

Section 12: Policy issues and implications arising from the SHMA

Introduction

- 12.1 This chapter considers the main policy issues that have arisen from the SHMA and their implications. In particular we focus on the issues that contribute to sustainability, social cohesion and delivery of the policy of housing growth as described in the Communities Plan, Planning Policy Statement 3 and the regional spatial strategy.
- 12.2 We have summarised more detailed or operational policy issues at the end of each chapter.
- 12.3 While the housing market exists within social economic and environmental constraints, supply and demand are also crucial considerations. We emphasise supply and demand aspects of policy issues where appropriate.
- 12.4 The SHMA report has been published at a time when the housing market is at a low point in its cycle and the rate of recovery is uncertain. Some of the data in the evidence base reflects the market at the peak of its cycle in late 2007. The SHMA projects housing requirements on the basis of long term trends rather than a point in time and demonstrates how future housing requirements are sensitive to price. It notes the impact of the credit crunch and economic recession in several places, however, it is in this section that the policy implications are drawn together.

Context and Overview

- 12.5 The SHMA has sought to understand how the housing market needs to change if housing requirements are to be met. The role and characteristics of the sub-region, its housing markets and its districts are important to achieve this understanding.
- 12.6 The urban centres of LCB (West) differ in character and are surrounded by pleasant countryside. There are three 'new towns'. The urban centres have excellent road and rail links to London.
- 12.7 The SHMA tells us that the housing markets of LCB (West) are under pressure due to high prices driven by demand from in-migrants from London who are leaving the city to find a residential offer that enables a higher standard of living whilst being within travelling distance of their place of work. There is much outmigration especially to Bedfordshire, other destinations in the Eastern Region and smaller scale out-migration to parts of the East Midlands Region. The net effect is that through natural growth and in-migration there is a shortage of housing with an acute shortage for some groups. Market prices became very high especially when the market was at the peak of its cycle late 2007.
- 12.8 However, it would be misleading to suggest that the area's key characteristics were uniform. For example, Hertsmere takes much more in-migration from London than other boroughs; house prices are much lower than average in parts of the urban centres and the distribution of housing by tenure

and type varies. Some areas, notably the former new towns, have larger social rented housing stocks than others.

^{12.9} Nearly 10% of households move every year. Households that need or decide to move are constantly seeking the best value for what they can afford and if local house prices are more than a household can afford then relocation to a more affordable area is the result. This is the story behind the migration flows in Figure 59.

^{12.10} As part of a national response to a shortage of housing there is a programme of planned housing growth, a step change in the supply side that has challenged developers, RSL's and Local Authorities to enable this to happen. The challenges are land release and acquisition, resources and infrastructure. The East of England Plan has sought to enable sustainable development through its strategy of delivering growth in key centres. The economic recession and credit restrictions have put the delivery programme at severe risk.

^{12.11} The SHMA also describes the most vulnerable groups who have fewer options in the housing market and are often heavily dependent on social housing and local support services.

^{12.12} The SHMA report arrives at important conclusions about the size and nature of the housing requirement to 2021. This is the starting point from which to cascade the headline policy issues and implications:

- the affordability of housing;
- achieving the housing requirement;
- the market for new housing;
- the credit crunch and economic recession;
- special Groups
 - older people
 - students; and
- a future scenario?

^{12.13} Finally, in this section we must draw attention to the fact that PPS3 paragraph 29 states that a Local Authority affordable housing target cannot be arrived at unless the SHMA has found that there is a requirement for affordable housing and there is a local general assessment of the economic viability of land. The requirement was tested in the High Court in Persimmon Homes (North East) Limited, Barratt Homes Limited, Millhouse Developments Limited V Blyth Valley Borough Council.

The affordability of local housing

^{12.14} Notwithstanding the credit crunch factors described below, the SHMA demonstrates the effect of long term price changes on affordability. It estimates a structural change in the housing market that is otherwise masked by the term 'market housing' (i.e. housing for sale OR rent at market prices). The SHMA estimates that by 2021 the proportion of owner occupiers in the housing stock will reduce significantly. This is entirely due to affordability issues and the increasing cost of households getting on the housing ladder. Important implications stem from this.

- ^{12.15} More people will seek to rent and the market will respond to this. The signs are that the institutional investor will replace the buy to let investor as the funder of growth in the private rented sector. For the Local Authority growth in the private rented sector may lead to a greater call on services for housing enforcement and housing benefit. It may also present a major opportunity for achieving mixed communities that are less polarised in terms of tenure and a more seamless way of ensuring that social, intermediate and market rented housing is provided.
- ^{12.16} Further, fewer people will amass capital through equity in their home. This in turn will reduce the capacity for the next generation to become owner occupiers, reinforcing the structural change described above. Local Authorities will be faced with the possibility that fewer households will be able to self fund adaptations and other services that are means tested. This will particularly be the case if pension levels continue to fall.
- ^{12.17} The SHMA describes a further structural change in the housing market that has played out over the last two decades with the reduced supply of social housing through the right to buy. The legacy of this has implications for the current and future housing market.
- ^{12.18} Firstly, ex-local authority stock when traded on the market tends to be lower priced than housing that was privately built. This has enabled many households to buy or rent more affordable housing. From estate and letting agents it is apparent that there is a large but unmeasured private rented sector based in this housing, again presenting enforcement issues in some areas.
- ^{12.19} Secondly, it has residualised the remaining social rented stock working against the aims of balanced communities and social cohesion, concentrating households that needed urgent access to social housing and tenancy support. Housing management has responded with initiatives such as Choice Based lettings. There is also a consequence that households that can afford more than a social rent are allocated social housing. This prompts a wider debate about 'who and what is social housing for' and how it contributes to a cohesive community whilst meeting the needs of those who have no choice but to seek it. This is beyond the scope of the SHMA but it is necessary to highlight the issue if wider policy aims of mixed and cohesive communities are to be achieved.
- ^{12.20} Thirdly, with regard to residual social housing, much of it is concentrated in the 'new towns' and it is evident that these continue to attract a disproportionate demand for social housing. Demand follows supply in this instance.
- ^{12.21} The SHMA considers rural housing and describes how local lower income households are being squeezed out of rural settlements because of high house prices. The importance of retaining these households should be stressed, retaining the local labour force, maintaining a mixed community, maintaining family networks and providing informal care and support.
- ^{12.22} However, assessing the need for rural social and affordable housing and delivering it is a very specialised subject which is best achieved from a bottom up approach. A sub-regional SHMA is not designed to achieve this.

Housing requirements

- ^{12.23} Accepting that housing growth is necessary there are a number of policy challenges to achieving the SHMA estimates of the housing requirement in terms of tenure and size mix. These challenges are in addition to those caused by the Credit Crunch which is considered separately, below.

Figure 214
Tenure Mix of Housing Requirement 2007 to 2021 by LA (Note: Figures may not sum due to rounding)

	Dacorum	Hertsmere	St Albans	Three Rivers	Watford	Welwyn Hatfield	Total
Housing Requirement 2007-21 (Number)							
Market housing	4,800	400	400	-400	800	3,400	9,400
Intermediate affordable housing	0	2,700	5,300	2,300	2,100	500	12,900
Social rented housing	3,100	500	1,300	700	600	2,800	9,000
Total Housing Requirement	7,800	3,600	7,000	2,700	3,600	6,600	31,300
Total affordable Requirement	3,100	3,200	6,600	3,000	2,700	3,300	21,900
Housing Requirement 2007-21 (Proportion)							
Market housing	61%	11%	6%	0%	24%	51%	30%
Intermediate affordable housing	0%	76%	76%	77%	60%	7%	41%
Social rented housing	39%	13%	18%	23%	16%	42%	29%
Total affordable requirement	39%	89%	94%	100%	76%	49%	70%

^{12.24} Welwyn Hatfield has the fourth highest proportion of social rented housing in the Eastern Region (at 28.1% of all dwellings), while 12.6% of St Albans' dwellings are social housing (see Figure 17 above).

^{12.25} It is also worth noting that six (Harlow, Stevenage, Welwyn Hatfield, Basildon, Dacorum, Peterborough) out of the top ten authorities for social rented housing have New Towns in their areas.

Affordable housing targets

^{12.26} The estimated requirement for social housing varies across the 6 districts. Before a Local Authority can determine its affordable housing target, they must have regard to **PPS3 paragraph 29**:

In Local Development Documents, Local Planning Authorities should set an overall (i.e. plan-wide) target for the amount of affordable housing to be provided. The target should reflect the new definition of affordable housing in this PPS. It should also reflect an assessment of the likely economic viability of land for housing within the area, taking account of risks to delivery and drawing on informed assessments of the likely levels of finance available for affordable housing, including public subsidy and the level of developer contribution that can reasonably be secured. Local Planning Authorities should aim to ensure that provision of affordable housing meets the needs of both current and future occupiers, taking into account information from the Strategic Housing Market Assessment.

^{12.27} It is apparent that the requirement for affordable housing is higher than the 35% benchmark target contained in the RSS. It is also apparent that there is considerable variation of housing requirements within the sub-region. However, Local Authorities must reflect the economic viability of land in order to achieve an affordable housing target.

Intermediate affordable housing

^{12.28} The SHMA contains a great deal of information about the size mix of affordable housing and the balance between social and intermediate affordable housing. A deeper understanding of affordability issues is provided by the SHMA and the importance and need for intermediate affordable housing is a key finding which will also inform the last sentence of PPS3 paragraph 29:

Local Planning Authorities should aim to ensure that provision of affordable housing meets the needs of both current and future occupiers, taking into account information from the Strategic Housing Market Assessment.

^{12.29} The SHMA points to considerable scope for intermediate housing but when this statement in PPS3 is considered, regard must be had to the price at which intermediate affordable products are pitched and how affordable they are to households in the intermediate band. Clearly there is a role for shared ownership type products but these are only relevant to those households where home ownership is appropriate and is just outside their reach. Otherwise, there is a complete absence of intermediate housing affordable to lower income groups. The implications of this are that they either leave to find more affordable housing elsewhere, pay more for their housing than they can reasonably afford, find other devices to make housing affordable, such as sharing or receiving gifts or loans from parents, or fail to form as individual households. Shortages of all forms of affordable housing have the implications of overcrowding, health, a decent standard of living and achieving personal aspirations such as living independently, having children, being part of the family or social network of choice. These are all factors that contribute to the sustainability of neighbourhoods. This is evidenced by neighbourhoods in LCB (West) that have high IMD scores.

Size mix, demand and supply

^{12.30} The SHMA has estimated the size mix of the future housing requirement and indicates the household types that form the requirement. Here we briefly consider some 'real world' issues and ask will the housing requirement be what gets built and who will occupy it?

^{12.31} Firstly, on the supply side there is a policy implication arising from Economic Viability Assessments. Although aimed at testing residual value of land taking into account acquisition development and infrastructure costs, it is clear that the aim of the developer is to secure the maximum economic benefit from the site. An individual tenure and size mix will be considered optimal for an individual site. The location and characteristics of sites differ and the developer will bring forward a detailed planning application that matches the location to the market. Only larger sites such as urban extensions may lend themselves to designing in an overall mix that might be considered balanced and cohesive. Smaller infill and urban sites may be aimed at more localised or specialised markets.

^{12.32} The implication is that although the Local Authority may have policy aims supported by the SHMA it is the location and size of the land that will have most impact on what gets built upon it.

^{12.33} Secondly, the requirement will be met mostly by new build which can be demonstrated to be a more expensive and aspirational product than second hand housing. As such it might be considered that policies aimed at unblocking turnover of second hand housing might also make a contribution to the overall housing requirement. It is readily apparent from the SHMA study that in both affordable and market housing there is overcrowding and under-occupation and that many households will be unable to move to more suitable housing either because of affordability or lack of suitable supply. We develop examples of this in our remarks about special groups below.

The credit crunch and economic recession

^{12.34} In 2008 the credit crunch paralysed the housing market and brought part of the Global banking system to the brink of collapse. Due to severe lending restrictions and house prices in freefall mass market demand and supply was reduced almost to standstill. For much of 2008 and the early part of

2009 property was coming onto the mass market only from distressed sales. Developers found they had unsold stock on their hands. Many shed their labour forces and watched their share prices collapse. This affected RSLs as cross funding and S106 agreements were un-funded. There are several implications of this:

- land prices are severely affected and little land is being traded and accordingly, there are implications for development and S106 deals;
- although affordability ratios have improved, less relaxed lending criteria and higher deposits have prevented many first time buyers from entering the market;
- as house prices fall more market housing becomes affordable and the requirement for intermediate housing reduces;
- although effective demand is stifled there remains a pent up demand as households continue to form and grow in size;
- shared ownership customers are seen as sub-prime borrowers by some lenders and this is affecting demand;
- social house building schemes have been funded by the government and brought forward by the HCA to keep the building industry ticking over;
- the government has worked with developers and local authorities to subsidise shared ownership and shared equity schemes as well as intermediate rent;
- homelessness and advisory services in Local Authorities and the voluntary sector under increasing pressure from people facing re-possession, negative equity and those unable to re-finance mortgages or fund higher payments; and
- targets for meeting RSS new build are unlikely to be met in all recovery scenarios and by a considerable margin in slow recovery scenarios.

^{12.35} Savills Research, in their published quarterly bulletins, believe that the distressed sectors of the market will be the last to recover. These are areas of poor quality housing and high levels of multiple deprivation, areas with large numbers of recently completed apartments. As is noted below, public money is likely to be unable to fund intervention schemes to intervene in these areas.

^{12.36} The impact of the credit crunch on mortgage and landlord repossessions is noteworthy.

Figure 215

Change in mortgage repossessions by County Court compared to County Court Sub-region and England and Wales Data Q4 2008 to Q4 2009 (Ministry of Justice)

Area	Total for 2009 Q4	% Change in total since 2008 Q4	Total year including 2009 Q4	% Change in total since year to 2008 Q4
St. Albans	35	-27%	130	-34%
Watford	115	-19%	400	-37%
Bedfordshire, Essex and Herts	880	-43%	4,060	-36%
England & Wales	15,495	-42%	72,174	-35%

Figure 216

Change in landlord repossessions by County Court compared to County Court Sub-region and England and Wales Data Q4 2008 to Q4 2009 (Ministry of Justice)

Area	Total For 2009 Q4	% Change in total since 2008 Q4	Total year including 2009 Q4	% Change in total since year to 2008 Q4
St. Albans	701	33%	275	23%
Watford	195	-1%	695	-5%
Bedfordshire, Essex and Herts	1,240	-4%	5,095	-1%
England & Wales	22,067	-10%	92,807	-8%

^{12.37} Limited information is available from the Ministry of Justice website for the County Courts of St Albans and Watford. Regarding mortgage repossessions it is clear that these have reduced since quarter 4 2008. This is an interesting result as many commentators believed that mortgage repossessions would increase due to the credit crunch and economic recession. We have no evidence to explain this result, however, the following positive and negative factors are likely to have applied:

- both the Government and Local Authorities have provided financial and advisory assistance to households at risk;
- households in negative equity will not move voluntary unless forced to, resulting in a reduced volume of sales overall;
- interest rates have reduced and those on tracker mortgages have benefited considerably but many households have had to face the consequences of re-mortgaging;
- lenders have showed considerable forbearance; and
- some households have faced difficulty due to loss of employment as a consequence of the recession.

^{12.38} Landlord re-possession appear to have increased in St Albans and this does not reflect the situation in the court administrative region or for England and Wales.

Particular groups of people

^{12.39} Whilst a greater number of groups of people have been studied here we highlight the policy issues and opportunities presented by two groups of people.

- older people; and
- students.

- ^{12.40} The SHMA has concluded that older people tend to choose to move either as part of a retirement plan (e.g. out-migration to coastal areas) or when ill health makes it unavoidable. Accordingly the County has sound estimates of the requirement for extra care housing. The question arises, what policy options exist to encourage older people to move to more appropriate accommodation?
- ^{12.41} Part of the future requirement for larger homes in all tenures might be met from older households downsizing. Clearly there is scope to incentivise social renting tenants. The approach to owner occupiers will be more of influencing and advising.
- ^{12.42} Local private landlords find student housing to be very profitable as they can let per person rather than by property. Higher education is key to a knowledge based economy but the high densities of students in parts of a town or city can alter the character of an area and the quality of life for non student residents. We are aware that the policy response in some towns and cities are to encourage purpose built student housing and place restrictions on the conversion of some property types. One example is the City of Lincoln. Lincoln is a small city and has seen a large rise in its student population. The city has sought to protect some of its Victorian neighbourhoods from sub-division of family homes into flats and has worked with providers to provide additional halls of residence.

A future scenario?

- ^{12.43} There are other structural changes in the Global/National/Local economy not so far considered that may have severe implications for the housing market as they unfold. It is beyond the scope of the SHMA to investigate these fully but there are a number of issues that may have long term impacts that future updates of the SHMA may wish to track. It occurs to us that the combined effect of the following factors may have a major impact on the housing market and the socio economic framework within which it operates.

The future economic success of the City of London

- ^{12.44} City bonuses often funded the purchase of premium property. This practice may not continue on such a scale. The reputation of the City has been damaged and the long term impact of this is not yet apparent. The low value of the £ makes London an attractive tourist destination.

Future international migration and the labour market

- ^{12.45} The combined effects of improving national economies and poor exchange rates may mean that the UK has less to offer migrant workers especially those seeking work in routine occupations. This may play out as lower unemployment of the UK labour force, labour shortages, and loss of demand in the informal housing market (small shared flats, rooms etc).

Further outsourcing of manufacturing to other countries

- ^{12.46} With manufacturing being re-located to Eastern Europe and China the economy will be increasingly knowledge based. This may lend itself to home-working and result in fewer car journeys. It will also mean that the economy of towns with large historic manufacturing sectors will suffer, as will their housing markets.
- ^{12.47} Instead of a job for life, employees may find that employment is more short term. This means that the need to re-locate may be more frequent.

Pensions, pension and savings performance

^{12.48} Private pension yields are currently poor and the average pension pot is around £10,000. Few employers outside the public sector are offering final year salary pension schemes. This could result in a resurgence of property based investment as yields from equities have proved disappointing. Many services for older people are means tested and a contribution is required dependent upon circumstances for domiciliary care, adaptations etc.

Capital through equity

^{12.49} Fewer households will be able to achieve this as more households are unable to get on the property ladder.

Public spending on infrastructure and regeneration

^{12.50} Given the huge debts incurred by the government to prevent the collapse of the banking sector it is difficult to see how public spending programmes on infrastructure and regeneration can be sustained. As considered above, areas of housing in deprived areas may be increasingly under threat if the recovery is slow, and it is widely believed this will be the last part of the market to recover from the downturn. This is an important issue because best use of existing developed land and buildings is an important element in reducing pressure on green belt land.

^{12.51} Overall it is possible that a number of factors combine to reduce the proportion of people buying to live and increase the likelihood that people or companies will invest in housing to rent. There is also the implication that fewer retiring households will be able to look forward to capital wealth through housing equity or good income streams through pension arrangements.