

West of England Partnership
Planning, Housing and Communities Board
17 September 2010

Strategic Housing Market Assessment Monitoring Report

Purpose

1. To inform the Board of the outputs from the annual monitoring report of the SHMA.

Background

2. The West of England SHMA carried out in accordance with the published Practice Guidance was published in June 2009. The SHMA report and Executive Summary are available on the West of England Partnership website:
<http://www.westofengland.org/planning--housing/housing-market-partnership/strategic-housing-market-assessment>
3. The West of England Housing Market area was defined by DTZ Pineda (2004)¹ along local authority boundaries and consists of Bath and North East Somerset, Bristol, Mendip, North Somerset, South Gloucestershire and the former West Wiltshire. CLG guidance² defines sub-regional housing market areas as geographical areas defined by household demand and preferences for housing, reflecting the key functional linkages between places where people live and work. Analysis of travel to work patterns supports the current boundary of the housing market area - 93% of people living in the West of England Housing Market area also work in the area so this partnership area has a high degree of containment.
4. In 2009 West Wiltshire district was subsumed into Wiltshire Unitary Authority therefore, the level of data available for the former West Wiltshire district will decrease over time. The Housing Market Partnership will consider future working arrangements, particularly in light of the new guidance for strategic planning emerging from the coalition government.
5. The CLG Practice Guidance require authorities within HMAs to work together to: assess housing needs; monitor the annual availability and take-up of land for housing in the HMA; and co-ordinate policy and action on the levels of affordable housing sought across their boundaries. In July 2010 the Secretary of State announced the revocation of Regional Spatial Strategies, however, guidance issued for Local Planning Authorities (LPAs) recognises that although overall ambitions for housing growth may change, SHMAs will remain a useful tool for justifying housing supply policies and identifying viable land.
6. Guidance for Local Planning Authorities following the revocation of Regional Strategies states that LPAs should justify housing supply policy in line with current policy in PPS3: Housing.
7. PPS3 recognises that authorities should take into account SHMAs as one of a number of factors that should be considered when determining housing provision and the right

¹ West of England Housing Market Study, DTZ Pineda, May 2004

² Identifying sub-regional housing market areas: Advice note, CLG, 2007

mix of housing. Nevertheless, SHMA findings alone do not constitute housing targets; the SHMA advises that when developing policy and assessing housing targets individual authorities will also need to take into account a range of other policy objectives, including: the available capacity for new housing; the portfolio of sites available; the objective of creating mixed and balanced communities; the aspirations of residents; the need to ensure economic viability of residential development sites; and the possibility of meeting needs through existing stock.

8. It should be noted that the SHMA and this monitoring report are not policy; rather they are technical pieces of work, which seek to inform the evidence base used to underpin Local Development Frameworks. The findings of the SHMA and monitoring report should therefore be interpreted by local authorities in the context of their local circumstances when formulating policy.
9. In recognition of the potential impacts of the recent turmoil in the economy, a conversation between Professor Glen Bramley of Heriot-Watt University and West of England Partnership Officers was held during the production of this report. This confirmed that the total number of households in need is not particularly responsive to changes in economic growth. Furthermore, if the supply of new housing in the West of England and nationally is lowered, the number of households unable to afford a home in the open market will increase.

Nature of the SHMA monitoring report

10. The West of England Authorities recognise that the SHMA is not intended to give definitive estimates of housing need, demand and market conditions because, as the Practice Guidance states³, housing markets are dynamic and complex. Chapter 11 of the SHMA therefore sets out the commitment of the Partners to work together to monitor and respond to changes in the housing market as they emerge. In particular, consideration will be given to:
 - housing completion rates and commitments in the context of the total level of housing provision needed in the West of England to meet identified need and demand
 - the type and size mix of supply in relation to the requirements presented in the SHMA report
 - the impact of economic conditions on affordability, including mortgage terms/deposits and private rents
 - ways of meeting affordable housing need other than through new building, for example through shared equity products, appropriate use of private renting or market acquisitions for social rent
11. CLG guidance outlines how the monitoring of trends and activities in Housing Market Areas (HMAs) should be undertaken on a proactive basis as set out in PPS3 and PPS12; Local Spatial Planning, to reflect the plan, monitor, manage approach to planning for housing.
12. The guidance also outlines that SHMAs should provide a robust evidence base looking forward over 20 years and Partnerships should not therefore need to undertake comprehensive assessments more frequently than every five years. Instead Partnerships should select a few key indicators for regular updating.

³ Strategic Housing Market Assessments: Practice Guidance, 2007, CLG

Reporting structure

13. The SHMA was undertaken by a Project Team consisting of the 6 local authorities, and reported to the Housing Market Partnership. Progress on the SHMA and the final report were reported through the West of England Planning Housing & Communities Board November 2009. It is proposed that this reporting structure (summarised in the table below) will continue for the monitoring of the SHMA.

Meeting	Constitution & Responsibilities
Two data working groups (housing and planning) coordinated by the West of England Partnership	- 1 officer from each district - Produce, and report the findings of, the SHMA annual monitoring report to the Project team
Project Team	- West of England Heads of Planning and Heads of Housing or their nominated officer from the data working group - Contributing to the production and discussion of the SHMA annual monitoring report. Reporting the findings and making recommendations to the Housing Market Partnership and PH&CB

Content of the SHMA monitoring report

14. The SHMA contained some modelled outputs that cannot easily be reproduced, nor is it necessary or appropriate to do so. As such, nationally published datasets and LA records have been used to monitor key variables of the housing market identified by the Project Team.
15. The report broadly sets out the key findings in the SHMA and provides an updated view of current and future trends for each of the following areas:
- Economic context
 - Demographic Context
 - Demand for homes
 - Supply of housing
 - Affordability

Key messages from the SHMA monitoring report

16. The main findings of the SHMA monitoring report are provided in more detail in Appendix 1 of this report. The full report itself can be accessed on our website: <http://www.westofengland.org/meetings/planning-housing--communities-board/17-september-2010->. An executive summary is provided below:
17. Despite falling house prices, affordability in the West of England HMA has not improved, particularly for first-time buyers. As a result of the economic downturn a restricted lending market has emerged, meaning that the:
- maximum amount mortgage lenders are willing to loan homebuyers has decreased
 - average deposits required by mortgage lenders have increased
 - standard variable rates offered by mortgage lenders have not reflected the fall in the Bank of England base rate, decreasing the affordability of mortgage repayments
18. Affordable housing completions in the West of England have been supported during 2009 by short-term government funding initiatives such as Kickstart. The uncertainty of

such funding streams for the coming year means that affordable housing completions could fall dramatically during 2010/11 and over the long-term. This will be compounded by anticipated lower levels of overall completions.

19. As a result of the economic downturn and the re-registration exercise involved in the move to Choice Based Lettings systems⁴, the number of applicants on authorities housing registers will likely increase over the coming years. It should be noted that whilst housing register data is informative, it is unlikely to be comprehensive since some households in need may not register and some on the register may not be classified as in need.
20. Central government has withdrawn funding for Open Market Homebuy (OMHB). From 2009 Homebuy Direct has received central government funding in conjunction with developers. Unlike OMHB, Homebuy Direct is only available on new build properties on selected developments and does not deliver affordable homes as currently defined by PPS3⁵.
21. Recent economic projections predict a lower long-term economic growth rate than included in the baseline SHMA model. However, sensitivity testing included in the SHMA showed that changing the long-term economic growth rate has little or no impact upon total need numbers as a decrease in migrant need is counteracted by an increase in need amongst the existing population.
22. The supply of new housing completions forecast by the SHMA baseline model correspond to the Draft RSS Panel Recommendations for the South West, however, a lower supply scenario was also tested, based on Draft RSS Allocations for the South West. The SHMA found that lower supply levels will increase house prices and therefore decrease affordability.
23. The scale of affordable housing need in the West of England therefore remains significantly high.

Recommendation:

That members note the report.

Appendices

Appendix 1: Main Findings of the Strategic Housing Market Assessment Monitoring Report

Appendix 2: SHMA Monitoring Report.

This appendix is not attached, but can be downloaded and read at:

<http://www.westofengland.org/meetings/planning-housing--communities-board/17-september-2010->

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⁴ A Choice Based Letting System allows customers (and existing tenants wishing to transfer) to apply for vacancies which are advertised widely in the neighbourhood.

⁵ Planning Policy 3: Housing, CLG, June 2010

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MAIN FINDINGS OF THE STRATEGIC HOUSING MARKET ASSESSMENT MONITORING REPORT

Affordability

1. Despite falling house prices across the West of England HMA since 2007, a restricted lending market has failed to improve affordability, particularly for first time buyers. As a result of cautious lending, deposits required have increased, blocking many first-time buyers out of the market. Furthermore, despite the fall in the Bank of England interest rate to 0.5% since March 2009 only the larger mortgage providers have been able to offer cheaper deals to homebuyers, thus decreasing the affordability of mortgage repayments.
2. Mortgage repossession orders issued in the West of England HMA have increased significantly since 2006 as a result of the economic downturn and increasing unemployment. However, a combination of lower interest rates, lender forbearance, and government intervention (e.g. the Homeowner Mortgage Support scheme) may have forestalled a significant proportion of actual repossessions. Despite the improving economy, CML's mortgage repossession forecasts predict a further increase in repossessions for 2010.
3. According to the ratio of lower quartile house prices to lower quartile earnings, affordability in Bath & North East Somerset and Mendip remains worse than seen nationally and comparable to the South East. Recent research undertaken by the National Housing and Planning Advice Unit (NHPAU) found that across the West of England the proportion of households who can afford to buy housing in the private market is lowest in Bristol, particularly for families. The SHMA found that the least affordable zones include lower income areas within Bristol, areas with very high house prices (some parts of Bath and Bristol), and areas with above-average prices and below-average incomes (some parts of Mendip).
4. Private rents data for the WofE HMA show a general decline in private rent levels in all but 1-bed shared properties. Falling prices are particularly evident in the larger sized properties, and would seem to indicate a relatively plentiful supply of properties, with landlords accepting lower returns in order to attract or retain tenants. Supported by research undertaken by NHPAU⁶ private renting often represents a more affordable option than home ownership. However, the SHMA noted that the lack of security of this tenure can represent a significant barrier for many to consider the private rented sector to meet their long-term housing need.

Supply of Housing

5. Whilst the number of market housing completions in the West of England HMA has decreased between 2007/08 and 2008/09, the number of affordable housing completions has increased. This is linked to a number of short-term government funding initiatives, such as Kickstart, which have supported affordable housing completion rates through the economic downturn. The availability of such government

⁶ Evaluating requirements for market and affordable housing: Appendix A, NHPAU, 2010

funding streams is uncertain, however, the government has announced its intention to provide incentives to Councils to deliver sustainable communities. Nevertheless, it is anticipated that there will be a significant reduction in both market and affordable completions delivered through the planning system, further intensifying need; this trend should become clearer over time and will be monitored by the Housing Market Partnership.

6. The SHMA identified a surplus of 2-bed non-family accommodation in some parts of the sub-region, particularly in Bristol. The SHMA therefore found a substantial need for family accommodation in all WofE authorities, as well as smaller units to meet the needs of first-time buyers, an ageing population and falling household sizes. Authorities may wish to wish to reflect this in their own policies. Market completions in the West of England continue to be dominated by 1 and 2-bedroom flats, particularly in Bristol, which are assumed to be unsuitable for families. Anecdotal evidence suggests that flat completions on large sites have stalled over the past year as a result of the downturn in the buy-to-let market, however a lack of detail makes tracking this trend in the current data difficult.
7. The new housing completions forecast by the SHMA baseline model correspond to the Draft RSS Panel Recommendations for the South West; however, a lower supply scenario was also tested, based on Draft RSS Allocations for the South West. It should be noted that the feedback mechanisms included in the SHMA model ensure that different supply scenarios do affect the total number of households in the area.
8. The SHMA found that lower new housing supply levels in the West of England and nationally will increase house prices and therefore decrease affordability (the proportion of younger households able to afford to buy or rent in the market). In fact, the impacts of supply on affordability are of a generally similar order of magnitude (in percentage terms) to the supply changes themselves.
9. Decreased affordability will increase need amongst newly forming households and decrease the number of social relets. Lower new housing supply, in both the West of England and the rest of the country (particularly the south), will therefore result in an increased proportion of households in affordable need in the West of England HMA. Whilst lower economic growth will at the same time significantly reduce the numbers of international migrants in need (see paragraph 33), on balance the total proportion of households in need in the WofE HMA will likely remain as reported in the SHMA or higher.

Demand for Homes

10. In respect of total numbers in need of social housing the indicators present mixed messages. Whilst the total number of applicants on housing need registers has declined in some authorities, this may not reflect a real decrease in applicants and is in fact more likely due to the re-banding and re-registration exercise undertaken in moving to a choice based letting system which has removed applicants from local authority lists. It is anticipated that many of these households may re-apply over time. In the long run, choice based letting is expected to increase customer satisfaction and therefore increase the number of applicants to the housing register.
11. Similarly, whilst the number of households presenting as homeless and being accepted as so under the legislation has declined, the number needing to approach

local authorities for assistance, and now accessing prevention services, has remained consistently higher.

12. Central government has withdrawn funding for Open Market Homebuy (OMHB), thus the scheme will unlikely result in any completions post 2010. From 2009, Homebuy Direct has received funding from central government in conjunction with developers, however the product is not compliant with the PPS3 definition of affordable housing. In contrast to OMHB, Homebuy Direct is dominated by the purchase of flats rather than houses. This is likely to be linked to the fact that whilst OMHB allows households to access any property on the market that meets their needs, Homebuy direct enables households to purchase new build properties on selected developments.

Economic and demographic Context

13. The West of England HMA remains a growth area of regional significance and is well placed to maximise opportunities to assist market recovery and make a major contribution to regional prosperity and growth targets. However, there is a continuing need to ensure a lack of housing and supporting infrastructure does not constrain the increase in labour supply and threaten the economic competitiveness of the area.
14. Recent demographic projections produced by ONS predict much higher population and household numbers in the West of England HMA by 2026 than was assumed by the SHMA model. However, caution must surround the migration assumptions included in ONS projections, which assume that recent high-levels of international migration (particularly since the introduction of the A8 countries in 2004) will continue. By contrast, the SHMA modelled projections take account of the economic downturn and changing Home Office rules, therefore assume lower (and arguably more realistic) levels of net international migration.
15. In terms of absolute numbers, projected household growth is greatest in Bristol; however, in terms of percentage growth North Somerset sees the greatest increase in households. In Bristol and B&NES, the majority of the projected population/household growth can be accounted for by international migration, however, in North Somerset, Mendip and West Wiltshire, the majority of growth is accounted for by internal migration. South Gloucestershire is the only Local Authority where the majority of projected population/household growth can be accounted for by natural change.
16. The SHMA used modelled economic growth rates based on HM Treasury forecasts, adjusted for the impacts of the credit crunch, for 2007-2010; post 2011 the SHMA assumed a long term trend of 2.8% GVA growth per annum for the region and 2.4% growth pa nationally. Recent economic forecasts produced by Oxford Economics (June 2010), based on UK economic growth of 2.3% pa, predict GVA growth to average 2.6% a year in the South West between 2010 and 2020 and 2.1% thereafter. Lower levels of growth than those used in the modelling of the SHMA are likely to reduce the overall level of need identified relating to migration - in the SHMA this accounted for some 1,000 per year.
17. However, it should be noted that this is only one element of need. The SHMA included sensitivity testing of higher and lower economic growth scenarios, which showed that a lower long-term regional economic growth rate of 2.3% has little or no impact upon the total number of households and ultimately affordability in the WofE HMA. This is linked to the fact that although a lower economic growth rate may decrease migrant need, evidence indicates that the impacts of the recession have led to increased difficulty for

households to buy or rent in the open market (paragraph 20) and is likely to lead to increased levels of repossessions (paragraph 21). The level of need emerging from within the existing population is therefore expected to increase, offsetting, and potentially on balance increasing the total number of households in need.

18. Furthermore, decreasing economic viability of sites and anticipated public expenditure cuts will lead to decreased levels of housing supply; lower supply of new housing will increase affordable need. The overall scale of affordable need in the WofE HMA is therefore expected to remain as significant or higher than reported in the SHMA.