

SHMA 2016 Update

Housing Vision Response Documents

May 2016

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Paper addressing the critique by adjoining Local Planning Authorities of the St Albans City and District Local Planning Authority Definition of the Housing Market Area

Housing Vision, 2nd May 2016

Defining housing markets

- 1.1 The definition of housing market areas tends to proceed on the basis of 'geographic adjacency', that most people move only a short distance to find work and/or a home, typically within their current local authority area or across its boundary into adjacent local authority areas. This is hardly surprising given the strength of people's local connections and the convenience of making only short moves. For example, the 2013-14 English Housing Survey provides strong support for a general pattern of short home moves finding that 58% of all people moving home in the last year moved only 5 miles or less from their previous home, and a further 20% moved only 5 miles or less than 20 miles¹. As a result, it is typical to find for any local authority area that by using commuting and home moves as primary indicators, the local housing market area is focused on the originating local authority and extends into adjacent or contiguous local authority areas.
- 1.2 However, there are two other important factors in defining housing market areas, and which are not adequately considered by either Planning Practice Guidance on Housing and Economic Development Needs Assessments or the Planning Advisory Service Technical Note on Objectively Assessed Need and Housing Targets:
1. non-contiguous housing markets: there will be groups of actors in the housing market whose behaviour does not conform with this pattern of 'geographic adjacency', and which is not constrained by geography. A typical example is people moving from London and the South East to the South West of England at retirement. A second example, of direct relevance to St Albans, is professional families moving out of London to access a different quality of life. Where these behaviours take on a pattern, it is possible to identify distinctive 'market segments' placing demands on the housing market from areas which are not geographically adjacent, also known as non-contiguous housing markets².

¹ English Housing Survey, Households Report, Annex Table 6.13

² There are a number of sources which consider this phenomenon including DCLG (2010) Geography of Housing Market Areas Final report and DCLG (2010) Alternatives for the definition of housing market areas, Geography of housing market areas in England – paper B and the extensive work by Geoff Meen, (see for example, Geoff Meen (2012) Modelling Spatial Housing Markets: Theory, Analysis and Policy).

2. the power of market segments: not all actors or market segments will exert the same influence on supply and demand. In a market-led housing system, the purchasing power of a relatively small number of people with substantial financial resources can have a disproportionate impact on demand in a local housing market. To continue the examples used in the previous paragraph, these may be retirees moving to the south west from the South East with the spending power available of mortgage-free home owners, or of direct relevance to St Albans, high salaried purchasers moving from London.

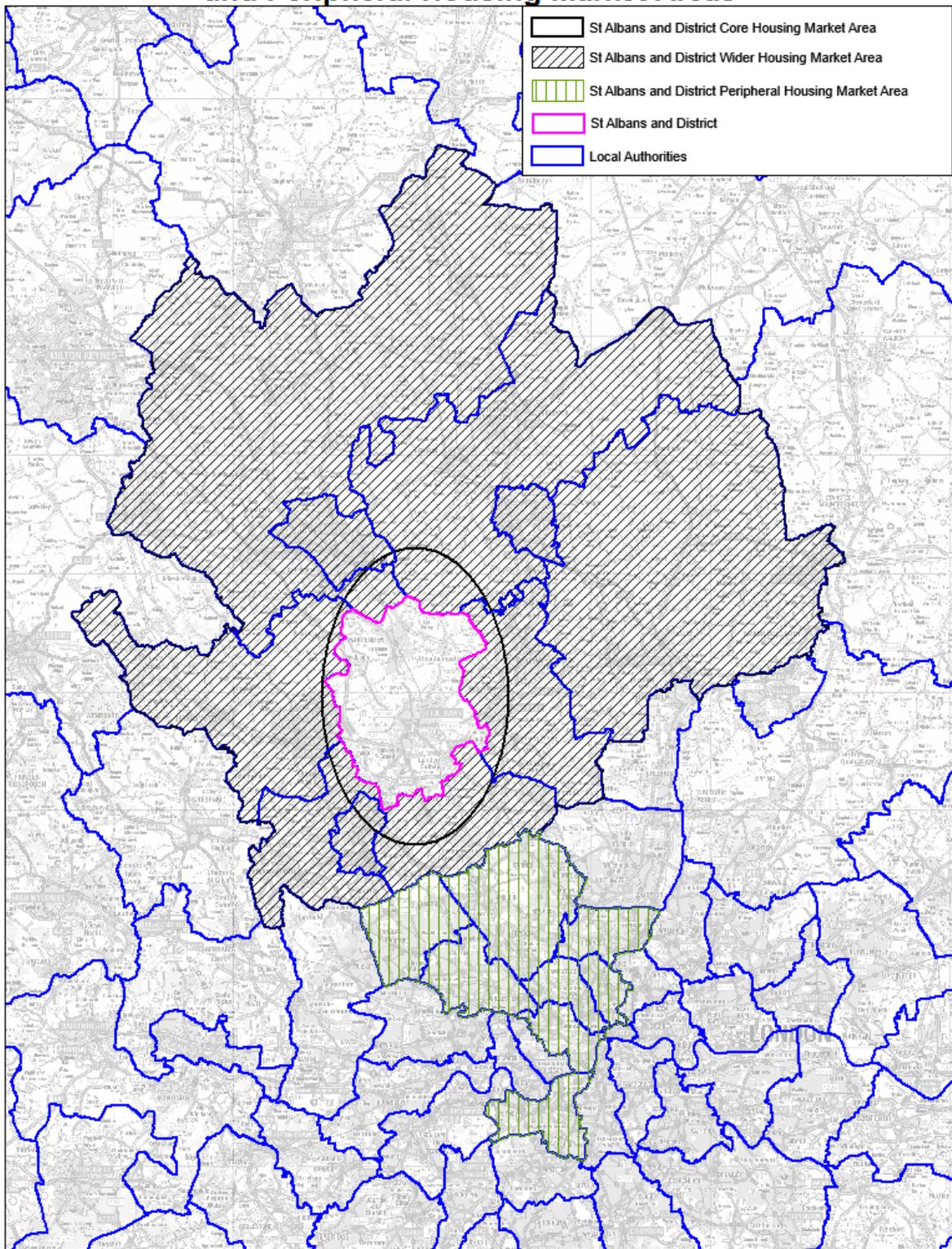
St Albans and self-containment

- 1.3 Applying conventional indicators and the principle of 'geographic adjacency', the GL Hearn Objections Response attempts to establish that St Albans City and District Council area does not constitute a self-contained housing market area and should be included in the South West Hertfordshire Housing Market Area consisting of the Dacorum Borough Council, Hertsmere Borough Council, Three Rivers District Council and Watford Borough Council areas.
- 1.4 It is important to state from the outset, that the 2013 St Albans SHMA and associated Updates did not claim to establish this degree of self-containment and, through applying a combination of house price patterns, commuting and migration, they fully recognised the nature and extent of connections to adjacent and more distant local authority areas. At paragraphs 1.59-1.64, the 2013 SHMA is explicit in recognising a hierarchy of housing market areas operating at three levels and which is demonstrated in the map below:
 1. A Core Housing Market Area: consisting of the St Albans City and District Council area
 2. A Wider Housing Market Area: consisting of:
 - Central Bedfordshire
 - Dacorum
 - East Hertfordshire
 - Hertsmere
 - Luton
 - North Hertfordshire
 - Stevenage
 - Three Rivers
 - Watford
 - Welwyn Hatfield
 3. A Peripheral Housing Market Area: consisting of the London Boroughs of:

- Barnet
- Brent
- Camden
- City of London
- Haringey
- Harrow
- Islington
- Wandsworth
- Westminster

Map 1

St Albans and District with Core, Wider and Peripheral Housing Market Areas



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- 1.5 The basis for developing this model was consultation with estate and lettings agents who were questioned in relation to the definition of housing market areas for two reasons:
1. to identify the geography of the St Albans housing market; and
 2. to identify the key actors or market segments influencing housing market demand.
- 1.6 Estate and letting agents were unanimous in establishing that market demand was being led by people moving from and/or working in London, and that these groups consisted primarily of single and couple professionals and professional families with high levels of purchasing power. Their views of the attraction of the area are captured in the following quote:
- “St Albans has always been a city that people want to live in – good schools, train links to London etc and it’s a lovely place to live. Whatever goes on in the economy, people want to live here for those reasons, which don’t change.”*
- 1.7 We are not aware of similar interviews being undertaken in the South West Hertfordshire local authorities and which might have provided a similar ‘reality check’ on local and sub-regional housing market data and dynamics. None are reported in the South West Hertfordshire SHMA Final Report or accompanying appendices.

St Albans in the housing market: the strength of the London connection

- 1.8 The strength of the connection between London and St Albans is also evident from a number of indicators of the dynamics of the housing market as follows.
- 1.9 Internal migration by region: over the 3 years to June 2011, net gain through migration to St Albans was dominated by its relationship with London. There was a net gain of 3,590 people from the London region over this period compared with the next highest figure, a net loss of 760 people to the East region. Therefore, the London region is dominant.
- 1.10 Internal migration by local authority area: over the 3 years to June 2011, net migration to St Albans was dominated by its relationship with London. Of the 10 local authorities contributing most to net migration to St Albans, only two were in the South West Hertfordshire sub-region, Hertsmere which contributed 570 people and Watford which contributed 150 people. This total of 720 compares with a net migration of 1,370 people from the London Boroughs of Brent, Camden, Enfield, Haringey, Islington and Wandsworth. Therefore, London local authorities are dominant.

- 1.11 Commuting by local authority area: the South West Herts local authorities are amongst the 10 authorities contributing towards 70% of in-commuting to St Albans but, other than Dacorum in second position, the others are in 5th, 6th and 8th positions.
- 1.12 A quite different pattern emerges for out-commuting with the City of London and Westminster in second and third places as commuting destinations after Welwyn Hatfield. Of the 10 local authorities contributing towards 70% of out-commuting, 5 London boroughs are the destinations for almost 10,000 commuters (28.5% of the total); the South West Herts local authorities are the destinations for almost 7,500 commuters (22.5%) and 4 other local authorities in the St Albans Wider Housing Market Area provide almost 7,000 (19.9%). Therefore, London local authorities are dominant.
- 1.13 The South West Herts. SHMA Final Report of January 2016 explains at paragraph 2.9 that an *'analysis of migration patterns and self-containment'* has been undertaken and identifies that a *'self-containment of between 77-84% of migration flows....is achieved across the four commissioning authorities and St Albans **if the influence of London is set aside**'* (our emphasis).
- 1.14 The analysis of migration flows between local authorities reported at paragraph 3.39 of the South West Herts, SHMA Appendix A – Defining the Housing Market Area Report, January 2016 reports a strong relationship between the 4 local authorities and St Albans *'**if London is considered as a separate HMA**'* (our emphasis).
- 1.15 In view of the demonstrable strength of the connections between St Albans and London, it is not clear why *'the influence of London is set aside'*, as it has the effect of distorting the relationship between St Albans and the South West Herts local authorities and the sub-region.

St Albans in the housing market: connections with South West Hertfordshire local authorities

- 1.16 The 2013 St Albans SHMA is explicit in recognising that St Albans has a Wider Housing Market Area which includes the 4 South West Herts local authorities. This is recognised in relation to home moves and migration, but in view of the strength of the connections with London, the South West Herts. local authorities are only one component of the St Albans housing market area.
- 1.17 The South West Herts SHMA, Appendix A – Defining the Housing Market Area Report, January 2016 sets out at Paragraph 1.1 to *'assess what the relevant Housing Market Area (HMA) or areas which the commissioning local authorities of Dacorum, Hertsmere, Three Rivers and Watford sit within (are).'*' (Bracketed word corrects original GL Hearn text)

- 1.18 The Appendix confirms that the strength of the link between St Albans and these local authorities is complex and variable. For example, in relation to migration flows between local authorities, and applying an approach of ‘moves per thousand population’, St Albans only registers a significant migration pattern with Dacorum and the strongest relationship is with Welwyn Hatfield which is outside the South West Herts grouping (see paragraphs 3.36 and 3.38).
- 1.19 In relation to commuting, it is evident from paragraph 3.69 that St Albans does not have significant commuting flows with the four South West Herts. local authorities, and it is only by excluding London and including St Albans that self-containment across the area increases close to the recommended level of 75%.
- 1.20 Other cross-boundary relationships are established, for example, Tring with Aylesbury Vale; Rickmansworth with Chiltern and Markyate with Central Bedfordshire and Luton, but are considered (by GL Hearn) insufficient to redraw the boundaries of the proposed housing market area (see paragraph 4.28).

St Albans in the housing market: comparative house prices

- 1.21 With reference to the use of house prices as a factor in the 2013 SHMA’s definition of the St Albans housing market area, the GL Hearn Objections Response states that: *‘Clearly St Albans does command some higher house prices than other SW Hertfordshire areas looking at district averages; and the land values are higher. Average house prices are a reflection of the mix of housing and the cost of individual properties. If we look at district averages, a **higher average house price in St Albans is influenced by a higher proportion of larger homes within the housing stock in the District**’* (our emphasis). However, in fact the differentiation in prices between St Albans and the four South West Herts. local authorities extends across all property types including smaller homes. The following table provides the average price by property type for the South West Herts. local authorities and St Albans for the year 1st April 2015 to 1st April 2016.

Table 1: Average prices by property type, South West Herts local authorities and St Albans City and District Council areas, 1st April 2015-1st April 2016

| Property type | Dacorum | Hertsmere | St Albans | Three Rivers | Watford |
|-----------------|----------|-----------|-----------|--------------|----------|
| Detached | £750,250 | £816,920 | £907,470 | £891,365 | £724,345 |
| Flat/maisonette | £233,440 | £297,360 | £293,105 | £283,945 | £230,380 |
| Semi-detached | £422,765 | £472,695 | £574,330 | £470,165 | £427,510 |
| Terraced | £338,176 | £392,030 | £443,020 | £374,365 | £342,175 |

(Source: Land Registry)

Key findings

- With the exception of flats/maisonettes in Hertsmere, average prices for all property types in St Albans exceed those in all four of the South West Herts local authorities, and for some property types, by as much as one third.
- Compared with the South West Herts local authorities, St Albans is a higher value housing market for which the proportion of larger homes is an insufficient explanatory factor.

Conclusions

1.22 The following conclusions can be reached in relation to the definition of the St Albans City and District Housing Market Area:

- Whilst there is an established housing market relationship with local authorities throughout Hertfordshire, including the South West area, it is incapable of explaining and understanding the dynamics of the housing market within the St Albans City and District area.
- The St Albans City and District housing market area is distinctive in its complexity, operating at three levels which at the 'Core' and 'Wider' levels are geographically adjacent but at the 'Periphery', especially in relation to London, is non-contiguous.
- This geographically 'Peripheral' housing market area exerts a disproportionate effect on the St Albans housing market, with demand from London driving up house prices and market rentals.
- Demand pressures on St Albans from London exceed those experienced by neighbouring local authorities and continue to shape its housing market.
- Setting aside the influence of London has the effect of distorting the relationship between St Albans and the South West Hertfordshire local authorities. Its housing market cannot be comfortably self-contained in its relationship with geographically adjacent or contiguous local authority areas.

Response to criticisms of OAN for St Albans by NM Solutions

Housing Vision, 2nd May 2016

Criticisms

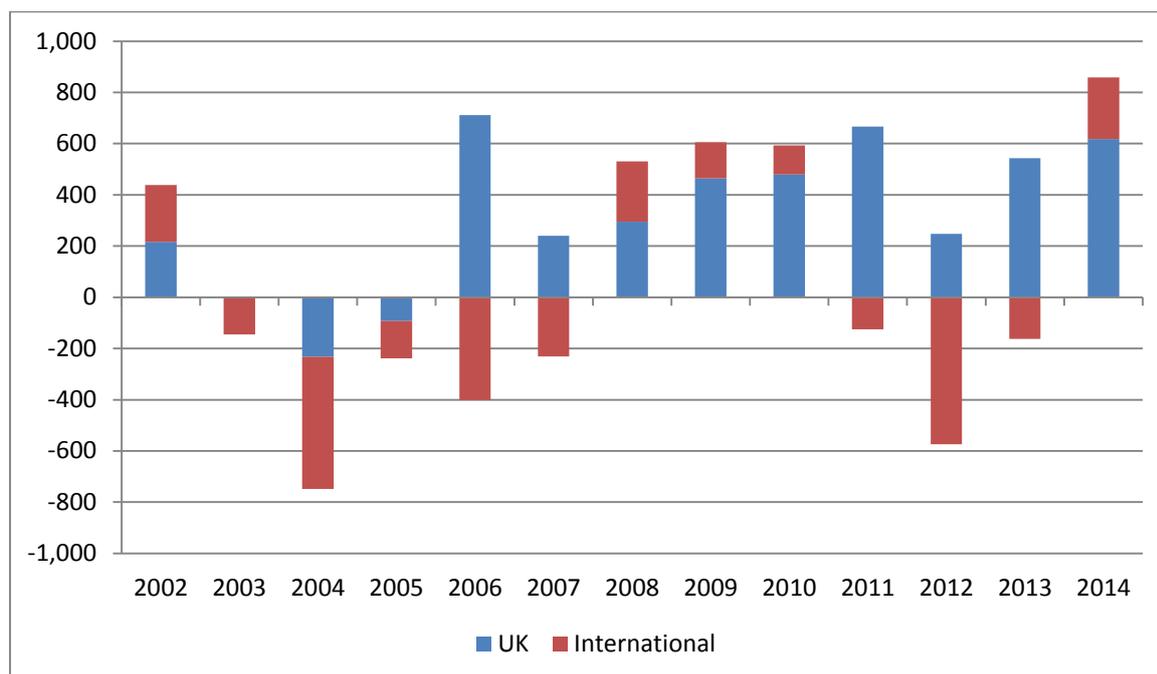
- 1.1 The criticisms by NM Solutions are summarised in Paragraph 2 of NM's paper as follows:
1. The use of a 10-year reference period for setting migration assumptions.
 2. Large differences between Edge Analytics 10-year migration scenario and ONS's projections.
 3. That the OAN does not reflect the latest evidence.
 4. That if a 10-year migration period is used then it should be based on the most recent data.

Response

1: Use of a 10 year reference period for setting migration assumptions

- 1.2 ONS' Sub-national Population Projections show what the future population would be if recent patterns of change were to persist over the next 25 years; migration assumptions use data from the 5 years (6 for international migration) leading up to the base date of a projection. St Albans' OAN adopts a scenario based on a 10-year period for calculating migration assumptions.
- 1.3 NM argue that such a long time period can be justified only if it reduces the impacts of the 2007-12 recession on migration trends, and there is no evidence of a recessionary effect on net migration in St Albans. The recession is only one aspect of a more general concern about ONS' 5-year approach. This arises from the instability of net internal migration at local authority level. Figure 1 shows the annual net migration figures for St Albans since 2001. There are large year-on-year variations. Notably high net migration from the rest of the UK was recorded in 2005-06 2010-11 and 2013-14, contrasting with net losses between 2002 and 2005.

Figure 1: St Albans, Net UK and international migration gains or losses, mid-years ending June 2002 to June 2014



1.4 A 5 year reference period to set migration assumptions for a 25 year projection is a short time period on which to base a long-term projection. Concerns expressed by some local authorities have been acknowledged by ONS during the consultation on the forthcoming 2014-based projections: "Preliminary research has been made into producing a variant projection using a longer trend of migration data. This could potentially smooth out the effects of the recession, which may have resulted in internal migration patterns which may not continue in the future." (Consultation on the 2014-based Subnational Population Projections for England, ONS, 18th January 2016)

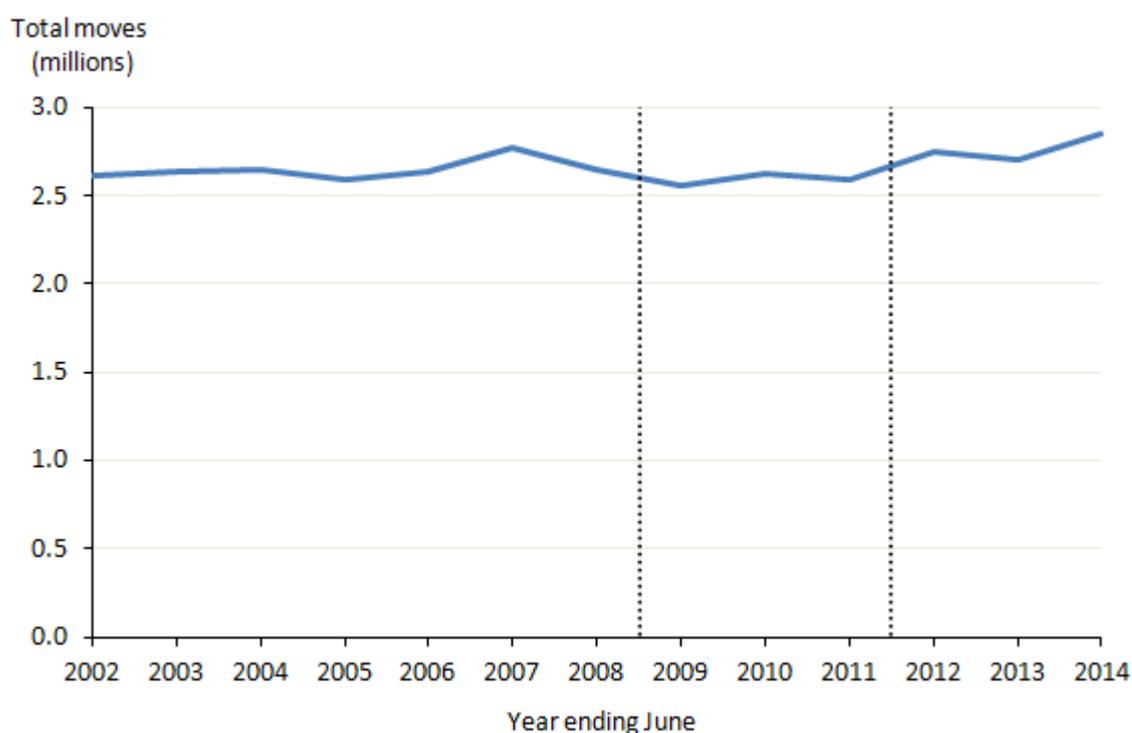
1.5 The Greater London Authority has stated:

'When projecting further ahead it is generally better to base assumptions on longer historical trends, preferably spanning multiple economic cycles. To this end, the GLA has produced a variant based on the longest period that it was felt could be supported by the availability of adequate migration data. In addition to being more conceptually sound as a basis for long-term projection, using a long-term trend has the advantage of yielding more stable projections between successive projection rounds when compared to those produced using short-term trends only, as each additional year of data has a smaller proportional impact on the overall trend'. (GLA 2014 round of trend-based population projections - Methodology Update April 2015).

1.6 This comment is of significance as the GLA is a centre of demographic expertise as London is a major source of migration into St Albans.

- 1.7 As regards the recession, the owner-occupied housing market and new building were clearly depressed at national level at least. However, the private rental market plays a much larger role in the housing market and is more readily accessible to mobile sections of the population.
- 1.8 Figure 2 shows that the impact on the total volume of migration between local authorities appears fairly modest; the increase in 2013-14 was only 5%; the previous year had seen a reduction. The year-on-year volatility in migration flows to and from individual local authorities is much greater than can be explained by the national variations in flows.

Figure 2: Total moves between local authorities in England and Wales, years ending June 2002 to June 2014



((Source: Internal migration, England and Wales, year ending June 2014, ONS, 25 June 2015))

- 1.9 Selecting a reference period for a long-term projection is a matter of judgement, and should take account of international migration and well as migration within the UK. The arguments for a longer reference period do not rest solely on the recession.

2: Concerns over Large differences between Edge Analytics' 10-year migration scenario and ONS's projections

- 1.10 NM draw attention to the large differences in population growth between Edge's 10-year migration scenario (18,093) and ONS' 2008, 2010 and 2012 projections with growth ranging from 24,400 to 27,000 for the period 2011-2031. NM states that the Edge figure is 'extremely surprising'.

- 1.11 The trend data that informed ONS' 2008 and 2010 projections have been superseded by revised historical data following the 2011 Census. Re-runs of these projections using the revised data would give different results. Consequently, these projections should be disregarded. The analysis below concentrates on the 2012-based projections.
- 1.12 The differences between Edge's 10-year migration and ONS' 2012-based projection depend mainly on different assumptions about the main components of population change: natural change (births minus deaths), migration to and from the rest of the UK (internal) and abroad (international). This can be best illustrated by comparing the annual averages for the 5 year period 2007-2012 which have been used to inform ONS' 2012-based projection, with the ten year averages for 2002-2012 that informed Edge's 10-year scenario.

Table 1: Annual averages from ONS' Mid-Year Estimates

| Trends | Natural Change | UK Migration | International Migration | All Migration |
|----------------------|----------------|--------------|-------------------------|---------------|
| 5 Year Trends | | | | |
| 2007-2012 | 956 | 430 | -42 | 388 |
| 10 Year Trend | | | | |
| 2002-2012 | 833 | 278 | -165 | 113 |

(Source: ONS Mid-Year Population Estimates)

- 1.13 The difference in natural change shown in Table 1 mainly result from changes in the numbers of births. Future birth numbers have very little impact on the calculation of household numbers in the period to 2031. More significant are the substantial differences in net migration (UK plus international).
- 1.14 Edge Analytics use the industry-standard POPGROUP software which is frequently used in SHMA exercises. There are inevitable differences resulting from the computer projection models used by ONS and Edge. POPGROUP is designed to provide scenarios for single areas; ONS provide a single set of inter-related results for all local authority areas in England.

3: Criticism that the OAN does not reflect the latest evidence.

- 1.15 The original SHMA was prepared in 2013. Subsequently, ONS issued the 2012-based population projections, while CLG issued corresponding 2012-based household projections; the implications of which were considered in the SHMA update of July 2015.
- 1.16 ONS has also issued population estimates for 2013 and 2014. Estimates for 2015 are due in June 2016.
- 1.17 ONS will publish 2014-based Sub-national Population Projections in May 2015. These will be controlled by the 2014-based projections for the UK countries, published in the autumn of 2015.

1.18 The results of this recent and forthcoming data will be reviewed and the implications for the calculation of the OAN will be considered.

4: Criticism that if a 10-year migration period is used then it should be based on the most recent data

1.19 The updating and review exercise, described in 3 above, will consider the implications of more recent data for the ten-year migration scenario.

ADDITIONAL NOTE

Planning Advisory Service Guidance 2015 “Objectively Assessed housing Need and Housing Targets: Updated technical advice note” recommends ‘*a 10-15 year base period should provide more stable and robust projections than the ONS’s five years*’. (Para. 6.24)

Appendix 3 - NM Solutions Paper (prepared for the SW Herts grouping of LPAs)

APPENDIX: ASSESSMENT OF PROPOSED ST ALBANS OAN FROM NEIL MCDONALD

Summary

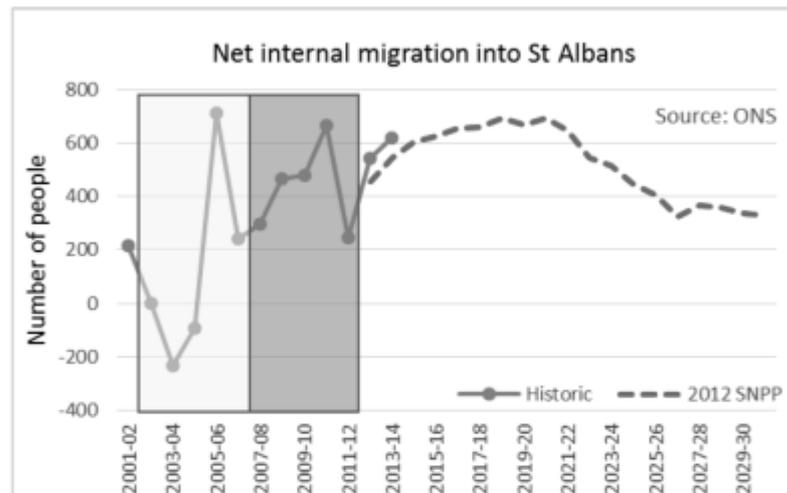
1. The Publication version of the St Albans Local Plan proposes a housing target of 436 homes a year. This is based on a 10-year migration scenario prepared for St Albans by Edge Analytics. Dacorum Borough Council, Hertsmere Borough Council, Three Rivers District Council and Watford Borough Council (referred to as the SW Herts authorities) believe that that scenario substantially underestimates the objectively assessed need for housing in St Albans. These concerns are supported by my own consideration of the data available.
2. In particular, I support the SW Herts authorities in their assessment that:
 - It is unnecessary and inappropriate to adjust the ONS's population projections for St Albans to reflect flows in the 10 year period 2002-12.
 - The difference between successive ONS projections for the population growth of St Albans between 2011 and 2031 and the population growth suggested by the 10-year migration scenario is far larger than can be justified by the differences between the flows in the 10-year period used in that scenario and the flows in the 5-year periods used by the ONS. (The latest ONS projection, the 2012-based Sub-national Population Projection suggests a population increase that is 50% larger than that in the 10-year migration scenario.) The appropriateness to the particular circumstances of St Albans of the method used to create the 10-year migration scenario needs further investigation.
 - The estimate of the OAN is not based on the most up to date data and does not take the latest official projections as its starting point (as suggested by the Planning Practice Guidance).
 - If 10-year migration trends are to be used they should reflect the latest 10-year period for which data is available i.e. 2004-14.
3. Applying the latest DCLG household projections for St Albans (the 2012-based projection) and a 3% vacant and second homes allowance suggests a housing need for 656 homes a year over the period 2011-31. I have advised the SW Herts authorities that the OAN probably lies in the range 650-700 homes a year before any allowances are added that may be justified by market signals; the need to deliver additional housing to support economic growth; or the probability that there will significant increases in out-migration from London.

Detail

10-year migration adjustment

4. The Planning Practice Guidance stipulates that household projections published by DCLG should be the starting point for estimating overall housing need. It also acknowledges that those projections "may require adjustment to reflect factors affecting local demography and household formation rates which are not captured in past trends". It is therefore perfectly acceptable to adjust the official projections, but such adjustments should be justified by "factors affecting local demography and household formation rates which are not captured in past trends".

5. An adjustment to reflect 10-year internal migration trends is commonly made in estimating an OAN. That adjustment is justified by the fact that the latest official projections are based on migration trends taken from the period 2007-12, a period which encompasses the economic downturn during which flows to and from many areas were significantly affected. However, in the case of St Albans there is no evidence that the net internal migration inflow was significantly affected by the economic downturn. This can be seen from the following chart which shows past and projected net internal migration flows into St Albans. The period shaded blue is the period used by the ONS as the trend period for its latest population projections (i.e. 2007-12). Although there were fluctuations up and down from year to year during this period there was not a significant departure from recent trends.



6. The period shaded yellow (2002-07) is the additional 5-year period that is brought into the trend period if the 10-year period 2002-12 is used as the trend period. As can be seen from the chart, this brings into the period three years when net flows were lower than in the rest of the period. This may be due to the low numbers of homes completed in 2002-03 and 2003-04. This shows that in the case of St Albans the effect of extending the trend period back to 2002 is to bring in what appears to be an atypical period – rather than (as is normally the case) to balance atypical flows in the period 2007-12 with more normal flows in the previous 5-year period.
7. This leads to the conclusion that it is unnecessary in the case of St Albans to adjust to the ONS's 5-year trend period as there is no evidence to suggest that the net flows were significantly distorted during that period and inappropriate to adjust to the period 2002-12 as that brings into the trend period a period that appears to be atypical.

Size of the 10 year migration adjustment

8. Table 3 in the July 2015 SHMA Update gives the last three ONS population projections for the period 2011-31. These show increases of 24,400, 26,700 and 27,000 people from the 2008, 2010 and 2012-based population projections respectively. These will have been based on trend periods of 2003-08; 2005-10 and 2007-12. Despite those trend periods being before, at the beginning of, and during the economic downturn they show a remarkable degree of consistency. It is therefore extremely surprising that the 10-year migration scenario produces a population increase for 2011-31 of only 18,093 people (from Figure 16 of the Edge Analytics October 2013 report, "Housing growth forecasts; Demographic analysis and forecasts"). That is a third less than the latest ONS projection. Given that the only justification for altering the official projection is to produce a

projection that is likely to be more representative of future changes and the 10-year migration projection seems to do the opposite, it clearly requires further examination.

Use of out of date data

9. Although the July 2015 SHMA Update by Housing Vision reports on the DCLG 2012-based household projections which were published in February 2015, those projections have not been incorporated into the estimate of the OAN or the determination of the housing requirement. Table 6 of that report records that the 2012-based projections suggest an increase of 12,700 household between 2011 and 2031 i.e. 635 a year. Using the unrounded figure from the DCLG Live Table 406 and a 3% vacant and second homes rate suggests an OAN of 656 homes a year, as noted above. Yet there is no discussion of why, in the light of this most recent evidence, a housing requirement of 436 is justifiable.
10. In June 2015 the ONS published their 2014 Mid-Year Population Estimates. These give their latest view of the actual population changes in 2012-13 and 2013-14 and can be used to update DCLG's 2012-based household projections. They also provide the basis for updating a 10-year migration adjustment to reflect the period 2004-14 if it is felt that such an adjustment is necessary.
11. It should also be noted that the ONS are due to produce revised population projections in May. These will take 2014 as their base year. This further strengthens the case for updating the analysis to incorporate the population estimates provided in the 2014 Mid-Year Estimates

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17 February 2016