

# Housing Supply & Affordability

Kevin Williamson, Chief Executive  
National Housing & Planning Advice Unit

15<sup>th</sup> October 2008

# *Barker's 2004 Review of Housing Supply*

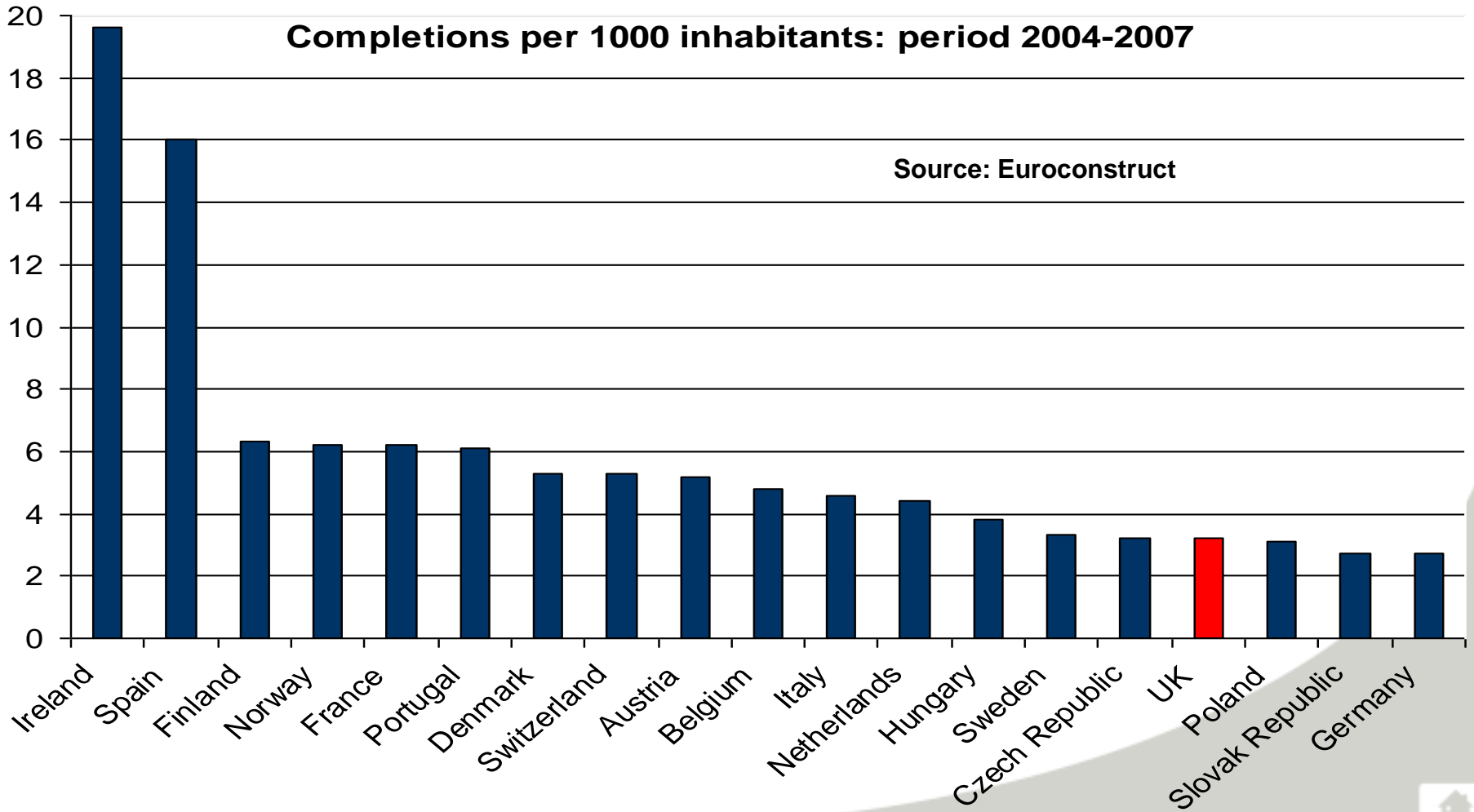
"For many people, housing has become increasingly unaffordable over time. The aspiration for home ownership is as strong as ever, yet the reality is that for many this aspiration will remain unfulfilled unless the trend in real house prices is reduced. This brings potential for an ever widening social and economic divide between those able to access market housing and those kept out."

*Kate Barker 2004*

# Barker found that we were amongst those nations building the least number of new homes...

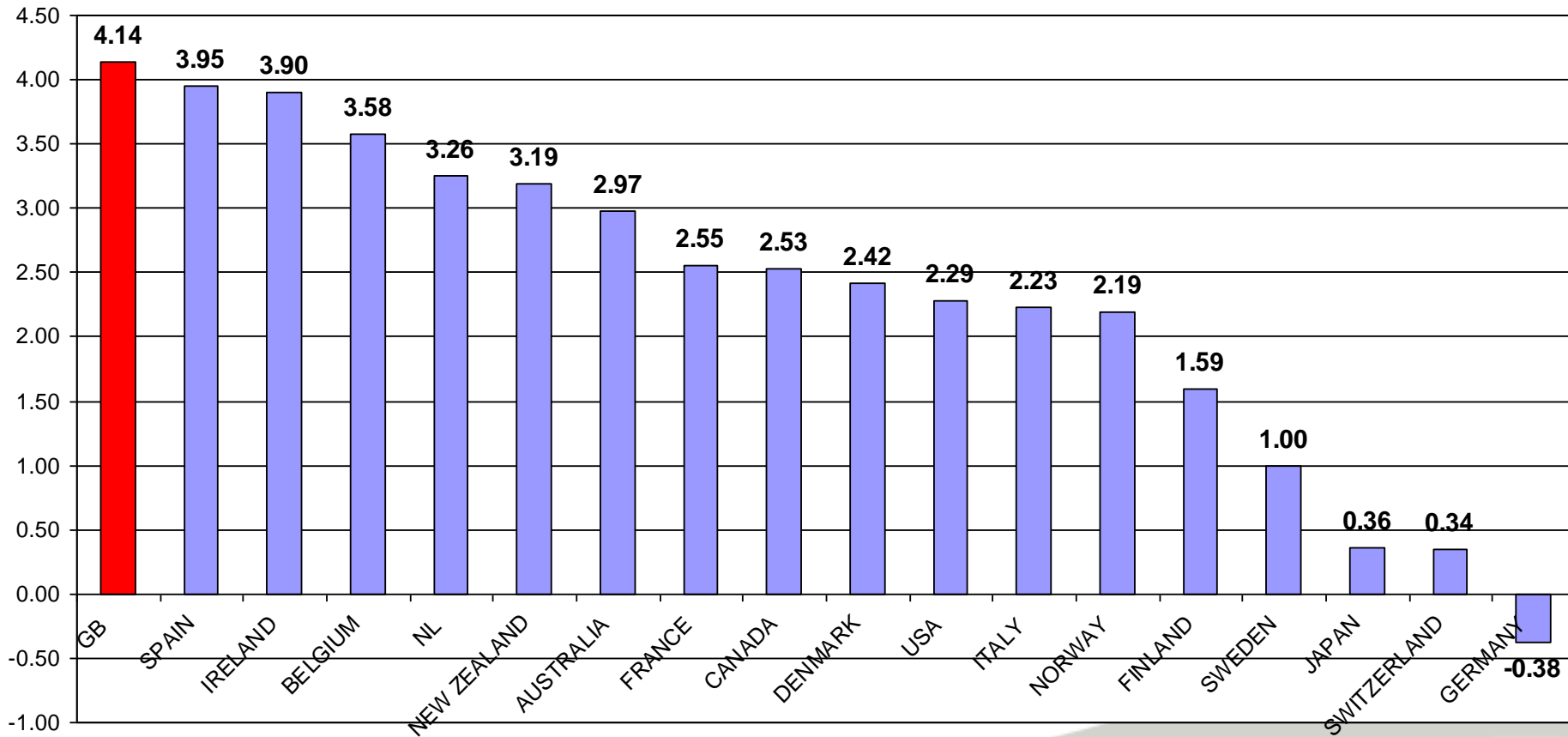
Completions per 1000 inhabitants: period 2004-2007

Source: Euroconstruct



...and that we suffer higher house price inflation relative to most other nations

### Real average annual house price growth 1970 - 2006



Source: Bank for International Settlements

# At a national level there is a political consensus about the need for a step change in housing supply

## **Government**

**Homes for the Future: More Sustainable, more affordable.** Aim to deliver 240,000 new homes a year, 2 million by 2016 and 3 million by 2020.

## **Conservatives**

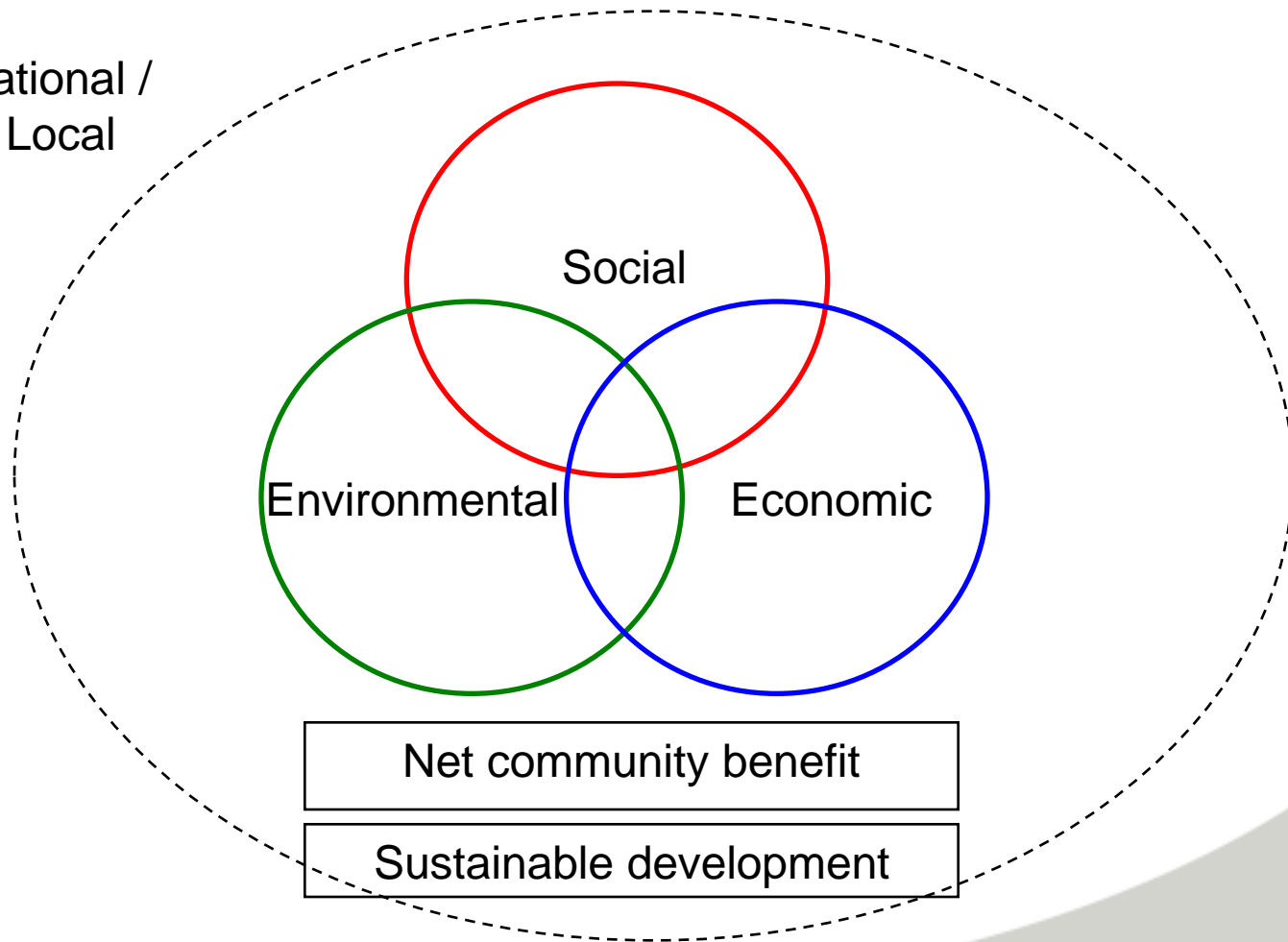
**Shadow Housing Minister [Housebuilder October 2008]** “What we want is a stable housing market. Affordability is the result of supply and demand for new houses being in line. [*Commenting on the shortfall in delivery of homes over the past decade*]...that is a third of a million new homes that could and should have been built.”

## **Liberal Democrats.**

**Homes for All: Action to tackle the Housing Crisis.** ‘The aim is to build...2.6 million new homes in 10 years..., with half being built for the open market, a quarter for the ‘affordable’ sales market, with that affordability retained when resold, and one quarter of the new homes to be social housing.’

# Barker recognised the need for a balanced approach to spatial planning

Global / National /  
Regional / Local



# NHPAU role is to provide independent advice on housing market affordability

## Three main elements of work programme:

- Engagement with Regional Assemblies, Development Agencies and the Government Offices, through the **Regional Spatial Strategy process**, to provide advice about the impact of housing supply plans on market affordability.
- Delivery of a range of **research projects** which consider specific aspects of the affordability issue, providing advice to Government, the regional partners and others to inform the development of policy and practice.
- To provide regional planning authorities with **practical support** in meeting their obligations under Planning Policy Statement 3 on Housing to consider affordability. This will include use of econometric models and other statistical analysis relevant to the housing market.

# The work of NHPAU is steered by an independent expert Board

## **Prof. Stephen Nickell (Chair)**

(Warden of Nuffield College, Oxford and former member of the Bank of England Monetary Policy Committee)

## **Prof. Glen Bramley**

(Professor of Housing & Urban Planning, Heriot-Watt University)

## **Prof. Paul Cheshire**

(Professor of Economic Geography, LSE)

## **Bob Lane**

(former Chief Exec for Catalyst Corby/North Northants Development Co.)

## **Max Steinberg**

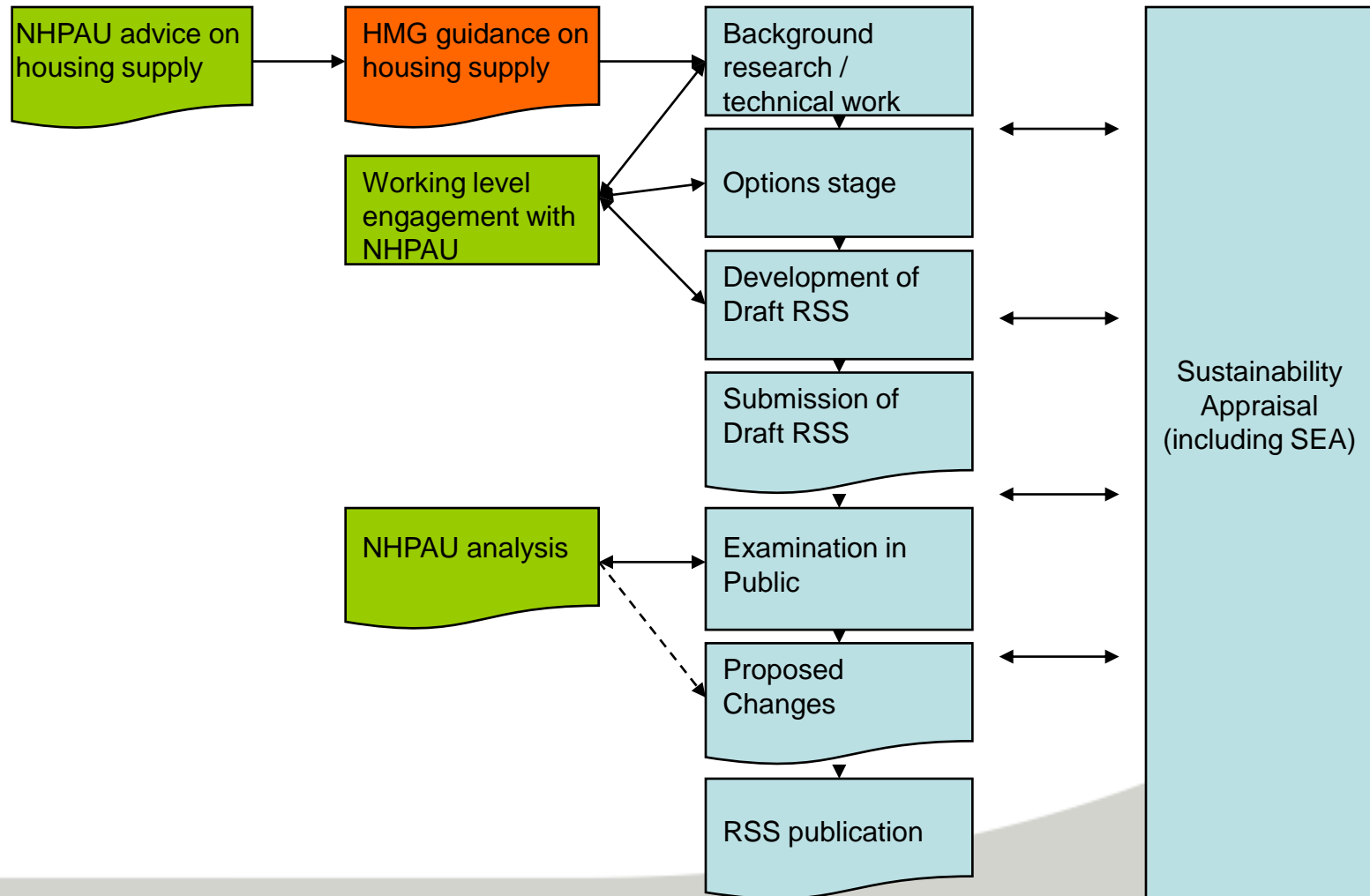
(Chief Executive of Elevate East Lancashire)

## **Dr Peter Williams**

(Executive Director of the Intermediary Mortgage Lenders Association and former Deputy Director General with CML)



# NHPAU will play a full and ongoing role in the RSS process



# **Affordability *Still* Matters**

July 2008

# What are the prospects for the housing market?

**'House prices in England will begin to recover in 2010** and then rapidly grow over the following three years, increasing by an average of 25% by 2013.' **NHF – August 2008**

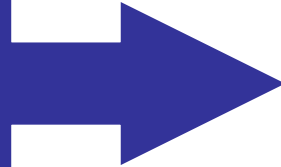
**'Expect house prices to fall 25% from 2007 peak.'** Nationwide – September 2008

**'Over the medium and long term, the 70% of the nation who are homeowners will continue to see excess house price growth,** until and unless the rarity value of housing is diminished by large quantities of additional, high quality, competitive supply.' **Savills – September 2008**

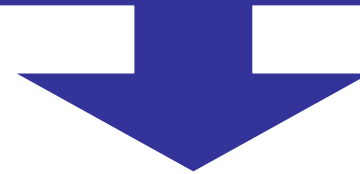
**'House building grinds to a halt - and sows seeds of next boom.** A sharp fall in house building, with 20 per cent fewer completions forecast for 2008 and 10 per cent fewer in 2009, is likely to be one of the key factors in prices recovering by the end of next year.' **CEBR - September 2008.**

# This shift in the market and sentiment is driven by problems in the finance sector

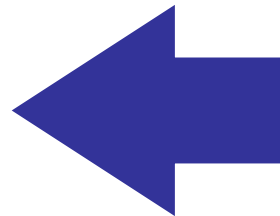
- \* US house prices fell
- \* Mortgage rates rose
- \* Sub-prime mortgage defaults rose



- \* Large losses for mortgage lenders & insurers
- \* Mortgages default
- \* Widening spreads on BBB rated assets, collateralised by subprime mortgages



- \* Massive liquidity operations
- \* Bank bailouts & nationalisation
- \* Credit squeeze spreads...
- \* Confidence falls
- \* Share markets slump
- \* Central banks cut rates
- \* Govt attempts to remove toxic debt, recapitalise banks



- \* Risk aversion/flight to quality
- \* Corporate credit hit
- \* Interbank spreads explode
- \* Equities hit, Treasuries rally
- \* Securitisation market frozen

This process has been unwinding for a year already. It will be some time before the full impact on the housing market and wider economy is known.

**Adopting the Swedish Model?** Sweden successfully tackled major banking failure in the early 1990s. They took a 6 step approach:

- Shore up market **liquidity**
- **Guarantee** bank deposits
- **Structures:** set up Swedish Bank Support Authority (SBSA)
- **Triage** – identify and separate out toxic debts and/or banks from the rest
- **Recapitalise** banks through government equity stake (about 4% GDP)
- **Transparency** – SBSA disclosed expected loan losses and asset valuations

# This all makes the housing challenge faced in every region even more difficult

## **‘New households continue to rocket despite economic downturn**

Christine Whitehead, Professor of Housing at the LSE and Director of the Cambridge Centre for Housing and Planning Research, said: “The current downturn makes achieving government housing targets very much more difficult. Yet the new population and household projections all point to long term requirements well above these targets...” **TCPA - September 2008**

**‘Government has no chance of meeting new home building targets ...while the Government wants 240,000 to be built by all sectors every year from 2016, experts believe that this year the total number of new homes [this year] could be as low as 100,000.’ NHF – September 2008**

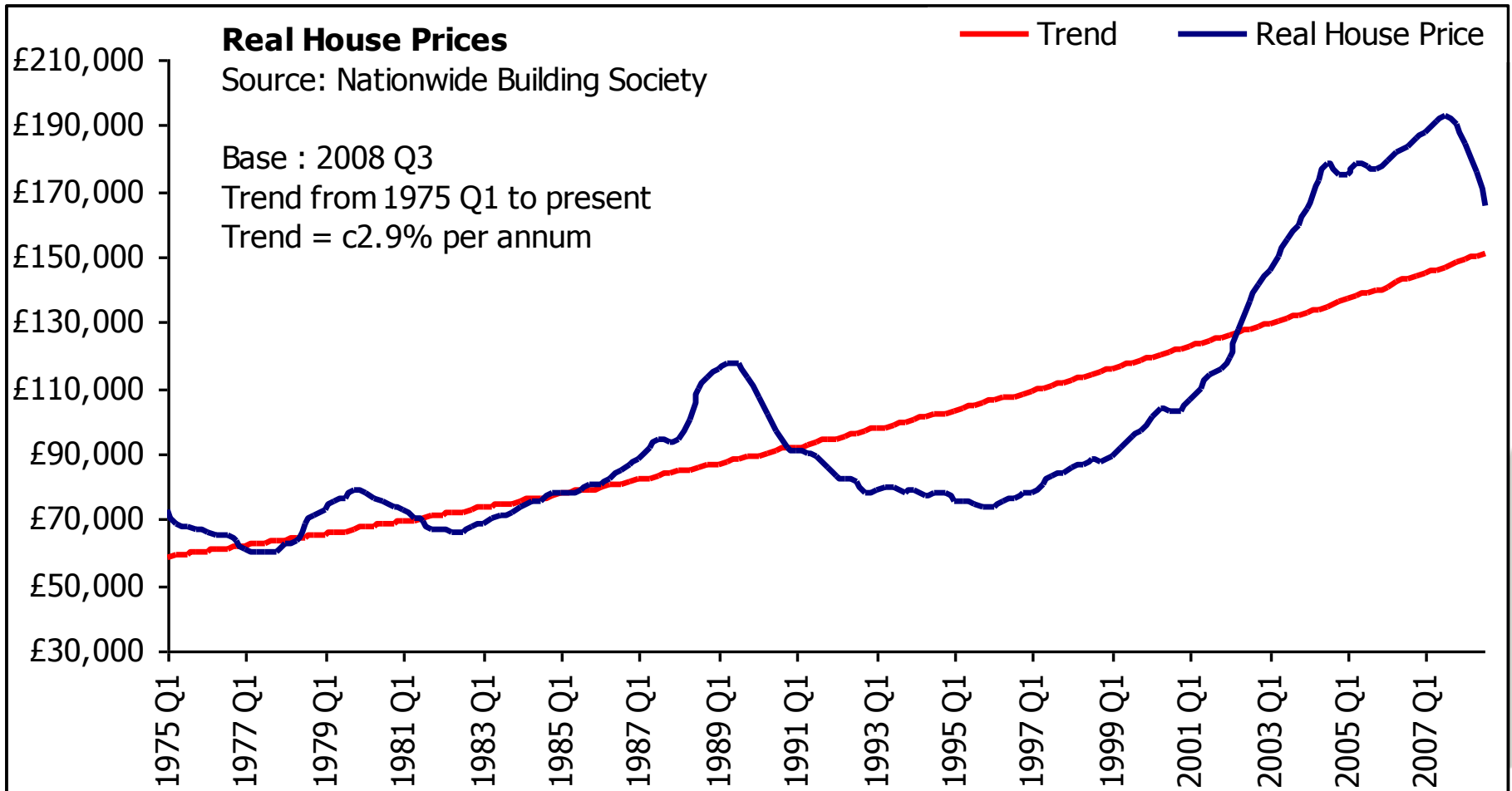
## **Planning regime blamed for land supply blocks**

“It is our view that, on balance the evidence suggests that the planning system has acted as a constraint on land supply, especially during an upturn in the housing market.” **OFT - September 2008**

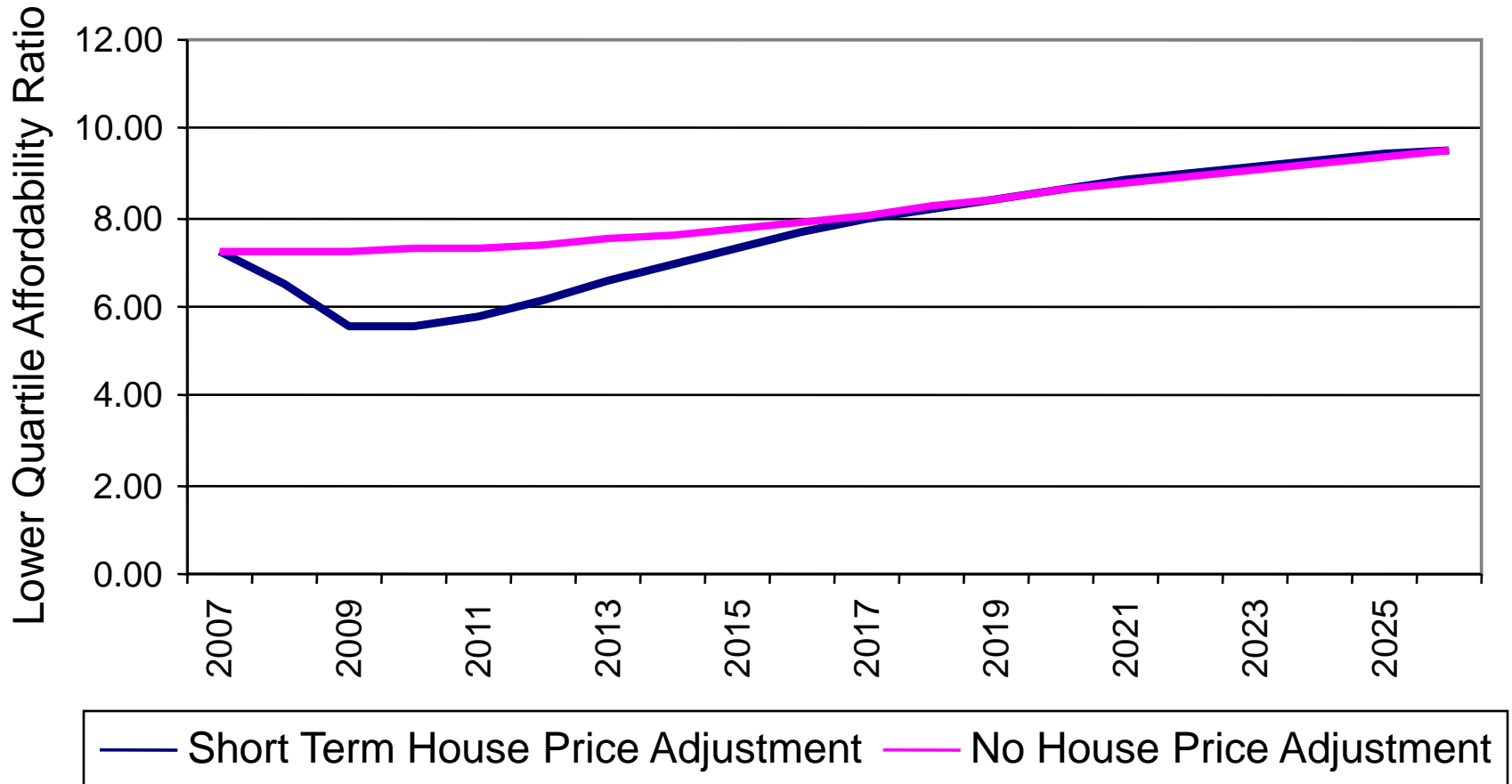
## **Rural housing shortage ‘worsens’**

‘Many first-time buyers cannot afford property in rural areas in England. The number of people waiting for affordable housing in rural areas has increased by more than a third over the past 5 years. About 700,000 people were waiting for a home, 37% more than in 2003.’ **CPRE - September 2008**

Of course, there have always been ups and downs in the housing market, but the trend in prices over the past 30 years has been **real** annual growth of 2.9 %



And let's be clear, falling prices in the short term are not improving affordability prospects in any meaningful way

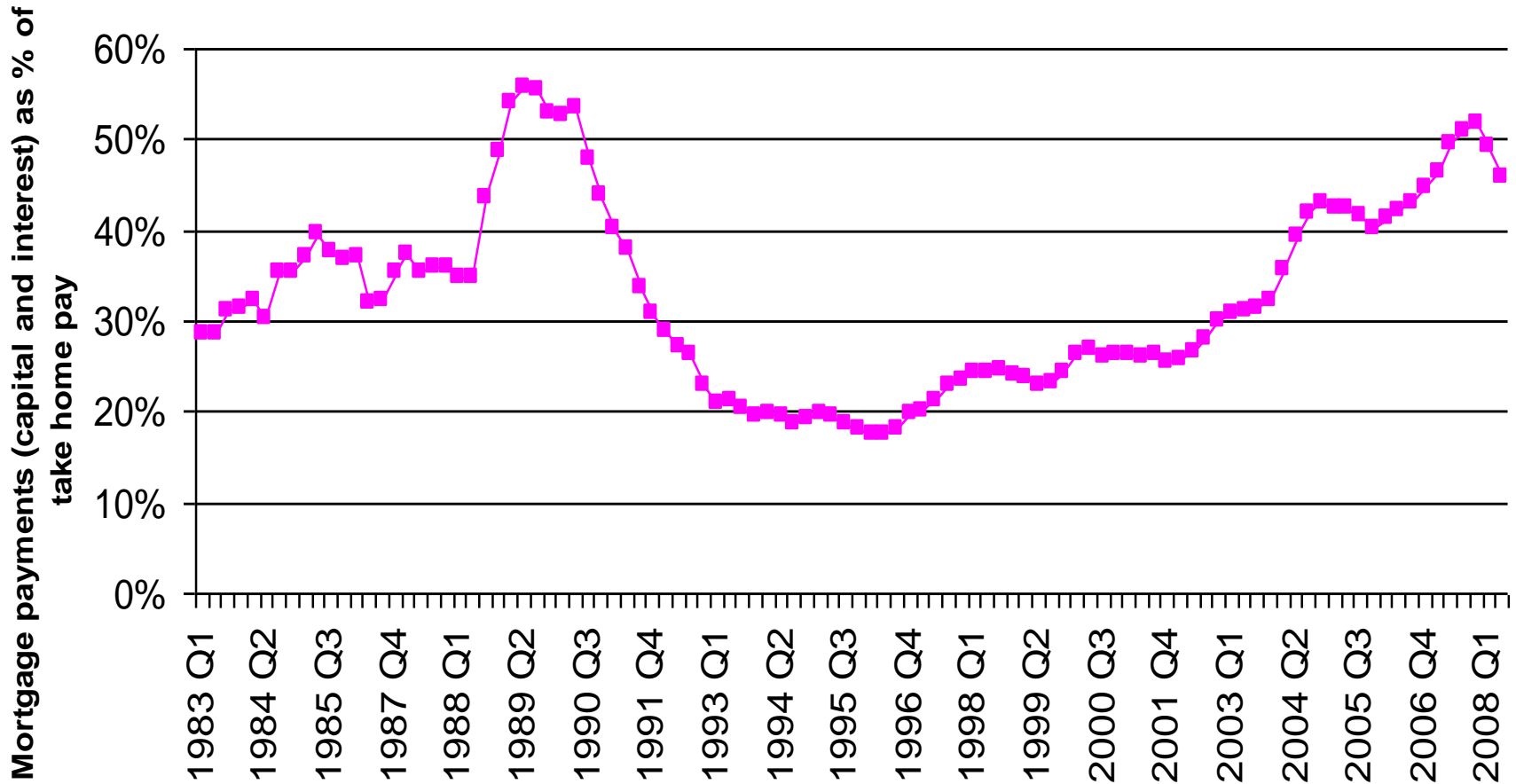


Source: NHPAU Analysis using CLG Affordability Model.



# By any measure affordability remains stretched

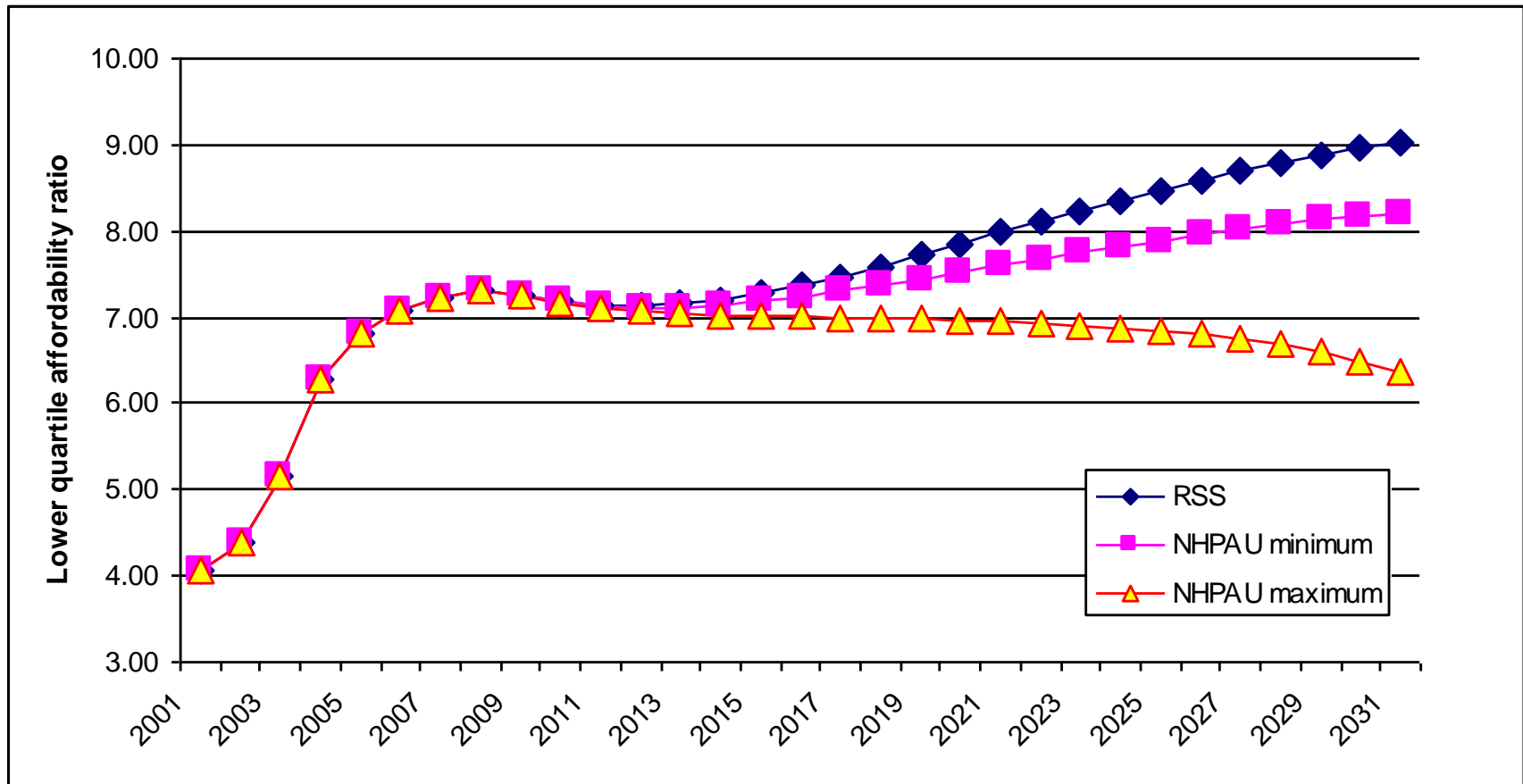
## Nationwide First Time Buyer Affordability Indices [UK]



This week, this month, this year we appreciate more keenly why housing affordability matters...

- Volatile house prices lead to macro economic instability
- Boom and bust cycles create risk and speculation
- There is erosion of economic growth potential
- Young people and families unable to access quality housing
- Increases demand in the private rented sector
- Puts pressure on social housing stock

# Whatever the market outlook, the level of supply will make a difference to affordability prospects in England



Source: NHPAU Analysis using CLG Affordability Model.

# **Meeting the housing requirements of an aspiring and growing nation: taking the medium and long-term view**

June 2008

# NHPAU work on developing supply range advice was commissioned in the 2007 Housing Green Paper

*'We propose to strengthen the evidence base for those early reviews by issuing formal guidance at the beginning of the RSS preparations on the ranges of housing provision required over a 15 to 20 year period. This guidance will be based on the independent advice of the NHPAU. We will expect Regional Planning Bodies and Examination in Public Panels to test these options so that the Secretary of State can be fully informed when taking the final decisions about appropriate levels of housing provision in approving the RSS.'*

*'It is Government's role to set the overall housing ambition for the country and for the regions, acting upon the advice of the independent NHPAU and considering the national interest in the round.'*

# We have worked within the Government's strategic and policy framework on housing

**Main aim - everyone should have opportunity to rent or buy a decent home at a price they can afford, in a place where they want to live and work.**

Key elements of strategic and policy framework we considered:

- Planning Policy Statement 3 on Housing
- Green Paper *Homes for the Future: More affordable, more sustainable* (July 2007)
- Spending Review settlement for 2008-2011
- Public Service Agreement 20 (PSA20). This set out the high level targets for increasing long-term housing supply and monitoring affordability.
- New delivery targets to be reflected in plans by 2011.

# What our supply range advice *is* and what it *is not*

**Our advice sets out the housing supply range that we believe should be tested by the regional partners through the planning process. *It is not a supply target.***

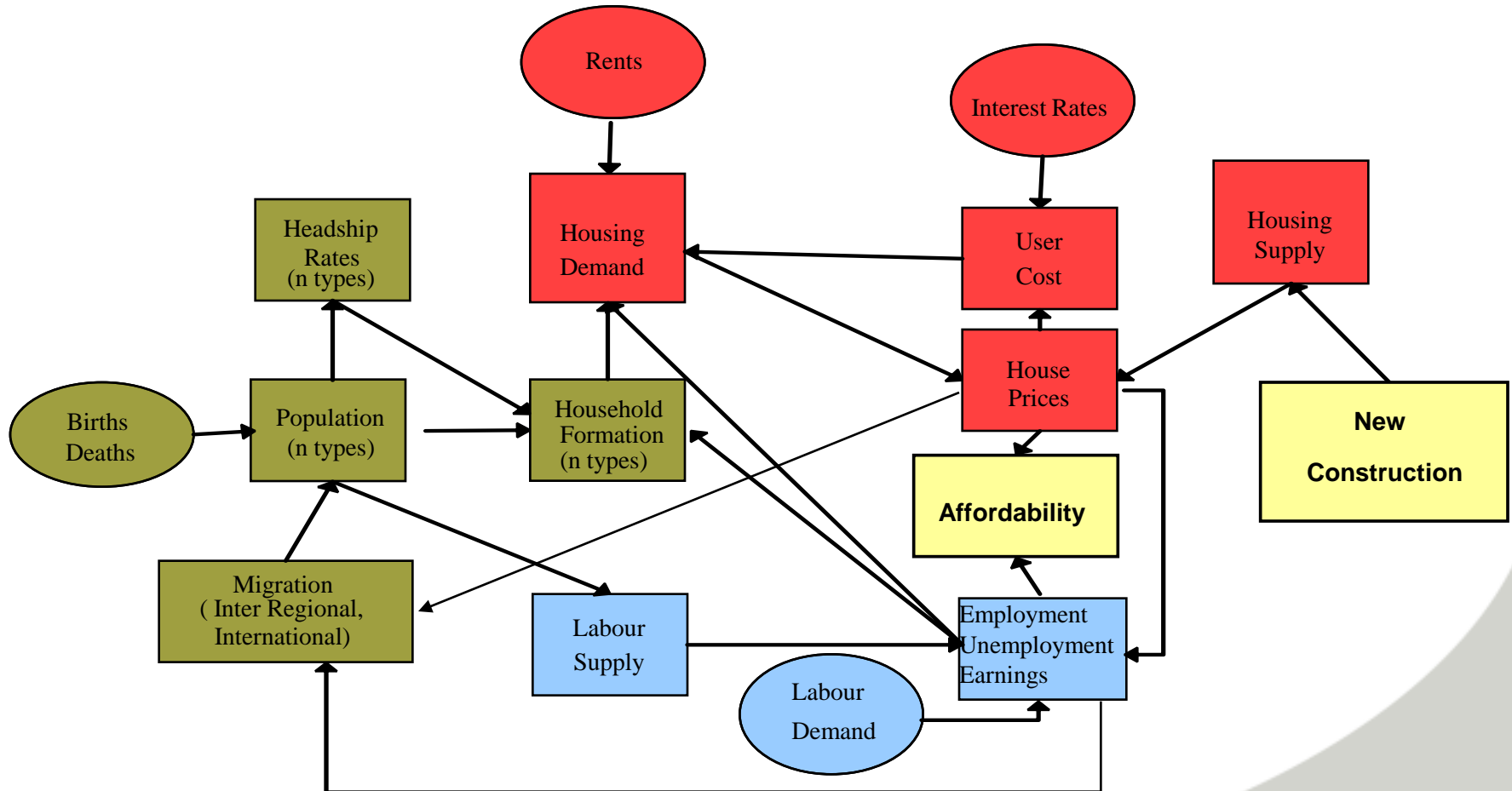
- Provides the 'bookends'. Flexibility and stability.
- Non-binding advice. Regions can bring forward evidenced options outside of the range.
- Planning for land supply and all homes for delivery from 2011.
- Housing plans are important to existing communities and future generations. Our advice is focussed on the medium and long term.
- Our advice should facilitate a transparent debate about the choices to be made that will affect local communities.
- How far and how fast should the backlog of housing need and demand be addressed? What are the likely prospects for future need and demand? What would be required to stabilise affordability? What contingencies should be provided for? How are housing markets related between linked regions?

We developed our advice drawing on the best available evidence

1. CLG Affordability Model
2. Demographic (plus) Method
3. Experian macro economic modelling



# An overview of the Affordability Model

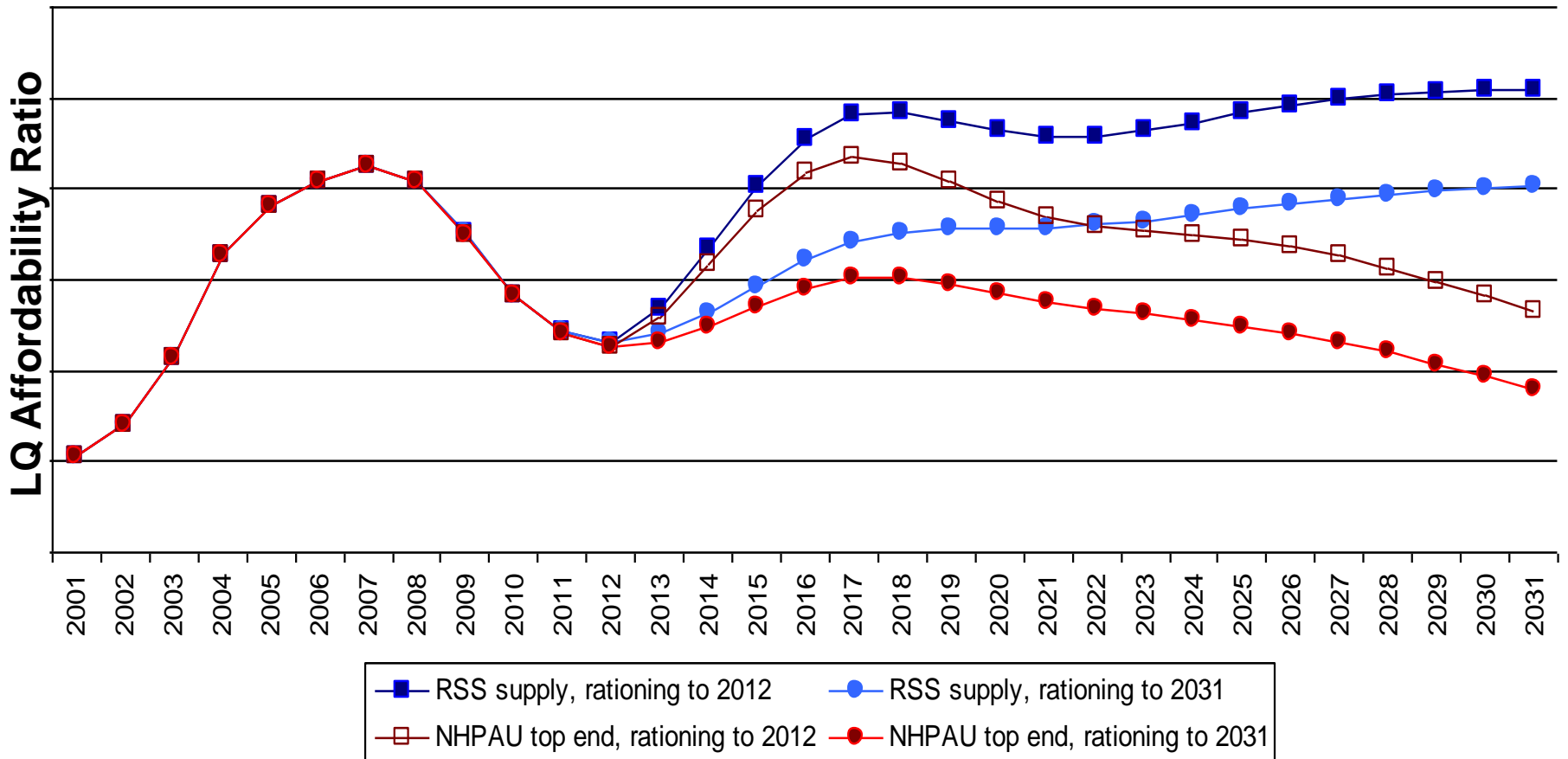


# Understanding the market over the long run

- If real incomes rise by 1%, then house prices will rise by around 2%.
- If interest rates rise by one percentage point, then house prices will fall by around 3%.
- If housing stock increases by one percent, then house prices will fall by about 2%.
- If the number of households increases by 1%, then house prices will increase by about 2%.

# Mortgage rationing would reduce prices, but the level of supply will still impact on affordability outcomes...

For illustrative purposes only



# Constructing scenarios for our advice

- Income growth
- Interest rates
- Type of housing
- Tenure
- Regional distribution
- Delivery trajectory

We recognised the short term outlook for the economy and housing market and gave this weight...

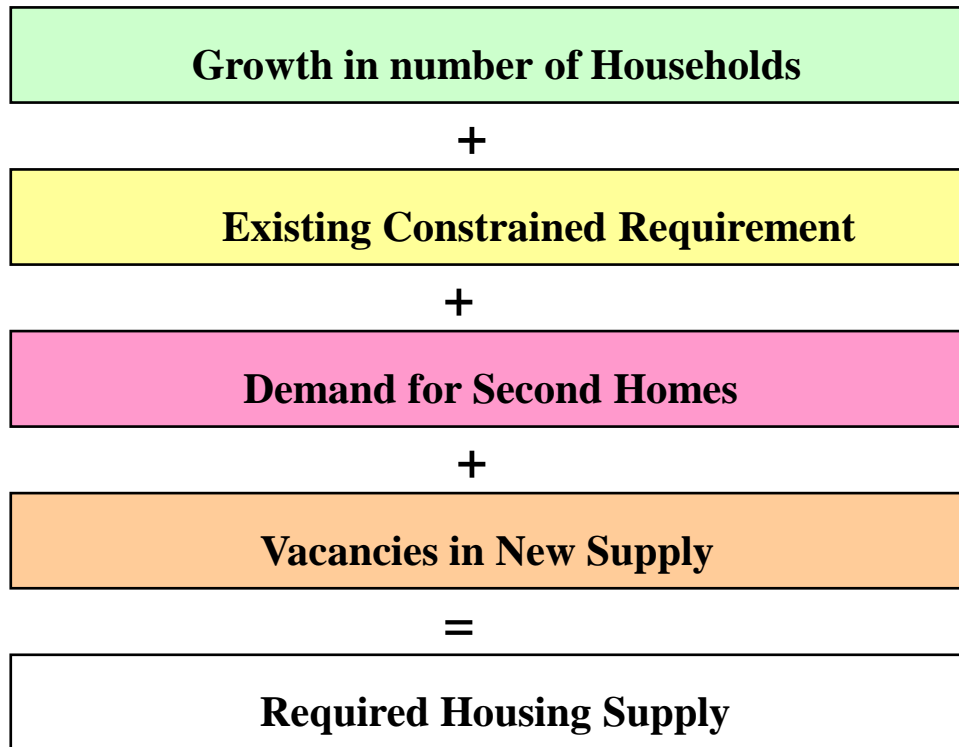
<b>Key drivers in the CLG Affordability Model</b>	<b>Baseline Model</b>	<b>NHPAU Board Assumptions</b>
Average annual increase in income (% pa)	5.0% (nominal) 2.5% (real)	4.0% (nominal) 1.5% (real)
Average available mortgage interest rate (%)	5.75% (nominal)	6.25% (nominal)
Household projections	2004-based	2004-based

# Supply required using revised earnings growth and interest rate assumptions

Region	Affordability ratio 2007 (modelled)	Actual net additions 2007	Projected net additions from 2016	Average annual net additions 2008 - 2016	Average annual net additions 2008 - 2026	Total net additions 2008 - 2026	Affordability ratio 2026
North East	5.34	7,170	6,600	6,853	6,720	127,680	5.01
North West	5.69	22,750	27,600	25,445	26,579	505,000	5.47
Yorkshire & Humber	5.72	19,160	25,100	22,460	23,850	453,142	5.27
East Midlands	6.57	22,070	23,700	22,976	23,357	443,781	6.13
West Midlands	6.30	16,300	19,800	18,245	19,063	362,201	6.04
East of England	7.83	24,800	43,016	34,920	39,181	744,436	7.82
London	8.90	27,290	35,500	31,851	33,772	641,659	8.73
South East	8.48	34,560	53,801	45,250	49,750	945,256	8.48
South West	8.71	25,150	37,351	31,928	34,782	660,860	8.71
<b>England</b>	<b>7.23</b>	<b>199,250</b>	<b>272,468</b>	<b>239,926</b>	<b>257,053</b>	<b>4,884,016</b>	<b>7.03</b>

Source: NHPAU Supply Range Advice ref scenario 2D – real earnings growth 1.5% p.a. and interest rates to average 6.25% for the whole projection period

# An overview of the Demographic (plus) Method



# Key variables and data sources

## **'Newly arising need'**

- Revised 2004-based household projections (CLG)

## **'Backlog estimates'**

- Sharing households (SEH)
- Overcrowded households (SEH)
- Concealed households (SEH)
- Households in temporary accommodation (CLG)
- One person households (LFS)
- Multi-person households (LFS)
- HHs with non-dependent children (LFS)

Traditional  
Constrained  
Requirement

Other Constrained  
Requirement

## **Allowance for...**

- Second homes (LGF)
- Vacancy rates (HSSA / RSR)



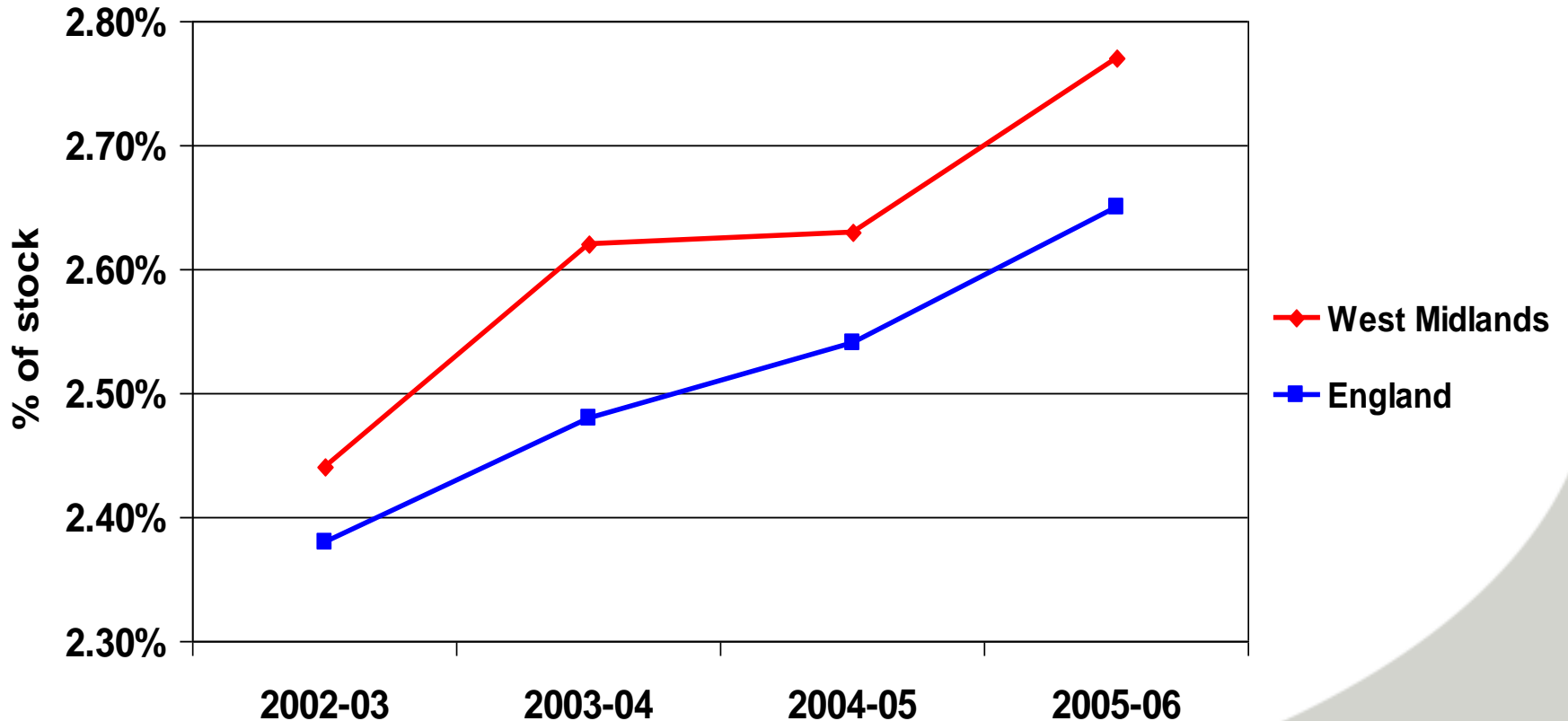
# Some indications that revised 2004-based household projections may understate position...

**Indications are that in England newly arising need / demand could be higher than indicated by the revised 2004 projections:**

Revised 2004-based household projections – average annual change 2004-2026	<b>223,300</b>
Holmans / Whitehead analysis of impact of 2006-based population projections on household numbers- average annual difference 2001-2026	<b>+31,400</b>
Comparison of household estimates 2004-2006 with 2004-based projections – average annual difference	<b>+15,700</b>

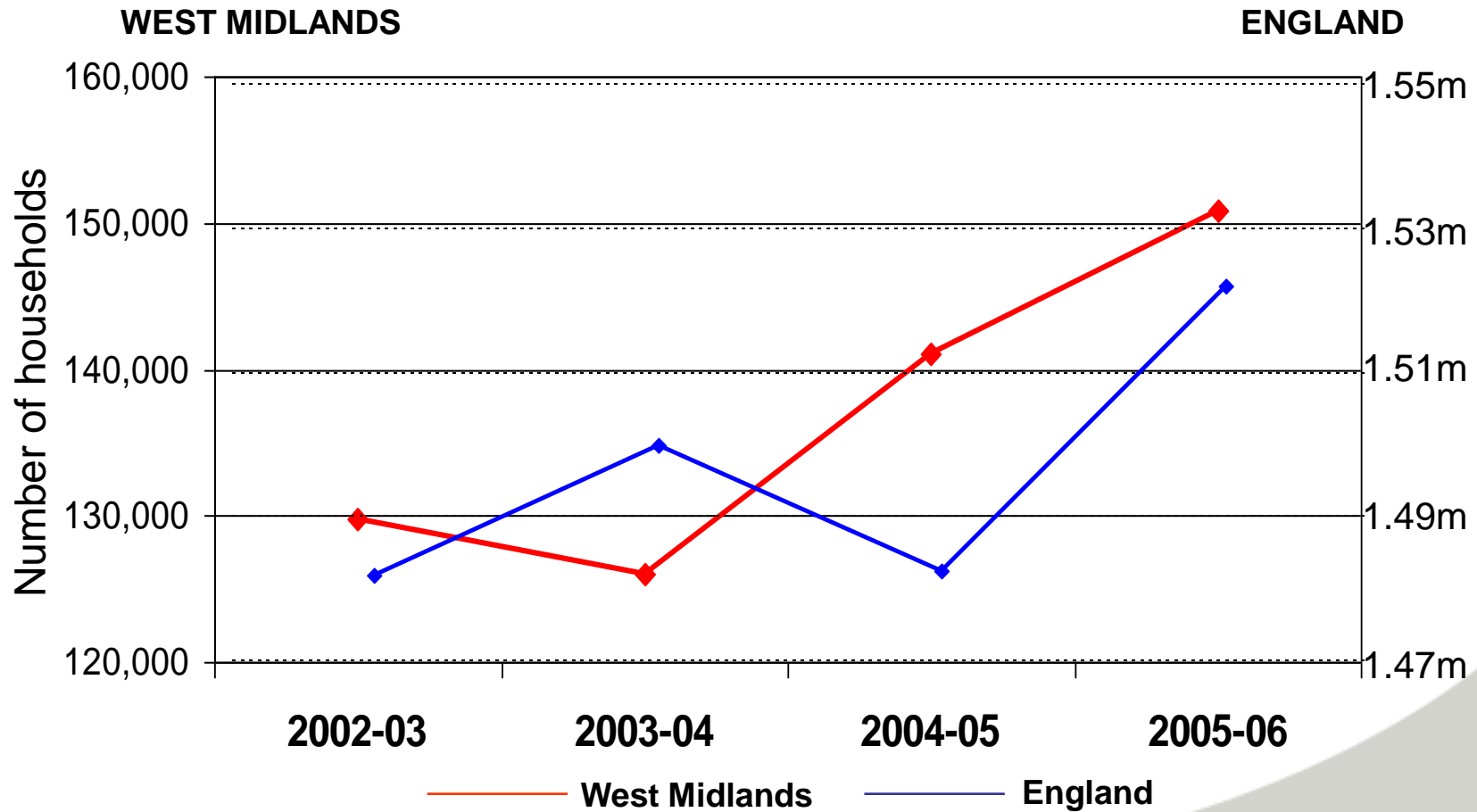
Holmans/Whitehead argue that the new household projections may overstate migration, given household formation patterns, economic outlook and recent policy changes. But important to recognise upward pressure caused by higher fertility rates.

# Overcrowding in England is rising with worsening affordability...



Source: SEH, figures are three year averages including data from 2001/02 to 2006/07

...and so is the estimate of the number of concealed households.



Source: SEH, figures are three year averages including data from 2001/02 to 2006/07

## Summary table of Demographic Method results

Region	Household Projections	Tradional constrained requirement	Temp.	Other constrained requirement	2nd Homes	Vacancies	TOTAL
North East	6,100	730	10	360	90	230	7,500
North West	25,700	2,200	50	500	220	890	29,500
Yorkshire & the Humber	23,300	1,500	30	560	200	790	26,400
East Midlands	22,100	1,100	30	490	120	740	24,600
West Midlands	18,400	2,300	20	980	190	680	22,600
East of England	29,900	1,400	60	1,480	340	850	34,000
London	33,000	6,300	290	1,230	600	1,230	42,600
South East	36,000	2,800	60	890	500	1,020	41,200
South West	28,800	1,100	50	970	620	860	32,500
<b>ENGLAND</b>	<b>223,300</b>	<b>19,400</b>	<b>590</b>	<b>7,460</b>	<b>2,870</b>	<b>7,280</b>	<b>260,900</b>

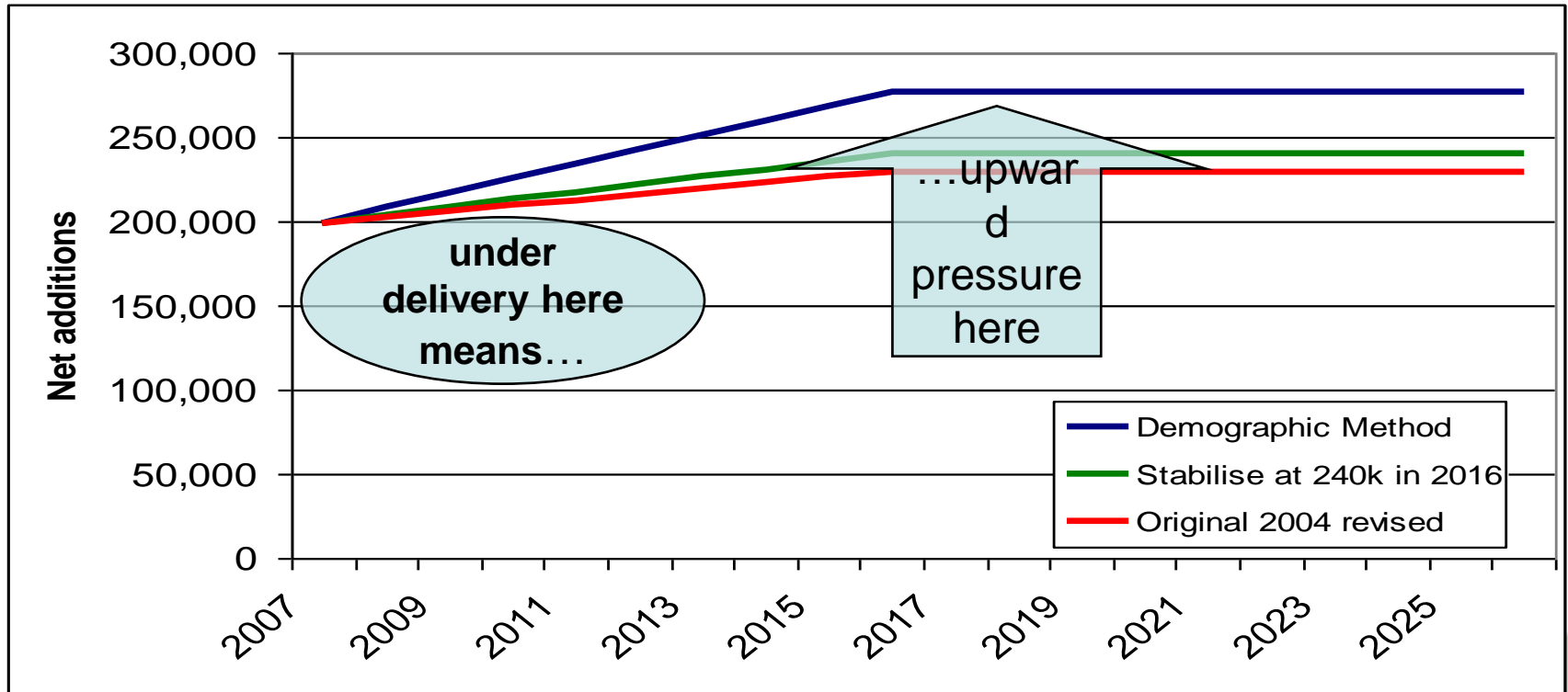
# Experian forecasts

- Macro-economic forecasting tool
- Forecasts strongly aligned to household projections
- Full details available

# Recommended housing supply range

	BOTTOM OF THE PROPOSED HOUSING SUPPLY RANGE				UPPER END OF THE PROPOSED HOUSING SUPPLY RANGE			
Region	Average annual net additions to 2026	Minimum delivery point by 2016	Total net additions by 2016	Total net additions by 2020	Average annual net additions to 2026	Projected delivery point by 2016	Total net additions by 2016	Total net additions by 2020
North East	6,700	6,600	61,500	87,800	7,500	7,600	66,800	97,300
North West	26,600	27,600	228,900	339,300	29,500	31,300	247,700	373,000
Y&H	23,800	25,100	202,100	302,500	26,400	28,300	218,300	331,700
East Midlands	23,400	23,700	207,000	301,900	24,600	25,300	214,500	315,500
West Mids	19,100	19,800	164,100	243,200	22,600	24,300	186,600	283,700
East of England	30,100	32,100	259,600	388,000	39,200	43,000	314,300	486,300
London	33,800	35,500	286,600	428,500	42,600	46,700	342,400	529,100
South East	37,800	38,700	331,500	486,200	49,700	53,800	407,200	622,500
South West	29,800	31,000	255,600	379,600	34,800	37,400	287,400	436,800
<b>England</b>	<b>231,100</b>	<b>240,100</b>	<b>1,996,900</b>	<b>2,957,000</b>	<b>276,900</b>	<b>297,700</b>	<b>2,285,200</b>	<b>3,475,900</b>

# There is an obvious risk in our simple supply trajectories



**'Government has no chance of meeting new home building targets ...while the Government wants 240,000 to be built by all sectors every year from 2016, experts believe that this year the total number of new homes [this year] could be as low as 100,000.'** NHF – September 2008

# If pressures are not addressed we should expect social and economic consequences

- Delay in the formation of households.
- Increase in over-crowding.
- Increase in the demand for housing support from the state.
- Further concentration of wealth
- Erosion in the proportion of those aged 18-34 in owner occupation
- More boom and bust in the housing market



**The impact of worsening  
affordability on demand for social  
and affordable housing:  
Tenure choice and  
household formation**

July 2008

# Worsening affordability has a range of consequences for households

While in principle there is no hierarchy of housing tenure – e.g. some households prefer private or social renting to owner-occupation – at the margin changes in affordability impose a hierarchy.

The main observable outcomes of worsening affordability on potential households are:

- Households continue to form in the owner-occupied sector
- Households form in the ‘intermediate’ market sector
- Households form in the private rental sector (PRS)
- Households form in the social rental sector
- Households do not form at all

# Based on current housing plans affordability in England is likely to get worse leading to ...

The lower quartile house price to earnings ratio deteriorating by 2026. The effect could be to **increase the mortgage and/or deposit required by first time buyers by about £23,500 at today's prices** by 2026.

**Further pressure on intermediate and social housing.** For example, nationally there was a rise of over **500,000** on the housing register between 2002 and 2007 compared with 73,000 between 1998 and 2002.

Household formation to be inhibited by affordability pressures. Analysis suggests as affordability prospects deteriorate by 2026 around **1.2million households in England would not have been able to form.**

**The end of the downward trend in average household size established since the 1960s.** Analysis suggests this could reach 2.3 in 2026, as compared to 2.1 persons per household under the official projections.

# Government guidance to regional planning authorities for future RSS reviews – 16<sup>th</sup> July 2008

NHPAU recently published independent advice on the range of housing provision for each region. As set out in PPS3 you should take this evidence into account in determining housing levels.

We would therefore require the range set out in NHPAU's advice, to be tested through any future regional strategy process...

Where a favoured option is identified that falls outside the NHPAU range the Regional Planning Body...must provide the Examination in Public with sufficient evidence to illustrate the spatial implications of delivering a level of growth within the NHPAU supply range.

This evidence will need to include the broad locations for growth, district allocation of housing numbers and the implications for the strategic objectives of the strategy, and be accompanied by a Sustainability Appraisal and Habitats Regulations Assessment as necessary.

# Will NHPAU update its advice?

**While the purpose of establishing a supply range was to provide some stability and flexibility, we will keep our advice under review, in particular we will want to understand the effect of:**

- Different potential outcomes for the finance markets and the impact on access to mortgages.
- New official statistics, for example the 2006-based Household Projections (due for publication early in 2009).
- The impact of the projected delivery of new homes given the short-run prospects.
- CLG Affordability Model update
- Any major directly relevant national policy developments.

**NHPAU publications available at**

[www.communities.gov.uk/nhpau](http://www.communities.gov.uk/nhpau)