

Why does the SHMA propose such a big increase in the number of one bed units?

Summary

This note provides a technical assessment of the increase in the requirement for one bed units in the 2017 Strategic Housing Market Assessment (55 per cent of the total) compared with the 2013 SHMA (34 per cent of a smaller total).¹ Being based on a review of the evidence presented in the SHMA itself, its conclusions are preliminary only. They are:

- The increase in the one-bed share is due to: an increase in the *total* number of units required (largely low-cost rent) which is tilted towards one-bed units; and a big change in the *mix* (but not the total number) of market units required.
- Although the higher total requirement has been the subject of most attention, it is the change in the market mix which is mainly behind for the eye-catching change in the overall one-bed requirement.
- As far as we can tell, the change in the market mix is due to the *assumption* that the bedroom standard will apply to all private sector units for rent.
- If our understanding is correct, the SHMA's method is wrong in principle because the bedroom standard is at odds with revealed preference in the market sector and there is no mechanism to impose it. It is also flawed as a modelling strategy because it precludes taking any account of how the new build strategy might impact what older owner occupiers might choose to do.
- Pending a deeper review, we prefer a variant scenario presented in the SHMA in which one bed units make up 41 per cent of the total instead of 55 per cent. The total number of extra units required is the same as in the main scenario.

¹ Mayor of London, (2017), *The 2017 London Strategic Housing Market Assessment*

Accounting for the increase in the one-bed requirement

Table 1, from the 2017 SHMA, shows the net annualised requirement for new homes between 2016 and 2041. The three key figures here are: the total requirement (65,878); the requirement for one-beds (36,334); and those one-beds as a proportion of the total (55 per cent).

Table 1: Net annualised requirement for new homes in London, 2016-41²

	1 bed	2 beds	3 beds	4+ beds	Total	% share
Market	10,682	2,043	4,101	6,210	23,036	35%
	4,334	3,434	2,409	1,693	11,870	18%
Low	21,318	5,311	2,462	1,881	30,972	47%
Total	36,334	10,788	8,972	9,784	65,878	100%
% share	55%	16%	14%	15%	100%	

Table 2 shows how the requirement looked in the 2013 SHMA (as reported in the 2017 SHMA). Compared with 2013, not only has the one-bed share in 2017 risen from 34 to 55 per cent but the number of one-beds required has more than doubled, (16,380 to 36,334).

Table 2: Net annualised requirement for new homes in London, 2015/16-34/35³

	1 bed	2 beds	3 beds	4+ beds	Total	% share
Market	2,798	5,791	8,545	6,083	23,217	48%
Intermediate	3,357	2,240	2,506	1,799	9,902	20%
Low	10,225	1,003	1,774	2,720	15,722	32%
Total	16,380	9,034	12,825	10,602	48,841	100%
% share	34%	18%	26%	22%	100%	

² SHMA 2017, table 1, p6.

³ SHMA 2017, table 2, p10.

Table 3 shows the difference between the two tables. The first point to note is that of the total extra requirement of 17,037, 15,250 (90 per cent) are low rent while the remainder are intermediate. The extensive analysis contained in the SHMA leading to the conclusion that the net annualised requirement needs to be 17,037 higher is therefore wholly contained in the low rent (and intermediate) rows.

Table 3: Difference in net annualised requirement for new homes in London (table 1 minus table 2)

	1 bed	2 beds	3 beds	4+ beds	Total	% share
Market	7,884	-3,748	-4,444	127	-181	-1%
Intermediate	977	1,194	-97	-106	1,968	12%
Low	11,093	4,308	688	-839	15,250	90%
Total	19,954	1,754	-3,853	-818	17,037	100%

The second point to note is that 11,093 of the 15,250 are one-bed units: 73 per cent. That, is only a few percentage points higher than the one-bed share of low rent (65 per cent) in the 2013 SHMA (10,225 out of 15,722 as per table 2). These two percentages being so similar means that the big increase in the overall one-bed share (34 to 55 per cent) has little do to with the big increase in the overall requirement (17,037).

This conclusion is a cause for concern. The bulk of the argument in the SHMA and presumably the bulk of the work behind it deal with the increased *overall* requirement – yet this has only pushed up the overall one-bed requirement as a proportion by a few percentage points. The eye-catching increase in the overall one-bed proportion therefore originates elsewhere, in a part of the SHMA that has received less attention, namely the mix of units required in the market sector (market rent or owner occupation).

Table 3 shows that the total number of additional market units required has remained almost unchanged between the two SHMA's (down just 181). But as a comparison of tables 1 and 2 shows, the one-bed share

of 12 per cent for market units in 2013 (2,798 out of 23,217) has jumped to 46 per cent in 2017 (10,682 out of 23,036).

As far as we can see, what lies behind this is the assumption that

*renting households occupy only the size of home they require according to the widely-used 'bedroom standard', even though in reality some renting households currently have more or fewer bedrooms than they need.*⁴

This assumption is immediately justified on the grounds that

*rates of under-occupation are very low for both private and social tenants (at around eight per cent for both in the three years to 2014/15), due to both cost pressures (particularly in the private rented sector) and social housing landlords' practice of allocating tenants to the size of home they currently require.*⁵

Eight per cent may sound small but the effect of making this assumption is not. We know this because the SHMA presents another table (table 15 in the SHMA) drawn up under the alternative assumption that

*that those who can afford private renters (as well as homeowners) continue to under-occupy their homes at current rates.*⁶

This table is reproduced below as table 4. The total number of additional units required of each type (market, intermediate, low) is the same as table 1. But instead of 10,682 additional one-bed market units (table 1), the figure is now just 4,402 (table 4). Largely as a result – the assumption does have some impact on low cost and intermediate sectors too) – the total number of one-bed units drops to 26,953, equivalent to 41 per cent of the total. This is much closer to the 2013 proportion (34 per cent s per table 2) than the 2017 SHMA's preferred scenario (55 per cent as per table 1).

⁴ SHMA, 2017, para 6.31, p82.

⁵ SHMA, 2017, para 6.31, p82.

⁶ SHMA, 2017, para 9.2, p105.

Table 4: Net annualised requirement for new homes in London, 2016-41: alternative assumption re under-occupation in the private rented sector⁷

	1 bed	2 beds	3 beds	4+ beds	Total	% share
Market	4,402	4,354	7,015	7,266	23,037	35%
Intermediate	1,921	5,042	2,820	2,087	11,869	18%
Low	20,631	5,506	2,706	2,129	30,972	47%
Total	26,953	14,902	12,540	11,482	65,878	100%
% share	41%	23%	19%	17%	100%	

In our view, there are several things wrong with the assumption that has been made about under-occupation which underlies the main projection in the SHMA (table 1).

- Even if the extent of under-occupation in the PRS is only eight per cent, it is certain that this is disproportionately to be found at the upper (i.e. market) end. Imposing the assumption of no under-occupation here is at odds with what market renters actually do. Unlike the social-rented sector, there is no mechanism for imposing it on market renters.
- The demand for market units, whether for rent or ownership, is intertwined with what current and future owner occupiers choose to do as they approach and pass retirement age. Their likely demand could be analysed by explicit assumptions about downsizing, a shift of tenure and of course the inevitable intervention of mortality. We would have expected this to be one focus of analysis, at least as far as the market projection is concerned. While we cannot be sure that this has not happened somewhere in the background, it ought to have been discussed and the implications of different assumptions brought out.

⁷ SHMA 2017, table 15, p105.

- On its own, the imposition of a bedroom standard on market renters *cannot* account for the rise in the requirement for one-bed units. That is because the bedroom standard used in the SHMA is the not the one on which the Bedroom Tax is based (i.e. no spare bedrooms) but the older, long-standing one which allows one spare bedroom before a household is deemed to be under-occupying.⁸ The single most important consequence of this standard is that a two-bed unit, whether lived by a single person or a couple, *cannot* be under-occupied. It is easy to understand why the imposition of this bedroom standard should lead to a lower requirement for three- and four-bed markets in table 1 than in table 4. Since two-bed units cannot be under-occupied, the reduction in the requirement for them (4,354 down to 2,043) must be driven by something else.

Conclusion

In summary, our preliminary assessment is that the SHMA's analysis of the requirement for market units is unrealistic and rests on one or more undisclosed assumptions. It is unrealistic because it assumes *choices* which are at odds with the *choices* made by people in market units today. Since the bedroom standard used in the SHMA allows singles and couples to live in two-bed units without being counted as under-occupying, a further, undisclosed assumption must be in play in order to produce the big increase in the requirement for one-bed *market* units.

The inadequacy of the analysis for market units in the SHMA is also a missed opportunity. A proper assessment of the options facing London's owner occupiers and the choices they might make as they approach and pass retirement is obviously crucial to any SHMA, even when addressing the housing shortfall remains the top priority. This is especially so given that it is the inadequate treatment of the market sector which what has driven the enormous shift towards one-bed units overall in the 2017 SHMA compared with the 2013 SHMA.

⁸ SHMA, 2017, footnote 49, p82.

Based on this conclusion, we make two recommendations. The first is that this part of the SHMA – that is, the requirement for market units – be considered again, in greater detail and without the imposition of unrealistic assumptions. The second is that pending this review and revision, those who support the SHMA in general, and in particular its efforts to address the overall housing shortfall, should adopt and champion the variant presented in the SHMA as table 15 and shown here as table 4. To re-emphasise, the total number of extra units required – 65,878 – is the same as in the SHMA’s preferred variant. What is different however, is that only 42 per cent of that requirement is for one-bed units, still higher than the 34 per cent in the 2013 SHMA but far lower than the 55 per cent in the 2017’s preferred variant.

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