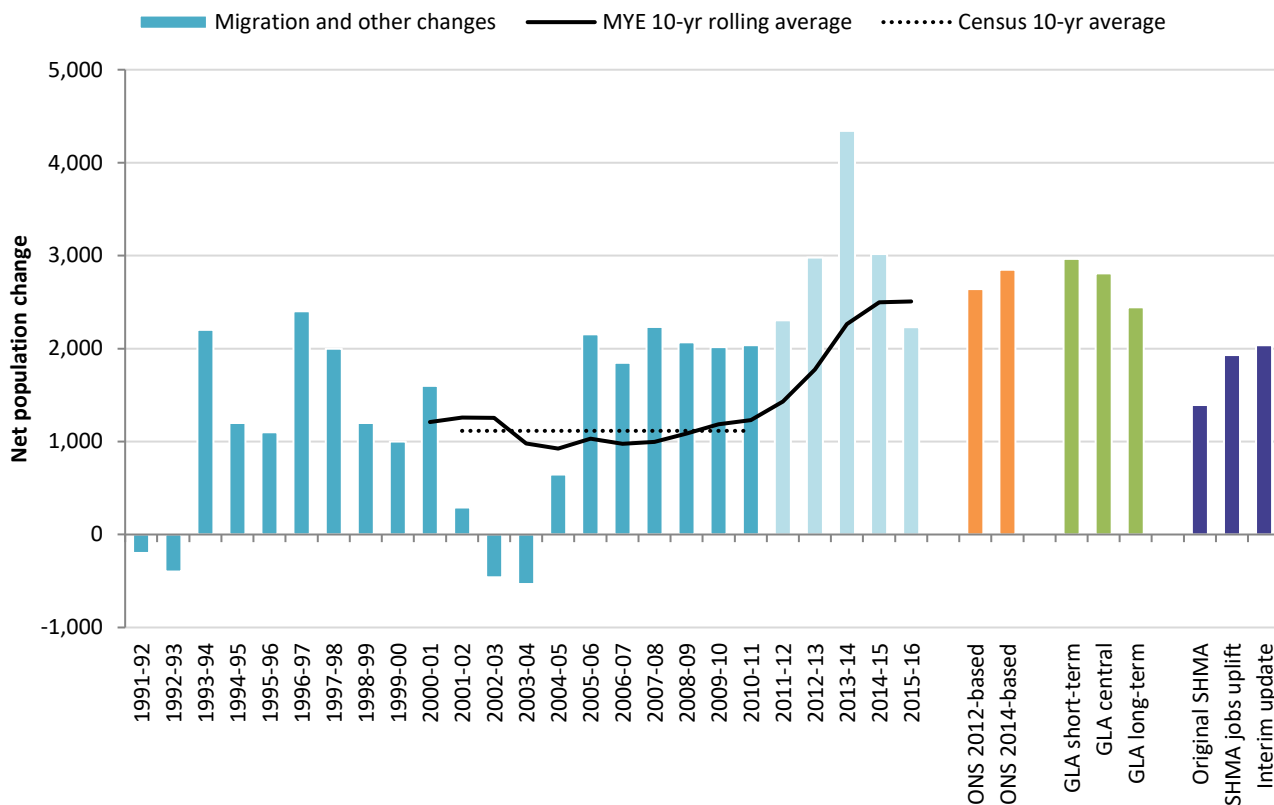
<sup>2.33</sup> The OAN proposed by the original SHMA yields the lowest average household size (2.271 persons per household) which follows as a consequence of the uplift to respond to suppressed household formation and market signals.

**Figure 2: Key outputs from the household projections and adjusted scenarios from the original SHMA**

|  |                            | Household growth 2011-2033 | Housing need 2011-2033 | Annual net migration | Average household size in 2033 |
|--|----------------------------|----------------------------|------------------------|----------------------|--------------------------------|
| CLG household projections                | 2012-based                 | 49,638                     | 51,627                 | 2,640                | 2.296                          |
|  | 2014-based                 | 50,697                     | 52,728                 | 2,848                | 2.320                          |
| Original SHMA                            | Household projection       | 36,899                     | 38,382                 | 1,393                | 2.311                          |
|  | Adjustment for jobs uplift | 42,607                     | 44,317                 | 1,930                | 2.289                          |
|  | Original OAN               | 44,321                     | 46,100                 | 1,930                | 2.271                          |
| SHMA interim update household projection |                            | 43,759                     | 45,507                 | 2,036                | 2.311                          |
| GLA 2016-based projections               | Short-term trend           | 48,238                     | 50,144                 | 2,965                | 2.316                          |
|  | Central trend              | 47,248                     | 49,116                 | 2,809                | 2.315                          |
|  | Long-term trend            | 44,332                     | 46,092                 | 2,444                | 2.310                          |

2.34 Figure 3 illustrates the rate of annual net migration projected by the different projections in the context of past migration trends.

**Figure 3: Trends in net migration to the HMA compared with averages projected for the period 2011-2033 (Source: SHMA and interim demographic update, ONS mid-year estimates, ONS sub-national population projections, GLA 2016-based population projections. Note: Solid line shows MYE 10-yr rolling average, dotted line shows change between 2001 and 2011 Census)**





## 3. Establishing Overall Housing Need

### Adjusting the household projection-based estimates

- 3.1 The housing market signals indicators indicate that there are considerable housing market pressures in the West Essex and East Hertfordshire HMA; and given that many of these indicators show greater pressures than the national average (in particular the market signals relating to price and affordability), the original SHMA concluded that the Objectively Assessed Need should be higher than suggested by household projections in isolation and proposed a 20% uplift overall as a response to market signals and also align future jobs and workers. The original SHMA concluded that the OAN should be 46,100 dwellings for the HMA over the 22-year period 2011-2033.
- 3.2 As the housing market signals demonstrate continued affordability pressures in the HMA, this might still justify a 20% uplift to the household projections. The SHMA interim update did not review the response to market signals, but the paper recognised that maintaining the 20% previously applied would yield an OAN of 54,608 dwellings for the HMA over the same period. However, it is necessary to further consider the impact of any uplift to the household projection-based housing need to ensure that the adjustment remains reasonable.

### Adjustments to household projection-based estimates of housing need

- 3.3 As previously outlined, there are only three possible consequences of providing housing additional to the household projection-based housing need:
- » More people will live in the area, which would increase net migration;
  - » The same number of people will live in the area, but more households will form independently thereby reducing the average number of persons in each household;
  - » The extra homes will be left vacant.
- 3.4 Given the identified housing market pressures, it is unlikely that the additional housing would be left vacant; so the impact of any market signals uplift would be a balance between increased migration and reduced household sizes.
- 3.5 The uplift to the household projection-based estimate of housing need that was proposed by the original SHMA provided an appropriate response to market signals and suppressed household formation, however this additional housing was also needed to provide sufficient workers to align with the jobs forecast. On this basis, the uplift contributed to increased net migration. The household projections from the interim update already provided sufficient workers to align with the jobs forecast without need for an uplift – so

there is no longer any justification for needing higher rates of migration than identified by the projections. It is evident that a number of household projections are already projecting future net migration at rates that are considerably higher than past trends. Therefore, given that the projections are already based on a substantial increase in migration rates (which provide alignment between future jobs and workers), any adjustment to the household projection-based estimate of housing need would require justification based on possible suppressed household formation and associated average household sizes.

## Responding to suppressed household formation

- 3.6 The household projections from the interim update project that average household sizes will reduce from 2.402 persons in 2011 to 2.311 persons by 2033, which represents an overall reduction of 0.091 persons per household over the 22-year period. This analysis is based on household representative rates from the CLG 2014-based projections.
- 3.7 To establish the extent of any possible suppression in the CLG 2014-based household formation rates, it is possible to consider a number of scenarios.
- 3.8 Preventing the household representative rates for all younger age groups (aged under 35) from falling over the period 2011-2033 would yield an average household size of 2.280 persons by 2033; and if these rates were to return to at least the levels recorded in 2001 by the end of the projection period, the average household size would reduce to 2.260 persons. It is evident that both of these averages are broadly consistent with the OAN conclusions from the original SHMA (2.271 persons per household).
- 3.9 If average household sizes were to reduce from 2.402 persons in 2011 to 2.260 persons by 2033, this would represent an overall reduction of 0.142 persons over the 22-year period. This reduction is 56% more than the 0.091 person reduction projected by the 2014-based rates for the same period using past trends without adjustment.
- 3.10 To provide sufficient housing to allow household sizes to reduce to 2.260 persons without any change in net migration, the adjustment to the household projections from the SHMA interim update would increase the housing need from 45,507 to 46,534 dwellings. This would provide sufficient housing to ensure that household formation rates for those aged under 35 would be no lower than recorded in 2001, with net migration averaging 2,036 persons annually.
- 3.11 On this basis, increasing the OAN of 46,100 dwellings that was proposed by the original SHMA to around 46,600 dwellings would provide for migration rates being sustained at levels actually recorded between 2006-12 and in 2015-16, whilst also allowing for household formation rates for those aged under 35 to return to the rates recorded in 2001 such that average household sizes reduce to 2.260 persons by 2033. This represents an increase of 1,100 dwellings on the SHMA interim update's household projection-based estimate of housing need.

## Responding to migration pressures

- <sup>3.12</sup> Net migration to the HMA over the 10-year period 2001-2011 averaged a gain of 1,120 persons per year and the original SHMA projected a gain of 1,393 persons annually from 2011-2033 – but this did not provide sufficient workers, so the future rate was increased to an annual average of 1,930 persons to ensure alignment with future jobs. The household projections from the SHMA interim update projected an increase of 2,036 persons from 2011-2033 (based on trends from 2005-2015), which is very close to the final conclusions of the original SHMA.
- <sup>3.13</sup> It would appear that long-term migration trends have now increased from the consistent rates observed between 1991 and 2011. Net migration from 2006-2016 averaged a gain of 2,510 persons each year; however, if the unprecedented peak in migration from 2012-15 is excluded from this, the level has stayed consistently between 1,848 and 2,304 persons each year with an average of 2,105 persons. This is again very close to the household projections from the SHMA interim update.
- <sup>3.14</sup> Nevertheless, it is important to recognise that the GLA 2016-based household projections assume that net migration to the HMA will be sustained at even higher levels, with projections ranging from annual gains of 2,444 persons (based on the long-term trend variant) up to 2,965 persons (based on the short-term trend). The Inspector examining the Further Alterations to the London Plan (FALP) identified at paragraph 8 his report that *“the [GLA] SHMA, which includes assumptions relating to migration, is also likely to be material to the preparation of local plans outside London”* – so although the household projections from the SHMA interim update will still provide the basis for the household projection-based estimate of housing need in the West Essex and East Hertfordshire HMA, it is still necessary to take account of the GLA projections when considering the justification for any adjustment.
- <sup>3.15</sup> The GLA London-wide SHMA which informed the Further Alterations to the London Plan (FALP) was based on the 2013-round (2012-based) projections, and favoured the scenario based on the ‘Central variant’ assumptions. This assumed short-term migration trends would persist for the initial 5-year period of the projection (2012-17); however, for later years of the projection, it was assumed that domestic migration outflows (based on short-term 5-year trends) would increase by 5% and that domestic migration inflows (again based on 5-year trends) would reduce by 3% based on the rates returning to longer-term trends.
- <sup>3.16</sup> The GLA 2016-based ‘Central variant’ is the nearest equivalent to the 2013-round ‘Central variant’; although this is based more straightforwardly on migration trends for the 10-year period 2006-2016 without any manual adjustments. This projects an average gain of 2,809 persons each year due to net migration, with an overall increase of 47,248 households over the 22-year period 2011-2033. By the end of the period, average household sizes are projected to have reduced to 2.315 persons.
- <sup>3.17</sup> Providing for this higher rate of migration would yield an overall housing need of around 49,100 dwellings over the 22-year period 2011-2033, which represents an increase of 3,600 dwellings on the SHMA interim update’s household projection-based estimate of housing need.

## Responding to both suppressed household formation and migration

- <sup>3.18</sup> To determine the overall adjustment to the household projection-based estimate of housing need, we can consider the amount of housing necessary to accommodate net migration at an average of 2,809 persons each year (as identified by the GLA 2016-based central trend) together with ensuring that sufficient housing was provided such that household formation rates for those aged under 35 would be no lower than the equivalent rates recorded in 2001.
- <sup>3.19</sup> Based on the underlying demographic structure of the GLA projection, ensuring that household formation rates remain above those recorded in 2001 for all of the identified younger age groups would yield an overall increase of 49,742 households over the 22-year period 2011-2033. This is still based on the same population projections, and therefore continues to project an average gain of 2,809 persons each year due to net migration; however, if the formation rates were to return to at least the levels recorded in 2001 by the end of the projection period, average household sizes would reduce to 2.289 persons. This represents an overall reduction of 0.112 persons over the 22-year period, which is 30% higher than the reduction of 0.087 persons projected by the GLA figures prior to the adjustment.
- <sup>3.20</sup> Providing for 49,742 households would yield an overall housing need of around 51,700 dwellings over the 22-year period, which represents an increase of 6,200 dwellings on the SHMA interim update's household projection-based estimate of housing need. This is higher than the sum of the two separate adjustments, as any changes to the household representative rates (and the associated reduction in average household sizes) would also affect the number of households resulting from the higher levels of net migration and the associated number of dwellings that would be needed.

## Justified adjustments to the household projection-based figure

- <sup>3.21</sup> Based on the housing market signals indicators for the West Essex and East Hertfordshire HMA, the original SHMA was right to propose a 20% uplift overall given the need to increase migration (to align jobs and workers) and address suppressed household formation.
- <sup>3.22</sup> An increase of 20% in response to market signals would also be consistent with other HMAs experiencing considerable housing market pressures:
- » Camden: an uplift of 20% proposed by ORS was recently endorsed by the Local Plan Inspector;
  - » Buckinghamshire: ORS has proposed an uplift of 20% for the southern part of the HMA;
  - » Mid Sussex: the Local Plan Inspector has concluded in his interim views that an uplift of 20% should be applied as an appropriate response to the area's market signals; and
  - » Cambridge and South Cambridgeshire: separate uplifts of 30% and 10% have been proposed, but these equate to an overall uplift of 17.3% for the combined area.

- 3.23 Nevertheless, PPG is clear that where it is necessary to increase the household projection-based estimates of housing need, any adjustment must be set “*at a level that is reasonable*” [ID 2a-020]. The impact of any uplift would be a balance between increased net migration and reduced household sizes, when compared to those identified by the underlying household projections.
- 3.24 Evidently, the housing market signals demonstrate continued affordability pressures in the HMA and there may be argument to maintain the 20% uplift previously proposed by the original SHMA in the context of the approach taken in similar areas. Nevertheless, if this approach was to be adopted and a “going rate” of 20% applied, then such an increase would represent an additional 9,100 dwellings, and such an increase is difficult to justify in the context of the implications for net migration and average household sizes. Therefore, the resulting overall housing need of around 54,600 dwellings would have to be considered as the upper end of any range.
- 3.25 Based on a detailed review of the evidence, we have concluded that an uplift of 6,200 dwellings is the most appropriate increase for West Essex and East Hertfordshire HMA, and this yields an overall housing need of 51,700 dwellings over the 22-year period 2011-2033.
- 3.26 This would provide sufficient housing to accommodate levels of net migration consistent with those assumed by the GLA 2016-based household projections. This represents an average gain of 2,809 persons each year. In contrast, net migration averaged 1,120 persons annually from 2001 to 2011; and 10-year net migration trends were stable at  $1,090 \pm 160$  persons over a period covering 21 years of data (1991 through to 2011 inclusive). The proposed housing need would allow these rates to increase substantially and for more recent levels of higher migration to be sustained moving forwards.
- 3.27 The increase to the housing number would also ensure that sufficient housing was provided such that household formation rates for those aged under 35 would be no lower than the equivalent rates recorded in 2001. This is a comprehensive response to suppressed household formation, which is applied separately and cumulatively to the adjustment for migration.
- 3.28 There is no justification for assuming any higher levels of migration given that the rates assumed are already considerably higher than past trends and consistent with the GLA’s assumptions. Similarly, there is no justification for assuming that household formation rates should be inflated beyond those rates actually recorded in 2001. Therefore, on balance, it probably isn’t reasonable to apply an uplift to the household projection-based estimates of housing need that was any more than the 6,200 dwellings proposed, as this has been derived based on a detailed review of the evidence.
- 3.29 The recommended OAN is therefore 51,700 dwellings for the HMA over the 22-year period 2011-2033, equivalent to an average of 2,350 dpa.
- 3.30 An additional 51,700 dwellings represents an increase in the dwelling stock of 28.5% over the 22-year period, equivalent to an average increase of 1.3% each year across the study area. This is notably higher

that the 1.1% growth required across England to deliver 253,600 dwellings annually as identified by the original SHMA (paragraph 5.15).

<sup>3.31</sup> Housing delivery during the 10-year period 2001-2011 averaged around 1,390 dpa in terms of net additions to the stock; therefore, an OAN of 2,350 dpa represents a 69% increase in housing supply. This will require a step change in the rate of delivery. There has already been a small upturn in the rate of completions since 2011, with net additions for the 5-year period 2011-2016 averaging 1,490 dpa; but rates will need to increase further if the identified housing needs for the HMA are to be met in full.

## 4. Full Objectively Assessed Need

### Identifying the overall needs for housing in the HMA

- 4.1 **Having undertaken a comprehensive review of the range of independent data available, we can conclude that the Full Objectively Assessed Need (FOAN) for West Essex and East Hertfordshire HMA is 51,700 dwellings over the 22-year period 2011-2033, equivalent to an average of 2,350 dpa.**
- 4.2 This includes the need for both market housing and affordable housing. The SHMA affordable housing update (July 2017) establishes a need to provide 13,600 dwellings as affordable housing across the HMA over the same 22-year period (equivalent to an average of 618 dpa). The need for market housing is therefore 38,100 dwellings across the HMA (an average of 1,732 dpa).
- 4.3 The FOAN includes an uplift of 6,200 dwellings in addition to the household projection-based estimate of housing need of 45,500 dwellings. This represents an uplift of 14% on the housing need number suggested by household projections; however, more importantly, the FOAN represents a 69% increase in the rate of housing supply delivered over the previous decade 2001-2011.
- 4.4 Delivering the FOAN will require a step change in the rate of housing delivery in the HMA; and such an increase in housing supply should, on reasonable assumptions, be expected to improve affordability. Such an increase in housing supply is consistent with the expectations of the NPPF and the Government's objective to increase the number of new homes and improve affordability nationally.

### Considering the FOAN in the context of past trends

- 4.5 Figure 4 provides a comparison between the Full Objectively Assessed Need for the period 2011-2033, the household projection-based estimate of housing need for the same period and past trends based on the previous decade 2001-2011. This shows the overall housing number, the average annual net migration and the changes to average household size.

**Figure 4: Comparison of the Full Objectively Assessed Need with the household projection-based estimate of housing need and past trends from 2001-2011**

|  | Past trend<br>2001-2011   | Household projection-based<br>housing need<br>2011-2033                      | Full Objectively Assessed Need<br>2011-2033                                  |
|--|---|--|--|
| Past net additions and future housing need | 13,900 dwellings over 10 years<br>1,390 dpa                                 | 45,500 dwellings over 22 years<br>2,068 dpa                                  | 51,700 dwellings over 22 years<br>2,350 dpa                                  |
| Average annual net migration               | Net gain of<br>1,110 persons per year                                       | Net gain of<br>2,036 persons per year  | Net gain of<br>2,809 persons per year  |
| Average household size                     | 2.401 persons in 2001<br>2.402 persons in 2011<br>Increase of 0.001 persons | 2.402 persons in 2011<br>2.311 persons in 2033<br>Reduction of 0.091 persons | 2.402 persons in 2011<br>2.289 persons in 2033<br>Reduction of 0.113 persons |

- 4.6 Delivering the FOAN of 51,700 dwellings over the 22-year period 2011-2033 will enable average migration rates to be sustained at an average gain of over 2,800 persons each year (compared to an average of 1,110 persons annually over the previous decade 2001-2011). This is consistent with the rate of migration assumed by the GLA in the household projections used to establish the housing need for Greater London.
- 4.7 Delivering the FOAN of 51,700 dwellings would also allow average household sizes to reduce at a faster pace than past trends suggested by the household projections, with improvements to housing affordability helping to address formation which may have been suppressed historically. Whilst average household sizes increased fractionally between 2001 and 2011, the FOAN of 51,700 dwellings would provide sufficient housing to ensure that household formation rates for those aged under 35 were no lower than those actually recorded in 2001.
- 4.8 There is no justification for assuming any higher levels of migration given that the rates assumed are already considerably higher than past trends and consistent with the GLA's assumptions. Similarly, there is no justification for assuming that household formation rates should be inflated beyond those rates actually recorded in 2001. The identified need for 51,700 dwellings represents the Full Objectively Assessed Need for housing in West Essex and East Hertfordshire HMA over the 22-year period 2011-20133.

## Distribution of FOAN between local authority areas and functional HMAs

- 4.9 Whilst the identified FOAN will be a key part of the evidence base, the Local Plans will be the mechanism through which the SHMA and associated evidence will be assessed against environmental and policy constraints, such as Green Belt, to identify a sustainable and deliverable plan requirement. The Local Plans will also consider the most appropriate spatial distribution for the FOAN across the housing market area.
- 4.10 Nevertheless, it is possible to establish the FOAN for each individual local authority area using an approach consistent to that used for the housing market area as a whole. Whilst this may not represent the most appropriate spatial distribution for meeting the FOAN, it provides a starting point for the process:
- » The demographic starting point for each local authority area is published by CLG;
  - » The household projections used for the baseline estimate are those from the interim update; this uses migration trends based on ONS data published for each local authority area to identify the difference in net migration between the 5-year period 2009-14 used for the CLG starting point and the 10-year period 2005-15 used for the updated SHMA projections;
  - » The conversion from households to dwellings is based on Census data on the number of household spaces without any usual residents published for each local authority area;
  - » The adjustment in response to market signals, suppressed household formation and migration pressures is based on an uplift of 6,200 dwellings across the housing market area, which is distributed pro rata to the household projection-based estimate of housing need.



- 4.11 On this basis, we can conclude that the Full Objectively Assessed Need for housing for the four local planning authority areas is as summarised in Figure 5.

Figure 5: Full Objectively Assessed Need for Housing by local authority 2011-33

|  | East Herts    | Epping Forest | Harlow       | Uttlesford    | HMA           |
|--|---------------|---------------|--------------|---------------|---------------|
| Household projection-based estimate of housing need from the SHMA interim demographic update (August 2016) | 16,189        | 11,065        | 6,520        | 11,733        | 45,507        |
| Proposed adjustment in response to market signals, suppressed household formation and migration pressures  | +2,207        | +1,508        | +889         | +1,599        | +6,203        |
| <b>Full Objectively Assessed Need for Housing 2011-33</b>  | <b>18,396</b> | <b>12,573</b> | <b>7,409</b> | <b>13,332</b> | <b>51,710</b> |
| Annual average   | 836           | 572           | 337          | 606           | 2,350         |

- 4.12 The SHMA considered the OAN based on the whole of East Hertfordshire, Epping Forest, Harlow and Uttlesford administrative areas as a “best fit” to the West Essex and East Hertfordshire HMA. Nevertheless, the original SHMA identified that these administrative areas are in practice divided between four functional HMAs: Cambridge, Chelmsford, Harlow and Stevenage.
- 4.13 Figure 6 shows the distribution of the FOAN of 51,700 dwellings across the four functional HMAs within the four West Essex and East Hertfordshire LPAs based on a simple pro rata distribution based on the existing population at the time of the last Census in 2011.

Figure 6: Full Objectively Assessed Need for Housing 2011-33 across the functional HMAs within West Essex and East Herts (Note: Coloured areas show commuting zones; hatched area denotes Harlow & Stortford BRMA. FOAN figures only identify need within the four West Essex and East Hertfordshire local authority administrative areas)

