Chapter 1  Introduction and context

Key Points

South East London Housing Partnership commissioned Cobweb Consulting to prepare a Strategic Housing Market Assessment (SHMA) for the South East London sub-region comprising the boroughs of Bexley, Bromley, Greenwich, Lewisham and Southwark.

The SHMA aims to:
- support the boroughs’ strategic planning functions
- inform housing strategies and policies
- be based on existing data sources
- build on and refer to the 2013 London SHMA prepared by the Greater London Authority (GLA)

Key outputs from the SHMA include:
- the quantity of new housing needed in terms of type, tenure, and size to meet future housing requirements
- the extent of affordable (non-market) housing need in terms of type, tenure, and size, including concealed and potential households
- an assessment of the housing needs of particular groups including older people, people with disabilities, and Black and Minority Ethnic communities

The SHMA must be robust to withstand scrutiny and compliant with official guidance including the revised and updated 2014 National Planning Policy Guidance.

The key national and London contextual features of this SHMA are:
- The economic crisis of the later 2000’s and its impact on the housing market
- The low levels of housing starts and completions
- The expansion of the private rented sector (PRS)
- The welfare reform agenda
- The rapid rise of London house price and rents in conjunction with static incomes
- The London Plan, its Further Alterations, and the 2013 London SHMA

Introduction

1.1  In January 2014 Royal Greenwich on behalf of the South East London Housing Partnership (SELHP) commissioned Cobweb Consulting to prepare a Strategic Housing Market Assessment (SHMA) for the South East London sub-region. The sub-region is made up of the boroughs of Bexley, Bromley, Greenwich, Lewisham and Southwark.

Purpose of the assessment

1.2  The purposes of the SHMA were:
- To establish the basis for treating South East London as a housing market area.
- To support the boroughs’ strategic planning functions, and in particular to provide evidence for the development of Local Plans and local planning guidance.
- To inform housing strategies and policies.
- To inform the targeting of housing resources and spending priorities, as well as bids for resources to address the issues identified.
- To set out local issues, the sub-regional and London context, in comparison with national, regional and other sub-regional data.
- To identify changes in key issues since the previous SHMA.

1.3 The brief also specified that the SHMA should:

- Use existing information and data as its evidence base and the source of its findings.
- Build on and refer to the London SHMA recently prepared by the Greater London Authority (GLA).
- Comply in full with the latest government planning policy and practice guidance and advice on SHMAs and the assessment of housing need, specifically draft guidance issued by the Government in August 2013 (Assessment of Housing and Employment Development Needs), and finalised in March 2014.
- Produce evidence and conclusions sufficiently robust to support policies and proposals for future dwelling supply, tenure and dwelling mix to be set out in Local Plans.
- Be capable of withstanding challenge at Local Plan examination; in negotiation with developers, the formulation of Section 106 planning agreements, and the boroughs’ response to any appeals against planning decisions regarding affordable housing that may arise.

Key outputs

1.4 The brief specified that the study should use existing data to:

- Identify patterns of mobility into, out of and within the sub-region by describing and analysing population flows, including the potential implications of different projections of migration.
- Identify the quantity of housing needed in terms of its type, tenure, and size, including concealed and potential households across all tenures.
- Quantify the housing needed over the next 5, 10 and 15 years as well as identify the current backlog (i.e. the current number of households that need housing).
- Identify the future quantity of market and affordable housing needed based on different scenarios.
- Produce a range of estimates for the projected number of households that will require affordable housing and those who will require market housing, resulting in estimates for the mix of affordable housing and market housing that is required.
- Describe and quantify any mismatch between the scale of housing supply necessary to meet demand and capacity within the local housing market with reference to tenure and unit size.
- Identify the extent to which existing and newly forming households are likely to realise their needs.
- Identify levels of overcrowding and under-occupation in all tenures.
- Identify current and future need for housing from the following:
  - Older people
  - People with disabilities and medical conditions (“specific needs”)
  - Students
  - Black and Minority Ethnic communities
  - Service families
  - People who want to build their own homes
• Include reference to the actual or projected impact of welfare reform, in particular arising from the benefit cap, the housing benefit size criteria and the disconnection of Local Housing Allowance from market rents.

Planning guidance on SHMAs

1.5 The National Planning Policy Framework (NPPF) sets out the Government’s planning policies for England. It provides guidance for local planning authorities and decision-takers, both in drawing up plans and making decisions about planning applications. The NPPF places strong emphasis on a plan-led approach supported by a proportionate evidence base. Local planning authorities should ensure that their Local Plans are based on ‘adequate, up-to-date and relevant evidence about the economic, social and environmental characteristics and prospects of the area’. They should also ‘ensure that their assessment of and strategies for housing, employment and other uses are integrated, and that they take full account of relevant market and economic signals’ (NPPF para 158).

1.6 In relation to housing, authorities should ‘use their evidence base to ensure their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area….’ (NPPF para 47). To do this, they need to ‘have a clear understanding of housing needs in their area’ and ‘prepare a Strategic Housing Market Assessment to assess their full housing needs, working with neighbouring authorities where housing market areas cross administrative boundaries’. The Assessment ‘should identify the scale and mix of housing and the range of tenures 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;
• addresses the need for all types of housing, including affordable housing and the needs of different groups in the community (such as, but not limited to, families with children, older people, people with disabilities, service families and people wishing to build their own homes); and
• caters for housing demand and the scale of housing supply necessary to meet this demand’ (NPPF para 159).

1.7 Government guidance on SHMA preparation was issued in revised and updated form in March 2014 and this SHMA is required to be compliant with that guidance.

1.8 The guidance does not prescribe an exact methodology for SHMA preparation. As the guidance states, ‘establishing future need for housing is not an exact science. No single approach will provide a definitive answer’. Housing markets are dynamic and complex and strategic housing market assessments cannot provide definitive estimates of housing demand or need. What is important is that an assessment should use up to date high quality data to analyse the characteristics of housing markets, the key factors driving markets now and in the future, and from this, develop the most probable scenarios showing the direction of change in future housing need and demand.

1.9 It is also important to recognise uncertainties in the future pattern of housing demand and need. To address this we have sought to provide a transparent approach in which data sources are clearly identified and the stages in the assessment of demand and need are clearly set out along with the assumptions which underlie them. As a result, it will

be possible to incorporate revisions or updates to data sources (for example updated population and household projections), or changes to assumptions (for example changes to mortgage interest rates) in the future. In part this is facilitated by the use of existing (secondary) data sources rather than a reliance on primary research such as social surveys.

1.10 As the NPPF indicates, the estimates of housing requirements and housing needs set out in this report are not targets which must be incorporated in Local Plans. Rather they are one important source of evidence to be taken into account when developing polices and targets for housing provision, alongside other factors such as land capacity, economic viability, and the expectations of local communities and stakeholders.

The national context

1.11 This section of this chapter sets out the key features of the national housing context and the London-wide context which determine the issues facing the South East London boroughs over coming years and the responses which they will need to make to address housing needs and demands within the city more widely and within their own boundaries.

1.12 National housing policy is at present mainly focused on the problems associated with housing market weakness, difficulties in affording to buy or to rent, a lack of readily available and affordable mortgage finance for first-time buyers; measures to stimulate the low level of new housing construction across the country; and the delivery of housing’s contribution to the wider process of welfare reform which the government sees as vital to economic recovery and future growth.

1.13 The period since 2007 has seen economic changes of a scale and type which stand comparison to anything which has taken place over the last 100 years. This began with the global crisis in the banking system which affected the availability of credit for business and housing, and was followed by economic recession, increased unemployment, and a widespread loss of confidence. The housing market was one of the worst affected sectors of the economy, with falling house prices for a period, and a sharp and sustained reduction in the volume of sales as buyers shunned the market or were unable to secure loan finance on reasonable terms, and a collapse in the output of new housing supply. It is only in the last two years that the housing market has shown signs of recovery, and even this recovery has been partial and fragile, with London leading the way in terms of price recovery and growth; but with sales volumes rising only slowly and still below those which characterised the pre-crisis period. Mortgage advances fell from over 1 million in 2007 to half this level, with advances to first time buyers most severely affected. The Help to Buy Scheme represents one of the government’s responses to supporting the provision of lending to first time buyers and to kickstart the market more generally.

1.14 There are long term and well-publicised concerns about the low levels of housing starts/completions nationally, with private sector production remaining at around half of its 2007 level and production in total well below the level needed to cater for household growth, even at the reduced levels apparent since 2007. The government is providing financial incentives to developers and local authorities to develop stalled sites; and the Local Infrastructure Fund to support larger sites for development going forward. In addition a range of reforms to the planning system have introduced simplifications to planning guidance to speed up the development of planning policies and the process of dealing with applications.
1.15 The housing market recession and its aftermath have speeded up growth in the private rented sector although this was already evident in the early 2000s\(^2\). Since deregulation in 1989, the private rented sector (PRS) has grown by more than 100% in England. Growth has occurred mainly at the expense of owner occupation and in the lower value sector of the market, where investors have out-competed first-time buyers and other low income groups. Much of the growth was supported by the development of Buy to Let mortgages, launched in the late 1990s. Contrary to the aspirations of successive governments to attract larger-scale institutional investors into the private rented sector, most of the growth has followed the traditional pattern of dominance by individual landlords with small portfolios. The private rented sector serves a complex range of markets, including those for students (fuelled by growth in participation levels in further and higher education), the young professional market (characterised by groups of unrelated young adults living together), and households on benefits. This last group has been particularly affected by reforms to housing and welfare benefits introduced by the Coalition Government as part of its programme of welfare reform. The availability of benefits to assist with rents had up to now supported an increased role for the private rented sector in meeting housing needs including some homeless households.

1.16 There have also been a number of reforms to the social rented housing sector, including provision for more flexible tenancy types, the introduction of affordable rents (at up to 80% of market rents) for new tenancies, and changes to the management of waiting lists and allocations. For the sake of clarity, and in conformity with the terminology of the London Plan, we will refer to the combined old-style social and new-style affordable rented sectors as the ‘social / affordable rented sector’. The resources generated by these changes to social housing finance, along with programmes to rescue stalled private sector schemes and other forms of investment, have to some extent protected the social / affordable rented sector from decline, although nationally, in 2013 the private rented sector exceeded the social rented sector in size for the first time in many decades.

1.17 In November 2010, the Coalition government began the process of introducing a range of other changes to welfare benefits. These included a cap on the total level of benefits working age people can receive (which impacted particularly on London with its high rent levels); capping of housing benefit levels by number of bedrooms; reductions in the level of Local Housing Allowance (LHA) through rebalancing its relationship with market rents; restrictions to the shared room rate of LHA benefits for younger people aged 25-34; and in the social / affordable rented sector, and the introduction of the social sector size criteria. Universal Credit is being gradually introduced starting in 2013, and is projected be the Government to have fully rolled out by 2017 (though there is now considerable doubt about whether this target will be met). These changes have had and will continue to have major implications, particularly for social / affordable and private landlords, and tenants.

**The London context**

1.18 The most high-profile recent development in the housing market in London is the rise in turnover, dwelling prices and rent levels which has taken place over the last two years in many areas. Although a recent report argued that international investors played only a small role in the market outside central London, it admitted that their impact on the market there was significant, and that other investors played an important part in the market elsewhere, often being the driving force behind new developments\(^3\).

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\(^2\) See for example evidence to CLG Select Committee, 18 July 2013, and *The UK private rented sector as a source of affordable accommodation*, Michael Ball / JRF, 2010

While welcomed by some as evidence of housing market recovery, rising prices have not been accompanied by an increase in supply or in average incomes. Evidence from the 2011 Census suggested that there had been some suppression of household new household formation over the 2008-11 period across London (and in parallel, increases in multi-person households) due to the impacts of the global financial crisis on employment, consumer confidence, and the shortage of mortgage finance, but the Census also revealed that London's population had grown faster than previously thought, suggesting increased occupancy levels and pressures on the market. Studies are also emerging\(^4\) to suggest that the suppression of demand was short term and that longer term population and household growth trends will reassert themselves as the market picks up. Data on overcrowding also indicates that the backlog of unmet housing need in London has grown.

In London, authorities and groups of authorities working together on housing and planning policies need to have regard to the London Plan. The London Plan dates originated in 2011, but the current iteration is the 'Revised Early Minor Alterations' versions published in 2013. In January 2014 the Mayor published Further Alterations to the London Plan (FALP) for consultation. This contains a range of revisions to the Plan’s policies and targets but with a strong emphasis on housing. In order to update the evidence base for the Plan and to comply with the requirements of the National Planning Policy Framework, the GLA prepared a new Strategic Housing Market Assessment (SHMA) in 2013. This provides updated estimates of London’s future housing requirements and affordable housing needs. This will sit alongside the 2013 Strategic Housing Land Availability Assessment (SHLAA).

The 2008 London Strategic Housing Market Assessment, published in April 2009, estimated London’s annual housing requirement to be around 34,900 new homes a year, most of them affordable. The 2013 SHMA has produced a revised estimate of 49,000 homes per annum, based on a 'Central' scenario, of which 52% are required to be intermediate tenure housing or social / affordable housing to rent, although the Mayor’s proposal is to cater only for a proportion of this requirement. An alternative ‘Low’ scenario gives a requirement of 43,200 new homes a year, 55% of which should be intermediate or social / affordable rented, and a ‘High’ scenario that would result in 54,600 new homes a year, of which half would be intermediate or social / affordable rented.

**Structure of the SHMA**

This report provides a Strategic Housing Market Assessment covering the five London boroughs listed in para 1.1. Previous SHMAs included separate reports for each individual borough, but as specified in the brief, this SHMA consists of a single report providing evidence on the housing market and estimates of housing demand and housing need for both the five boroughs in combination and for individual boroughs. Detailed data and summaries of findings for individual boroughs are attached as appendices.

The remainder of the report is structured as follows:

- Chapter 2 examines evidence on the pattern of housing market areas in South East London. The 2014 (and earlier) National Planning Practice Guidance lays considerable emphasis on the identification of an appropriate housing market area or

areas for assessment and the sources to be used to inform this assessment. The chapter also compares the South East London sub-region with the four other Housing Partnership areas in London.

- Chapter 3 provides a profile of the existing housing stock in the area, including the supply, tenure profile, dwelling type and size breakdown, physical condition and occupancy levels. It focuses on key trends over time which will impact on supply and demand in the future.

- Chapter 4 looks at the current housing market and examines trends in house prices, rents and turnover in the private sector, including private rented housing market trends. It also examines the social / affordable rented housing sector, including rents, allocations and turnover. The chapter concludes by highlighting key thresholds determining the costs of access to market housing for sale or to rent, intermediate tenures (including for sale, partial sale or rent), and social / affordable rented housing.

- Chapter 5 presents a picture of the key factors driving the South East London housing market. The main factors examined are demographic (natural population growth, migration, the composition of the population, household formation and trends in household type); and economic (employment growth, the breakdown of employment by industry and occupational status, and trends in incomes/resources).

- Chapter 6 combines estimates of overall housing requirements and estimates of affordable housing need, and appropriate supply to meet this need over the period 2011-2031. It sets out the SHMA estimates of the overall requirement for housing derived from the demographic and economic drivers of future housing demand. It also examines how the estimates produced relate to existing London Plan provision. It then examines levels of future housing need in South East London. The methodology follows the approach set out in 2007 official guidance on SHMA preparation, by identifying:
  - backlog housing need,
  - new need arising in the future from gross new household formation, and
  - need arising from changes in the circumstances of existing households.

- Levels of need are identified by comparing household incomes with the costs of access to market housing and to intermediate/social rented housing. Future need levels are offset against the estimated supply of non-market dwellings, and overall estimates are broken down by type of supply and by the size of dwelling required.

- Chapter 7 examines the requirements of specific types of household set out in the brief and in para 1.4 above.