

Employment and economic impact of the proposed redevelopment of 65-69 Parkhurst Road

A paper to Savills

November 2013

1. SQW was appointed in November 2013 to estimate the impact of the re-development of the site of 65-69 Parkhurst Road, N7 0LJ. The site currently houses a former Territory Army (TA) centre. Part of the land will be retained by the Ministry of Defence; a new cadet centre is being built on this. The remainder of the site is now surplus to requirements.
2. Current plans for the surplus land consist of demolishing the existing TA centre and constructing 150 housing units.
3. This paper examines the potential economic impact of the redevelopment in four different areas:
 - employment
 - the local economic effect of this employment
 - local council tax receipts
 - the effect of the New Homes Bonus (NHB)

Methodology

4. The paper draws on a draft planning statement for the development, the proposed unit area schedule for the housing site, and existing research and guidance on the effects of housing development on employment and local goods and services.
5. This analysis is based on figures and data supplied to SQW on 27 November 2013. Although the proposed development has not fundamentally altered since then, we understand that there may have been some minor changes to the plans, with implications for floorspace, as the planning statement has moved from draft to final stage. The analysis below of indicative economic impact is qualified in this respect.

1) Employment benefits

6. Employment benefits will come from two main sources: temporary construction jobs, and demand for local services from new residents.

Construction jobs

7. According to the draft planning statement and unit area schedule, a mix of tenures is proposed and will have the following net internal area (NIA):

- Market: 7890.1 NIA m²
- Social rent: 2249.8 NIA m²
- Intermediate: 529.8 NIA m²

'Market' and 'intermediate' housing

8. Based on figures produced by EC Harris (2006)¹ the cost of building 'private high standard' flats in inner London is roughly £2212 per m². When used as a proxy measure for the market and intermediate housing, it implies that a spend of £1 million will generate 452m² of dwelling space.
9. HCA guidance² states that for every £1 million of new housing that is built, 21 job years are created (i.e. the equivalent of 21 temporary jobs each lasting one year). This coupled with the information above implies that 452m² of new 'private high standard' build creates 21 job years, or that 1m² leads to around 0.05 job years³.
10. As indicated, 'market' and 'intermediate' dwellings will together total 8,419.9 m², entailing the creation of 391FTE gross job years.

'Social rent'

11. EC Harris (2006) figures again show that the cost of building 'housing association standard' flats in inner London is roughly £1661 per m². When used a proxy for social housing, it implies that a £1 million spend will generate 602 m² of dwelling space.
12. Using the HCA guidance once again, we can infer that 602 m² of 'social' build creates 21 job years, or that 1m² new build leads to 0.03 job years⁴. Therefore, the 2,249.8 m² of social housing produced will lead to 78.5 gross FTE job years.

Summary

13. Through this development, 469.5 FTE gross job years will be created in construction

Increased demand for local services

14. New homes lead to increased demand for local services, which in turn generate jobs. The number of jobs created is determined by the size of the additional population.
15. In order to consider the likely population increase resulting from the development, there are several components that need to be considered. First, not all the dwellings will be occupied. Analysis of the UK housing stock from the Department for Communities and Local Government found that approximately 4.5% of all dwellings were vacant across the UK⁵. Market forces in London are likely to mean that the proportion may be relatively low, especially in a new development, but there will still be a 'churn' factor: we have allowed for

¹ http://www.publicarchitecture.co.uk/knowledge-base/files/indicative_building_costs.pdf

² OffPAT Paper 4b – Construction Jobs (2009)

³ 21/452 to 2.d.p

⁴ 21/602 to 2.d.p

⁵ CLG (2008), *English Housing Survey: Housing Stock Report 2008*

145 out of 150 dwellings to be occupied at any one time (3.3% vacant). Average household size in Islington is estimated at 2.20, in line with the 2011 Census for the Borough (206,125 usual residents in 93,556 occupied dwellings). The figure of 2.20 below the national average of 2.36 persons per household

16. The Census also shows that 39% of households in Islington (36,240 of 93,556) were one person households. This, and the overall average household size figures, are consistent with the population distribution we can project across the size mix for the proposed development. This is shown in Table 1 below.

Table 1: Estimated number of residents in the new development

| No of beds | No of dwellings in development | Estimated number of occupied dwellings | Occupied dwellings with only one person | Occupied dwellings with 1+ persons | Approx average no. of residents in 1+ person h/holds | Total residents in 1+ person h/holds | Estimated residents in dwellings |
|------------|--------------------------------|--|---|------------------------------------|--|--------------------------------------|----------------------------------|
| 1 | 55 | 53 | 38 | 15 | 2 | 29 | 67 |
| 2 | 66 | 64 | 19 | 45 | 2.5 | 112 | 131 |
| 3 | 18 | 17 | 0 | 17 | 4 | 67 | 67 |
| 4 | 11 | 11 | 0 | 11 | 5 | 54 | 54 |
| Total | 150 | 145 | 57 | 88 | | 262 | 319 |

Source: SQW analysis

17. HCA and OffPAT guidance (2010)⁶ estimated that 150 permanent jobs in personal and other consumer services are created for every 1,000 increase in population. As noted in Table 1, the development will typically house around 319 residents at any given time so it can be expected to generate 47.85 gross FTE new jobs. Most, but not all of these jobs will be based locally, since most consumer services are bought locally.

Additionality

18. In order to estimate the net new jobs in the local economy, account needs to be taken of displacement (i.e. jobs already in the local economy which are displaced by the new development) and multiplier effects (i.e. indirect jobs created in the supply chain, and induced jobs created by the local spending of the people which take the new jobs).

Displacement

19. As noted in background information sent to SQW⁷, any MoD employment currently based on the site will be retained within the new cadet centre currently being constructed, or be moved off site. As such, one would not expect any displacement of employment currently on the site.
20. In terms of the new jobs in consumer services, all of these would be additional as they would be serving extra population in the local area.

⁶ OffPAT & Homes and Communities Agency, *Employment Densities Guide: Second Edition (2010)*

⁷ Email from Samruti Patel on Wednesday 27 November 2013.

21. Given the size of the construction project however, it is likely that the temporary construction jobs will displace some construction work elsewhere. A limited amount of construction is planned for the immediate surrounds of the site (e.g. at Holbrooke Court and 91-93 Parkhurst Road) although these are relatively small scale. Beyond the immediate vicinity, larger scale construction projects are currently taking place in the King's Cross and Old Street areas. English Partnerships guidance is that low displacement stands at 25% and medium displacement stands at 50%.⁸ A low to medium level of displacement can therefore be taken as being 37.5%, given that workers might be pulled in from the surrounding areas. This suggests that the FTE jobs years created through construction activity at 65-69 Parkhurst Road will be 293.4, allowing for displacement.

Multiplier effects

22. All new job creation has some multiplier benefits through indirect expenditure on suppliers of goods and services, and induced effects of additional spend in the local economy by those gaining the direct jobs. The scale of benefit depends on assumptions about the amount of additional spend that is local.
23. English Partnerships guidance⁹ is that local multipliers should be in the range 1.05 to 1.15. Taking the mid-point of this range assumes therefore an effect of 1.10. This therefore produces net job impacts of 52.6 FTE permanent jobs in services, and 322.7 FTE construction job years.

Overall summary of employment impact

24. **Taking this multiplier effect into account, the net impacts of the new development will be 52.6 FTE jobs which will be sustained over time in population-related services, and 322.7 FTE job years in construction.**

2) Benefits to the local economy

25. Based on the jobs created and salaries associated with them, one can produce a conservative estimate of the annual gross value added (GVA) impact of this development. It would be conservative because there are other elements of GVA, particularly company profits that cannot be considered.
26. Average gross annual earnings¹⁰ for construction workers in London were £32,083 in 2012 (the median salary for workers in 'skilled construction and building trades'). The corresponding average for consumer services workers was £30,471 (the median annual salary in London)
27. These figures will be below GVA, as salaries form the largest but not the only component of GVA. We have used them here as a working proxy, adding only a conservative working estimate of 15%. On this basis, the 322.7 job-years in construction will generate £11.91m

⁸ English Partnerships (2008), *Additionally guide: A standard approach to assessing the additional impact of interventions*

⁹ Ibid.

¹⁰ Taken from the Annual Survey of Hours and Earnings, 2012, Office for National Statistics

additional GVA, an effect which, given a normal period of time for construction, we would expect to be produced mainly in year 1.

28. The additional GVA from new employment in population-related services would be in the form of an uplift sustained over time, as it would be related to the on-going occupation of the dwellings. On the same basis used for the construction workers calculation, this is estimated at £1.6 million annually, which would be generated after occupation of the dwellings, assumed to be in year 2, building to this full effect by years 3-4, as service provision adjusts to these new demands.

3) Council Tax receipts

29. The level of council tax receipts received by the local council will be dependent on the house price for each of the dwellings. Drawing on information available from Foxton's estate agents¹¹, the average house price in Islington as of 28 November 2013 is as followed:

- Studio: £303,000
- 1 bed: £385,571
- 2 beds: £587,724
- 3 beds: £749,982
- 4 beds: £805,707
- 5 beds: £2,799,950

30. Drawing on this, and information on council tax bandings and rates available from Islington council, the total council tax receipts resulting from this development can be estimated. This is outlined in Table 2.

Table 2: The estimated council tax receipts gained from the development

| No. of beds | Average price in Islington (2013) | Council Tax Band ¹² | Council Tax Rate | Total no. of dwellings in development | Overall Council Tax rates |
|-------------|-----------------------------------|--------------------------------|------------------|---------------------------------------|---------------------------|
| 1 | £385,571 | E | £1,550.50 | 55 | £85,277.50 |
| 2 | £587,724 | F | £1,832.41 | 66 | £120,939.06 |
| 3 | £749,982 | G | £2,114.32 | 18 | £38,057.76 |
| 4 | £805,707 | G | £2,114.32 | 11 | £23,257.52 |
| Total | - | - | - | 150 | £267,531.84 |

Source: Islington Council, Nationwide, and Site Planning Statement

¹¹ <http://www.foxtons.co.uk/living-in/islington/house-prices/> (accessed 28 November 2013)

¹² Council Tax bands are based on the market value of a property in April 1991. The house prices for 2013 have been scaled back to April 1991 using a calculator developed by Nationwide Building Society. This is available at <http://www.moneysavingexpert.com/reclaim/council-tax-bands-change> (accessed 28 November 2013)

Council tax exemptions and discounts

31. The figure of £267,532 is likely to be an over-estimate of the council tax payments that will be seen. Certain groups receive discounts and exemptions for their council tax and this will naturally reduce the amount of money that the local council will receive.

Single person households

32. Households where there is only one person over 18 receive a 25% discount on their annual council tax bill. 2011 Census data reveals that within Islington local authority, 39% of households (36,240 of 93,556) were one person households. Assuming that one person households occur in the same proportion within the new 150 dwelling development, one can estimate that there will be 59 households applicable for the single person discount.
33. Working on the assumption that these 59 single person households will only live in the 1 bed and 2 flats, we can estimate the loss in council tax that this will bring about. Assuming that the single person households are distributed equally between the development's 1 and 2 bed flats¹³, then 30 band E properties will see a 25% reduction in council tax rates, and 29 band F properties will see also see a 25% reduction in council tax rates.
34. The box below shows the impact this has on overall council tax receipts

The effect of the single person households on council tax receipts

For Band E

30 will pay £1,162 (totalling £34,860)

25 will pay £1,550.50 (totalling £38,762.50)

Total Band E receipts will now be £73,622.50

For Band F

29 will pay £1,374.31 (totalling £39,854.99)

37 will pay £1,832.41 (totalling £67,799.17)

Total Band F receipts will be £107,654.16

For Band G

29 will pay £2,114.32 (totalling £61,315.28)

Total receipts: £242,591.94

¹³ This assessment has allocated 30 to the 1 bed flats and 29 to the 2 bed flats.

All-student households

35. Households where all residents are full-time students are exempt from council tax payment. Census 2011 data reveals that only 1% of Islington households (1,290 of 93,556) consist of only full-time students, while the planning statement does not indicate that any of the flats will be used for student accommodation.
36. As such, it is assumed that there will be no loss in council tax receipts due to the presence of all-student households.

Old person's discount

37. Households with a taxpayer aged over 65 qualify for a £100 reduction in council tax bills. Census 2011 data indicates that in Islington, 8% of Islington households (7,801 of 93,556) have at least one person aged 65 or over.
38. Assuming that 8% of households in the new Parkhurst Road development also have at least one person aged 65 or over, it implies that 12 households will see a £100 reduction in their council tax bill (entailing a £1,200 reduction in receipts for the local council).

Summary

39. As a result of this development, it is estimated that the additional residents will pay a total of **£241,392 annually in council tax.**

4) New Homes Bonus

40. As outlined by the Department for Communities and Local Government (DCLG), the New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes in an area. The Bonus is paid every year for six years, and is based on “the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use.”¹⁴ Councils can also receive additional payments for building affordable homes.
41. Drawing on DCLG's New Homes Bonus Calculator¹⁵, one can calculate the bonus that would be payable to the council through the Parkhurst Road development. Assuming that the new dwellings are allocated across the various council tax bands as per Table 2, the **Bonus payable** to the Council would be **£314,366 over one year**, and **£1.9 million over six years**. This calculation also takes into account the planned 31 affordable housing units (as indicated in the draft planning statement).

Summary of benefits

42. It is estimated that the development will lead to:

¹⁴ <https://www.gov.uk/government/policies/increasing-the-number-of-available-homes/supporting-pages/new-homes-bonus> (Accessed 28 November 2013)

¹⁵ Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/70270/20130130_-_NHB_Calculator_Year_3_RM_v6_FINAL.xls (Accessed 28 November 2013.)

- 52.6 FTE jobs (net) in consumer services, generating annual GVA worth £1.6 million in the first year after construction is complete, building to its full effect by years 3-4
- 322.7 FTE temporary job years (net) in construction, generating annual GVA worth £11.9 million during the construction phase
- Roughly £240,000 per annum in council tax receipts for the local council
- Access to around £314,000 over one year (£1.9 million over six) through the New Homes Bonus