Strategic Housing Market Assessment

THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

Royal Borough of Kensington & Chelsea

Executive Summary

November 2009

fordham
RESEARCH

Introduction

ES1   This report presents a comprehensive analysis of the Kensington and Chelsea Housing Market. It includes a review of the current local situation, a discussion of the housing market dynamics and recommendations as to appropriate action in Kensington and Chelsea. The report follows the general structure of the CLG Strategic Housing Market Assessment Practice Guidance of August 2007.

ES2   A range of evidence was used to inform the outputs of this Strategic Housing Market Assessment (SHMA) report. This includes a range of data from a primary survey of local households, secondary sources, interviews with estate and letting agents and consultation with key stakeholders in the Borough.

ES3   The Royal Borough of Kensington and Chelsea is home to a range of internationally recognised arts, cultural and retail facilities and has the highest house prices in the country. It is however extremely polarised, containing a number of deprived areas, particularly to the north of the Borough.

ES4   It was estimated that as of March 2009, there were 84,200 households resident in Kensington and Chelsea and the population was estimated to comprise approximately 169,000 people.

Figure ES1 The location of Kensington and Chelsea
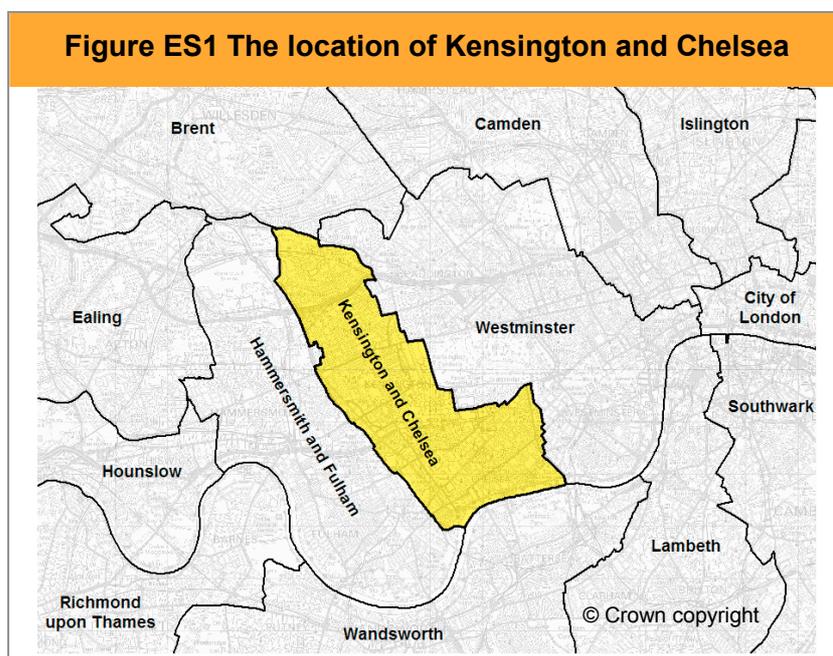
Source: Fordham Research 2009

ES5   This SHMA meets the requirements of Planning Policy Statement 3 (PPS3) and also Planning Policy Statement 12 (PPS12) in ensuring that all necessary outputs are provided and that such outputs pass the prescribed tests of soundness. The most important output requirements of PPS3, as regards the SHMA, are stated in paragraph 22:

> *'Based on the findings of the Strategic Housing Market Assessment and other local evidence, Local Planning Authorities should set out in Local Development Documents:*
>
> i)   *The likely overall proportions of households that require market or affordable housing, for example, x% market housing and y% affordable housing*
>
> ii)   *The likely profile of household types requiring market housing e.g. multi-person, including families and children (x %), single persons (y %), couples (z %)*
>
> iii) *The size and type of affordable housing required.'*

The demographic and economic context

ES6   GLA's Post London Plan (PLP) low projections estimate that between 2001-2006 the number of households increased at a similar rate to the population as a whole (around 2%); the average household size has therefore remained unchanged in recent years. In 2006, almost half of households were comprised of single people.

ES7   Kensington and Chelsea has a relatively large 'White Other' population (around a quarter of people), but a smaller non-White population than London as a whole.

ES8   Owner-occupation in Kensington and Chelsea at 43.7% is lower than national and regional equivalents. Around a quarter of households reside in the social rented sector and a quarter in the private rented sector, the latter being notably higher than the London average. Some 7.5% of the Borough's dwellings are second homes, considerably higher than the regional and national average.

ES9   The number of employee jobs in the Borough increased by around 3% between 1995-2007, lower than the regional and national increase, although the job density ratio is relatively high, suggesting that there are 1.23 jobs per working-age person living in the Borough. The 'distribution, hotels and restaurants' sector accounts for more than a third of employment within the Borough.

ES10   As can be seen in the figure below, some 71.6% of the Borough's working residents are employed in senior, professional or technical occupations, much higher than regional and national equivalents. The average income of full-time employees living in the Borough was notably higher than for those employed in jobs located in the Borough. The level of unemployment at 5.0% is lower than the London average.

Source: ONS Annual Population Survey 2007/08
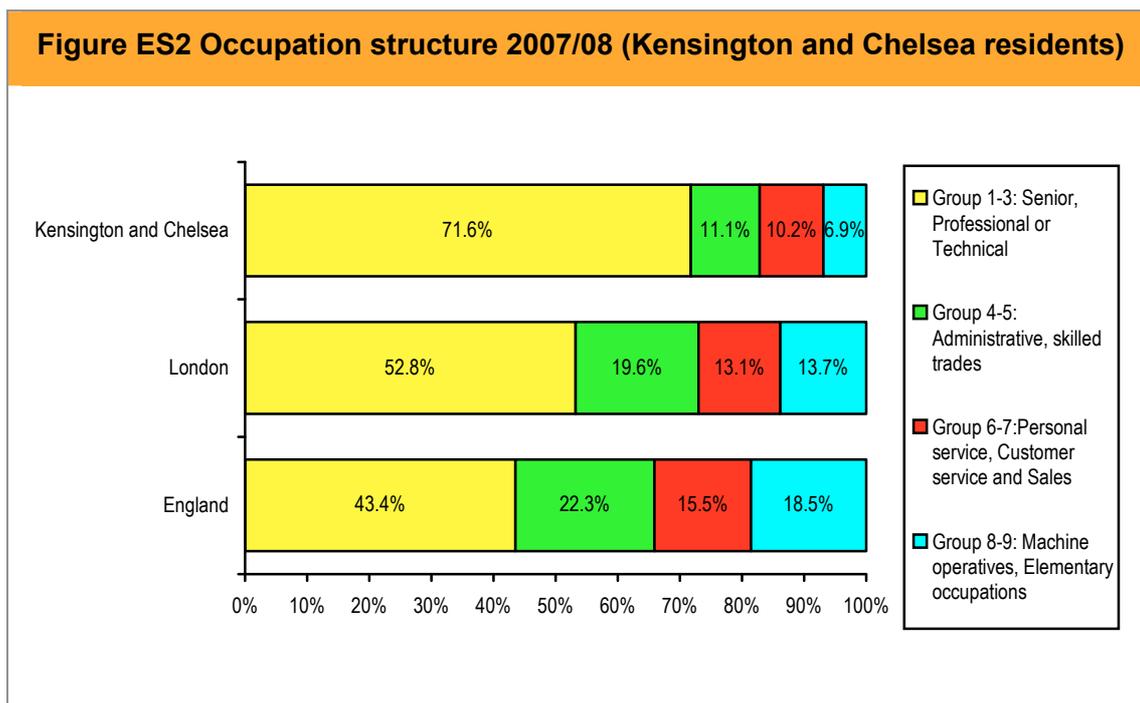
ES11 Survey results for household income estimate the median gross household income level to be £52,385 per annum, including households without any members in employment. This is noticeably lower than the mean income (£111,695 per annum). There is a vast range of incomes in the Borough, with almost 30% having an income of less than £20,000 and a similar proportion having an income in excess of £100,000.

ES12 The housing stock in Kensington and Chelsea is characterised by a large proportion of flats (82.5%), a small proportion of dwellings with five or more rooms (32.3%), a large proportion of dwellings in the highest Council Tax bands (39.7%) and a relatively large proportion of shared dwellings (2.7%).

ES13 Houses in Multiple Occupation (HMOs) and bedsits in particular were raised by stakeholders as an issue – there was some debate as to whether they should be seen as an asset to the Borough or whether their presence was indicative of a lack of affordable housing in the area. Analysis suggests that in general, bedsits tend to be cheaper than self-contained studios, particularly as bills are often included in the cost. HMOs were more likely to be let via more informal methods e.g. websites such as Gumtree, newspapers and local adverts, rather than through estate and letting agents.
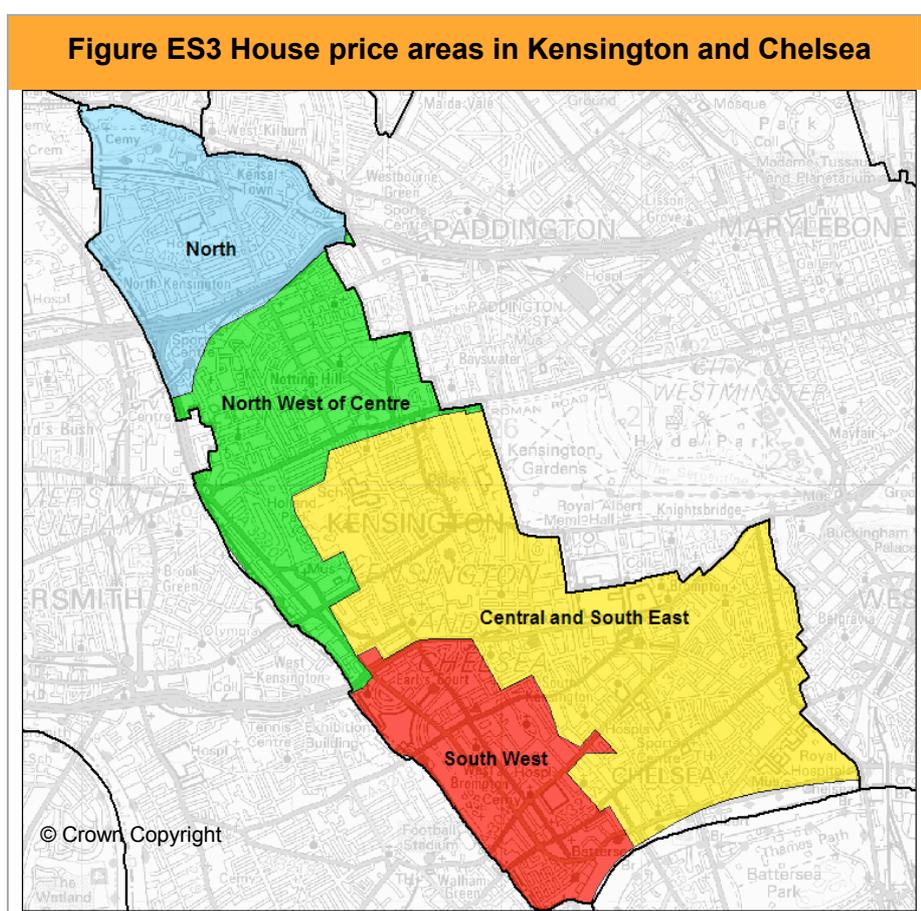
The current housing market

ES14 Whilst it is clear that Kensington and Chelsea forms part of the wider London housing market, for the purpose of this report, the boundary of the housing market will follow the recommendation of the CLG advice note and is based on the Local Authority boundary.

ES15   According to data from the Land Registry, Kensington and Chelsea has the highest average house price in England at £1,184,974 in Quarter 3 2008. The increase in house prices has been more marked than regionally and nationally over the last ten years.

ES16   A number of estate and letting agents were interviewed across the Borough. Almost all reported a significant drop in sales activity in recent months, with a subsequent increase in the supply of rental properties available.

ES17   Within the Borough itself there are distinct variations. The most expensive entry-level house prices were identified in the Central and South East part of the Borough and the least expensive in the North of the Borough. Overall, four price areas were identified. These are based on postcode boundaries and are shown on the map below.

Figure ES3 House price areas in Kensington and Chelsea

Source: Fordham Research 2009

ES18   The analysis of housing market gaps suggests that entry-level market housing is more than three times the cost of social rented accommodation in three of the four house price areas, indicating that intermediate housing (priced at the 'usefully affordable' point[1]) could be beneficial to a number of households in ascending the housing ladder.

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[1] The mid-point between the cost of social rented and entry-level market housing

ES19 The super-prime residential market is also characteristic of Kensington and Chelsea. Whilst demand has slowed due to current economic conditions, there is still evidence of interest from foreign investors. It is suggested that the super-prime supply will shrink in future years, potentially resulting in unmet demand in this sector.

The active market

ES20 Financial information including household income, savings and equity was obtained from household survey data, in order for the ability of households to afford market housing to be ascertained. Median income and savings levels for households in the four price areas are presented in the table below. The highest levels of both income and savings were found in the Central and South East area and the lowest levels in the North.

Table ES1 Median financial information by price-area		
Tenure	Median annual gross household income	Median savings
Central & South East	£82,256	£33,783
North West of centre	£39,419	£11,243
South West	£47,704	£22,617
North	£15,391	£424
Average	**£52,385**	**£14,277**

Source: RBKC household survey, Fordham Research 2009

ES21 Households were assessed as to their ability to afford housing locally, based on the affordability criteria set out in the Practice Guidance. The figure below shows that lone parent households are the least likely to be able to afford market accommodation in the Borough. Households headed by someone employed within the Borough are less likely to be able to afford market housing than households headed by someone employed outside of Kensington and Chelsea.

Figure ES4 Theoretical affordability – percentage unable to afford market housing

Source: RBKC household survey, Fordham Research 2009
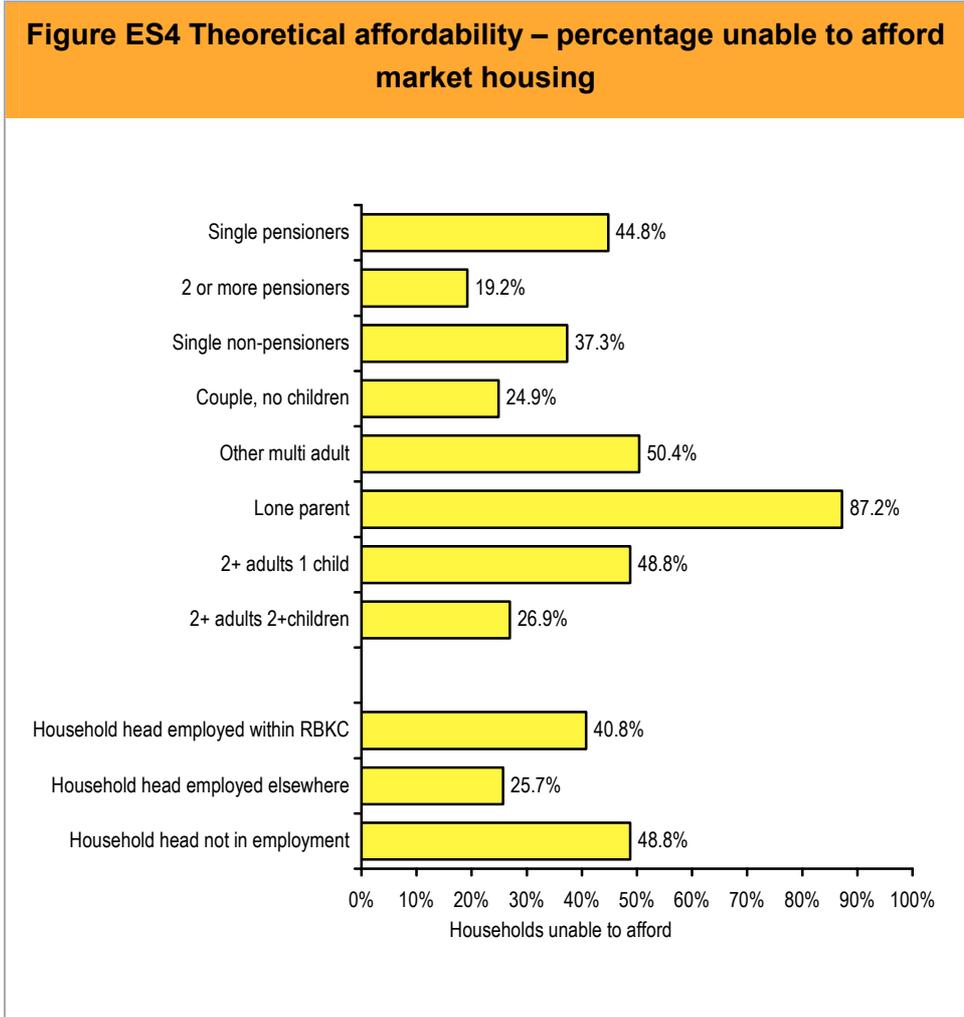
ES22 The rate of overcrowding in the Borough at 5.5% is higher than the national average (2.5%). Overcrowded households are more likely to be found in the social rented sector.

ES23 The annual rate of turnover in the private rented sector in Kensington and Chelsea at 36.8% is much higher than that recorded in both the social rented and owner-occupied sectors (2.4% and 4.3% respectively).

ES24 The survey estimates that around 10% of private rented sector households are recipients of Local Housing Allowance (LHA). These households have a lower turnover rate than private rented sector households not in receipt of LHA.

Housing need

ES25 Housing need is a term created in the mid-1990s to help provide a means-tested estimate of the requirement for affordable housing in an area. It is defined in PPS3 as *"the number of households who lack their own housing or who live in unsuitable housing and who cannot afford to meet their housing needs in the market"*. Following the 16 steps required to calculate the annual estimate of housing need outlined in the Practice Guidance, there is estimated to be an annual need for **3,663** affordable units in Kensington and Chelsea.

ES26 In terms of the type of affordable accommodation required, further analysis suggests that 14% could be intermediate (if priced at the 'usefully affordable' point[2]) and the remaining 86% social rented. Almost three-quarters of the intermediate requirement is for intermediate-rented housing rather than an equity-based product. Households in need in the North and North West of Centre house price areas are least likely to be able to afford an intermediate housing solution.

ES27 An analysis of net need for affordable housing by bedroom size suggests that the need relative to supply is greatest for larger (three and four bedroom) accommodation. Less than 15% of the (gross) need for three bedroom accommodation is expected to be met from the existing stock, and for four bedrooms less than 5% of the (gross) need is expected to be met from the existing stock. This compares to a quarter of the need for studio and two bedroom units being met and more than half of the need for one bedroom units being met. The analysis also suggests that more than 40% of the net need is for studio or one bedroom accommodation, almost a third for two bedroom accommodation and almost 30% for three and four bedroom accommodation.

Future housing demand

ES28 The profile of in and out-migration suggests that more single (non-older) households are entering the Borough than are leaving; the reverse is true for households with children. Household growth in Kensington and Chelsea is driven more by migration than changes within the local population.

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[2] The mid-point between the cost of social rented and entry-level market housing

Figure ES5 Annual flow of households in Kensington and Chelsea
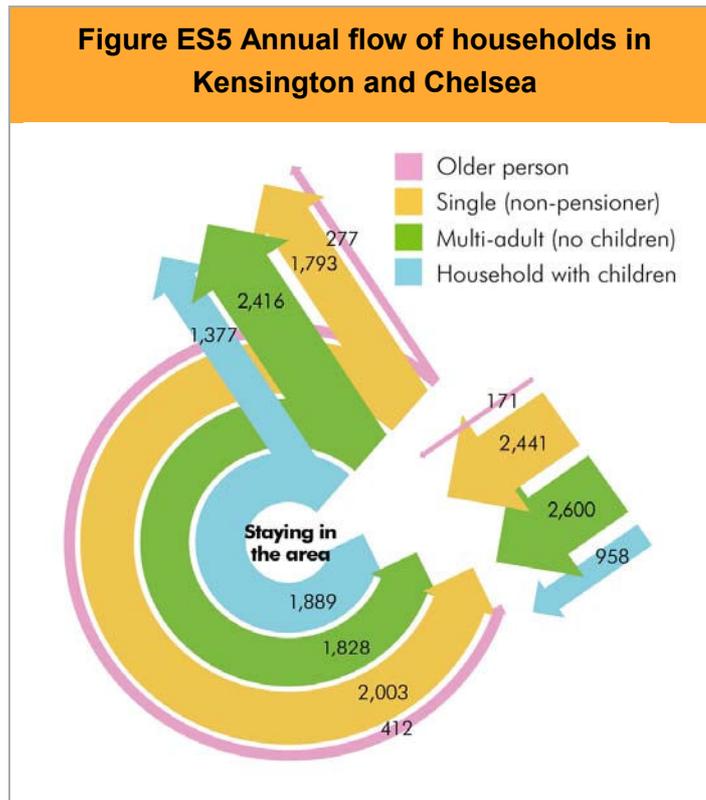
Source: RBKC household survey, Fordham Research 2009

ES29 Single (non-older) person households are the most likely to move home, with older person households being the least likely. 'Current home too small' is the most common reason cited for moving by most groups. Looking at the different tenure groups, this was also the reason for moving most likely to be cited by owner-occupied and social rented households, with private rented households more likely to cite 'to move to cheaper accommodation'.

ES30 More than 40% of households who had recently migrated to Kensington and Chelsea previously lived abroad. Around 44% moved from another London Borough, with the highest proportion moving from Westminster (almost 10% of all in-migrant households), followed by Hammersmith and Fulham (8.1% of all in-migrant households).

Figure ES6 Distribution of households migrating to Kensington and Chelsea
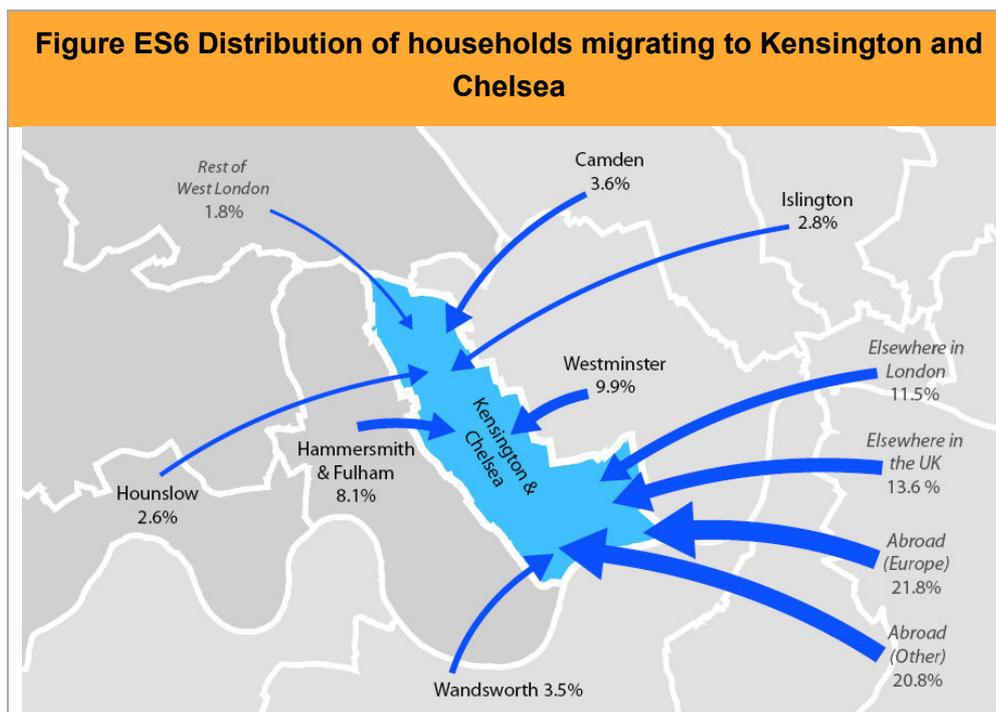
Source: RBKC household survey, Fordham Research 2009

Figures for individual London Boroughs are shown where these are above 2%. The results for Camden, Islington, Hounslow, Wandworth and Rest of West London are based on a small sample size and should be viewed with caution.

ES31   Almost three-quarters of households planning a move stated that they would like to stay within the Borough, but only half of moving households expected to. Social rented households were the most likely to expect to stay within the Borough.

Figure ES7 Preferred and expected destinations of households planning a move
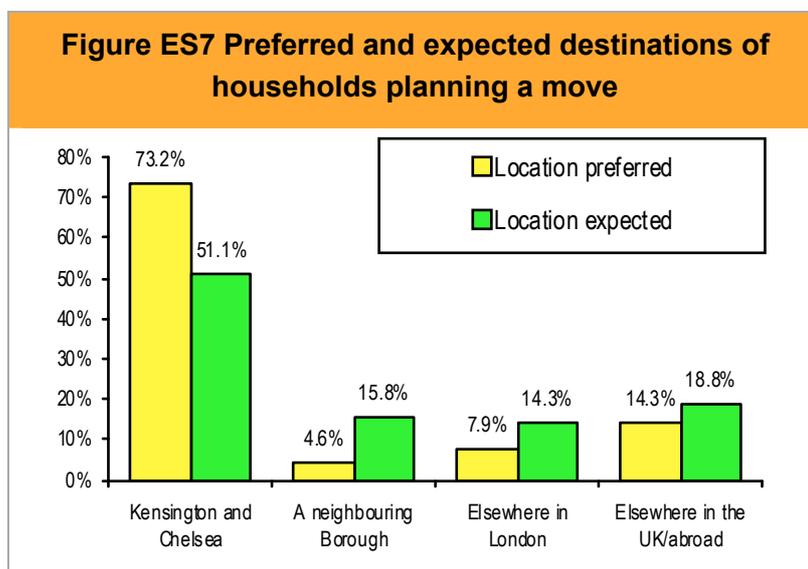
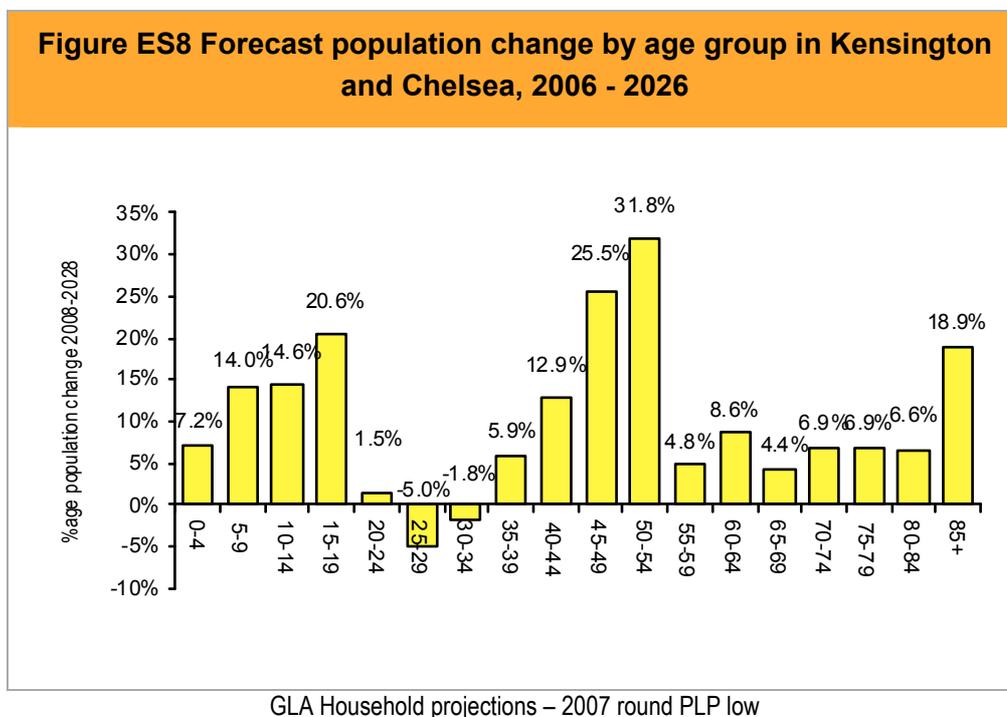Source: RBKC household survey, Fordham Research 2009

ES32   An analysis of the tenure demand resulting from households intending to move in the near future to illustrate how people move through the housing ladder suggests that for most groups there are substantial planned increases in ownership. A similar analysis based on dwelling size suggests that most groups show an intention to upsize their current home, particularly households with children.

ES33   The type of households likely to require market housing in the future was examined, as requested by PPS3. Almost 40% of households requiring market housing were single non-pensioner households.

ES34   In terms of future affordability scenarios, a decrease in house prices of 5-10% would have little impact on the affordability of owner-occupation in the Borough. House prices in Kensington and Chelsea would have to fall by around 20% before negative equity became a serious issue in the Borough.

Improving market balance over the longer-term

ES35   The population of the Borough is projected to increase by 8.3% over the period 2006-2026; the number of households is projected to increase by a similar level. The profile of the population is expected to change, with a large increase in the numbers of residents aged 45-54, as well as 15-19 year olds and people aged 85 and over.

Figure ES8 Forecast population change by age group in Kensington and Chelsea, 2006 - 2026

GLA Household projections – 2007 round PLP low

ES36   Although there is not a housing market model in the Practice Guidance, there is comment on the importance of studying mix and balance. The following extract from paragraph 20 of PPS3 addresses the issue of mixed communities:

'Key characteristics of a mixed community are a variety of housing, particularly in terms of tenure and price and a mix of different households such as families with children, single person households and older people.'

ES37   In terms of the accommodation required to provide housing market balance over the long-term, our model, which is based on secondary data in combination with the household survey data and considers a range of factors including the adequacy of current housing suggests that:

- Around half of the requirement for new housing is for market accommodation
- Almost 80% of new market housing should have three or more bedrooms
- Over half of new intermediate housing should have two bedrooms
- The majority of new social rented accommodation should have two and four bedrooms

Particular household groups

ES38   Some 11,725 households in Kensington and Chelsea contain a member with a support need[3]. The most common support need was a 'medical condition'. Households with support needs indicated that a range of adaptations and services are required to enable them to continue living in their home, the most commonly cited is 'help with maintaining home'.

ES39   The household survey suggests that 17,790 of all households in Kensington and Chelsea contain only older people (21.6%). More than 60% are owner-occupiers although the social rented sector does contain a relatively high proportion of older person only households. More than a quarter reside in accommodation with three or more bedrooms. Two recent reports examining older people's accommodation within the Borough[4] recommended an increase in the provision of supported accommodation for older people and a review of the fitness of the Borough's sheltered housing stock.

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[3] As part of the household survey, households were asked if their household needed support for any of the following reasons: frail elderly, a medical condition, a physical disability, a learning disability, a mental health issue, a sensory disability or other.

[4] 'Older People's Accommodation in the Royal Borough of Kensington and Chelsea', OSC Adult Social Care report (April 2008); 'Older People's Housing Needs', Institute for Public Care Research Paper (May 2008)

ES40 Census data suggests that across the Borough, around 14.8% of (working) residents are employed in public administration, education or health. Survey data indicates that the median income of key worker households, at £49,410, is lower than the figure for non-key worker households in employment (£85,798). Key worker households are less likely to be able to afford market housing than non-key worker households, a higher proportion would be suitable for intermediate housing however.

ES41 More than than a quarter of households are headed by someone from a 'White - Other European' or 'White - Other' ethnic group, whilst around 17% were headed by someone from a non-White group. Black households were the most likely to be living in the social rented sector. More than half of 'White - Other European' and 'White – Other' households resided in the private rented sector. Black households were the most likely to be unsuitably housed.

Figure ES9 Proportion of households resident in unsuitable housing
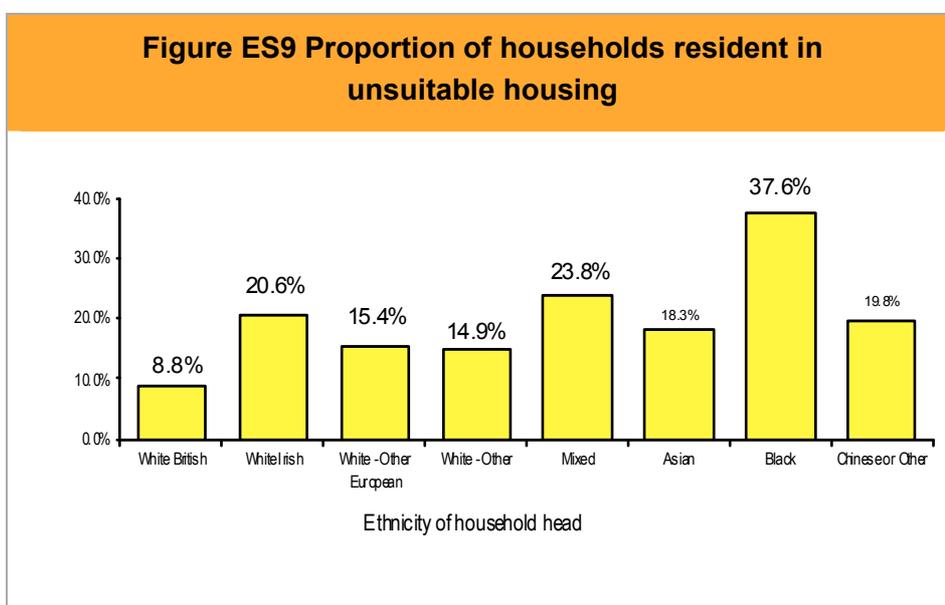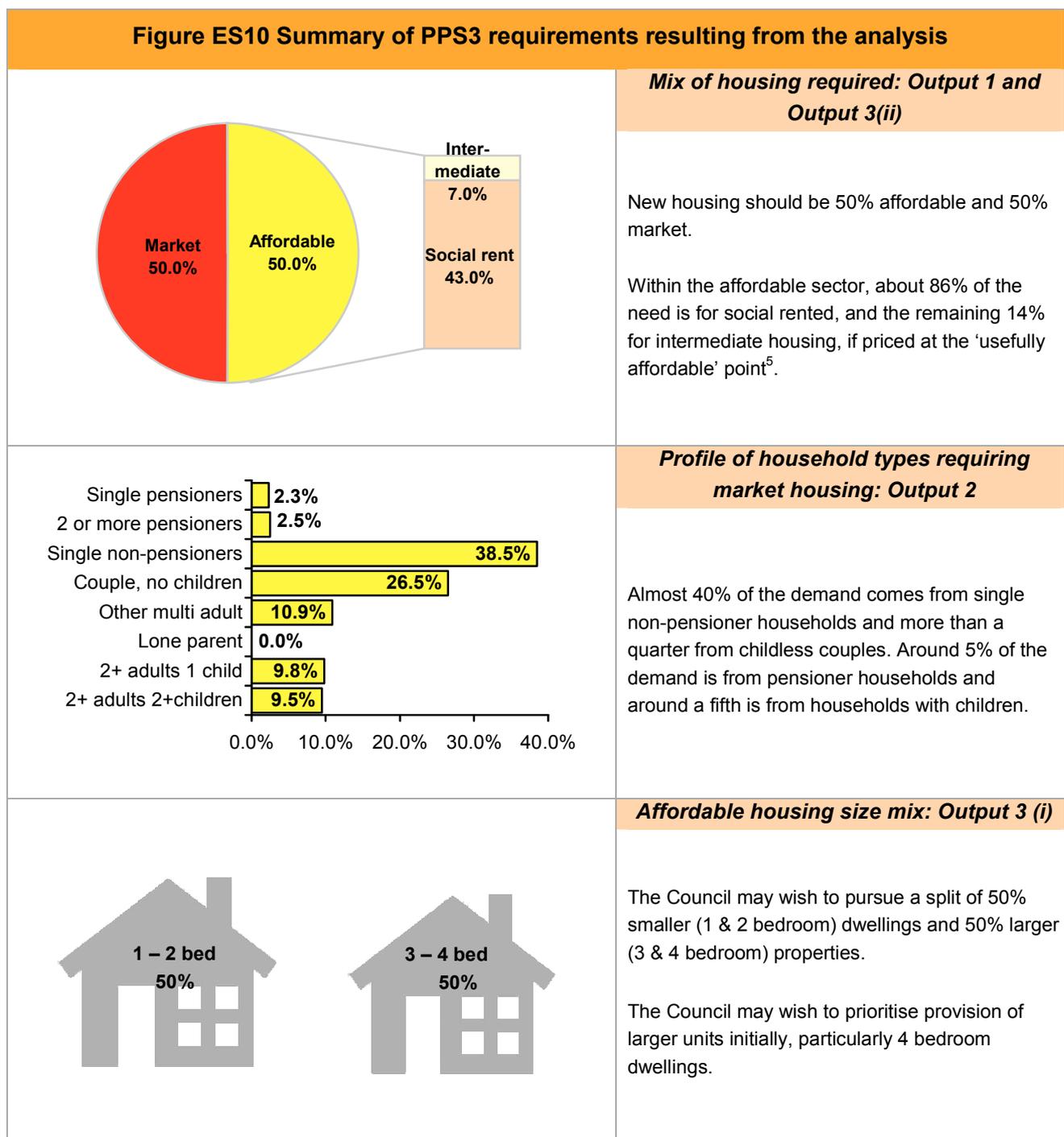

Source: RBKC household survey, Fordham Research 2009

ES42 The household survey estimates that there are 15,456 households which contain at least one child in Kensington and Chelsea. Households with children are more likely than average to be planning a move over the next two years, particularly families with younger children. The majority hoped to remain within the Borough although a lower proportion expected to.

ES43 The needs of Gypsies and Travellers in the Borough were assessed via the London Boroughs' Gypsy and Traveller Accommodation Needs Assessment (GTANA). The study drew on a range of sources including interviews with 800 Gypsies and Travellers in London. In Kensington and Chelsea there was found to be a minimum need for three additional residential pitches and a maximum need is for eight additional residential pitches between 2007 and 2012.

Policy issues

ES44   The purpose of this SHMA is to provide robust evidence that will inform the local housing strategy and planning policies. This SHMA contains the outputs required by PPS3 paragraph 22 and the core outputs required by the SHMA Practice Guidance. Figure ES10 summarises the PPS3 outputs resulting from the analysis within the report.

Figure ES10 Summary of PPS3 requirements resulting from the analysis

Mix of housing required: Output 1 and Output 3(ii)

New housing should be 50% affordable and 50% market.

Within the affordable sector, about 86% of the need is for social rented, and the remaining 14% for intermediate housing, if priced at the 'usefully affordable' point[5].

Profile of household types requiring market housing: Output 2

Almost 40% of the demand comes from single non-pensioner households and more than a quarter from childless couples. Around 5% of the demand is from pensioner households and around a fifth is from households with children.

Affordable housing size mix: Output 3 (i)

The Council may wish to pursue a split of 50% smaller (1 & 2 bedroom) dwellings and 50% larger (3 & 4 bedroom) properties.

The Council may wish to prioritise provision of larger units initially, particularly 4 bedroom dwellings.

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[5] The mid-point between the cost of social rented and entry-level market housing

ES45   These findings form part of the 'evidence base' for policy, but do not form policy in itself. It is manifestly clear in a Borough such as Kensington and Chelsea that the level of housing need is far too high to be met by any foreseeable supply of newbuild affordable housing. It is therefore a policy issue for the Council to decide what level and types of affordable housing to build. The Council will want to consider its priorities in the light of the evidence, but not be directed by it.

ES46   It is recommended that the outputs from this report should be viewed in conjunction with those from the assessment of viability undertaken in parallel in Kensington and Chelsea, when determining policy. This is particularly important in view of the high level of need for affordable housing, and the difficulties for delivery likely to be generated by the economic downturn.

ES47   The results from the SHMA suggest that in principle, the exceptionally high level of housing need in Kensington and Chelsea would justify an affordable housing target of 50%. The viability of this target and a range of other targets were tested as part of the Affordable Housing Viability Study. The Viability Study concluded that a 40% target would be the highest reasonable level in present market circumstances. Use of the Fordham Research Dynamic Viability approach would allow future variation of the affordable housing target as market conditions change.

ES48   A further requirement of a SHMA is that it should be a dynamic piece of work that can be updated to ensure it remains relevant as the market changes. The report outlines possible methods that can be used by the Steering Group to update the results in the future.