



Office of the
Deputy Prime Minister

Creating sustainable communities

Housing Market Assessments

Draft practice guidance



Office of the
Deputy Prime Minister

Creating sustainable communities

Housing Market Assessments

Draft practice guidance

December 2005

Office of the Deputy Prime Minister: London

The Office of the Deputy Prime Minister
Eland House
Bressenden Place
London SW1E 5DU
Telephone 020 7944 4400
Web site www.odpm.gov.uk

© Crown copyright 2005.

Copyright in the typographical arrangement rests with the Crown.

This publication, excluding logos, may be reproduced free of charge in any format or medium for research, private study or for internal circulation within an organisation. This is subject to it being reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the publication specified.

*For any other use of this material, please write to HMSO licensing, St Clements House,
2-16 Colegate, Norwich NR3 1BQ. Fax 01603 723 000 or email: licensing@hmso.gov.uk*

December 2005

Product Code 05PD03550

CONTENTS

CHAPTER 1

Housing market assessments	5
----------------------------	---

CHAPTER 2

Identifying key objectives and methodology	8
--	---

CHAPTER 3

The current housing market	15
----------------------------	----

CHAPTER 4

The future housing market	27
---------------------------	----

CHAPTER 5

Current and future housing need	34
---------------------------------	----

CHAPTER 6

Housing requirements of different household groups	45
--	----

CHAPTER 7

Using and updating assessment findings	50
--	----

This draft practice guidance is based upon work undertaken by the Centre for Planning and Housing Research, Cambridge University, for the Office of the Deputy Prime Minister. Its purpose is to provide practical guidance to regional bodies and local authorities when undertaking housing market assessments, linked to the Government's national planning and housing policies. Its present status is that of a working draft document which is likely to be subject to further change.

CHAPTER 1

Housing market assessments

Introduction

This draft practice guidance sets out how local authorities (both urban and rural) can develop a good understanding of how housing markets operate, particularly in terms of need and demand in their communities. Reflecting the objectives and approach set out in draft PPS3, it is primarily intended to assist local authorities and their stakeholders to plan for housing in sub-regional housing markets. **As a minimum, the practice guidance will enable authorities to derive figures for housing need and demand in their areas and to determine what this might mean in terms of market and affordable housing provision. It will also allow authorities to develop a good understanding of housing markets, particularly in terms of their characteristics and the drivers of market change.** This assessment will provide authorities with a robust evidence base which will inform the development of policies in local development frameworks¹ aimed at providing the right mix of housing. The assessment will also help to ensure that the information underpinning local housing strategies is robust and comprehensive.

In terms of defining housing need and demand, for the purposes of this guidance, need is defined as ‘households who are unable to access suitable housing without some financial assistance’ and demand as ‘the quantity of housing that households are willing and able to buy or rent’.

Background

This practice guidance consolidates in a single document the key elements of existing guidance on housing market and housing needs assessment. Key recent guides include:

- *Local Housing Needs Assessment (HNA): A Guide to Good Practice*, Bramley et al (DETR, 2000);
- *Housing Market Assessment (HMA) Manual*, DTZ Pieda Consulting (ODPM, 2004);
- *Local Housing Systems Analysis Best Practice Guide*, Maclellan et al (Communities Scotland, 2004); and
- *Local Housing Needs Assessment: A Good Practice Guide*, (Welsh Office, 1999).

The HNA guide (Bramley et al, 2000) and the Welsh Office Guide both set out a comprehensive approach to assessing local housing needs, providing advice on a wide variety of research techniques and data sources which local authorities have adopted, particularly in terms of housing needs surveys.

¹ Further details regarding the new approach to local planning are set out in Planning Policy Statement 12 ‘Local Development Frameworks’. See <http://www.odpm.gov.uk/index.asp?id=1143846>

Aims and objectives

To deliver the policy objectives set out in draft PPS3, local authorities will need to have a good appreciation of housing markets so that they can develop sound approaches to preparing local development frameworks and local housing strategies. **The key objectives of this practice guidance are:**

- **to provide clear and concise advice for practitioners on how to assess housing need and demand in their areas; and**
- **to enable local authorities to gain a good appreciation of the characteristics of their housing markets and how they function.**

The practice guidance:

- provides a step by step approach to assessing housing need and demand. It identifies the methodological tools and techniques that authorities can use to assess these, including the use of qualitative information. **In particular, it focuses upon what authorities must do as a minimum to produce a credible and robust assessment;**
- sets out an approach which recognises the practical constraints to achieving a definitive assessment of need and demand across housing market areas. It promotes the use of secondary data to provide an output from the assessment that allows authorities to meet policy objectives in a resource effective and timely way;
- explains how local authorities can develop their approach to assessing housing need and demand as their knowledge and expertise increases;
- identifies key data sources to encourage more consistency in approach and output;
- encourages authorities to assess housing need and demand in terms of housing market areas. This will involve working with other local authorities in the sub-regional housing market area in a housing market partnership. **The outputs from the assessment must be capable of being disaggregated to the local authority level;**
- sets out a methodology for assessment that is relevant at the regional, sub-regional and local levels;
- **explains how the assessment can be based upon secondary data where appropriate;** and
- sets out an approach to assessing the need for affordable housing, and considers how local authorities should take account of the needs of specific groups such as key workers, homeless households, black and ethnic minority groups, disabled people, older people, students and young people. It will also help authorities to determine the needs of local people in rural areas.

Why assess housing need and demand ?

Housing provision must be responsive to changes in the levels of housing need and demand whilst having regard to the public resources available for housing and other competing areas for investment. Housing market assessments play a crucial role in assisting local authorities in their decision-making and resource-allocation processes. Accurate data and a robust evidence base are necessary to inform housing and planning policies, and in turn ensure the most appropriate and cost-effective use of public funds.

The value of housing assessments is in:

- developing long-term strategic views of housing need and demand to inform regional spatial strategies and regional housing strategies;
- developing a sound approach to planning for the mix of household needs in a market area;
- assisting local planning authorities to justify a certain level of affordable housing, and to decide how housing need translates into different sizes and types of affordable housing; and
- assisting local authorities with a variety of decisions on matters including social housing allocation priorities, private sector renewal options and the valuation of new-build low cost home ownership units. Such assessments are also used to inform the development of housing policies on stock conversion, demolition and transfer in areas where the quality of the housing available is inadequate. Assessments are therefore key to investment decisions.

Content and structure of guidance

This guide consists of this introduction and a further six chapters:

- **Chapter 2** explains how to identify the key objectives of the assessment and the assessment methods to be used;
- **Chapter 3** explains how to assess the function and structure of current housing markets, including existing housing demand;
- **Chapter 4** describes how to estimate changes in household numbers in order to identify future housing demand;
- **Chapter 5** outlines how to estimate current and future levels of housing need;
- **Chapter 6** sets out how to consider intermediate housing and the demands of particular household groups; and
- **Chapter 7** explains how the findings of the assessment can be brought together, what constitutes a robust assessment, the need to monitor and update assessment findings and transitional issues.

CHAPTER 2

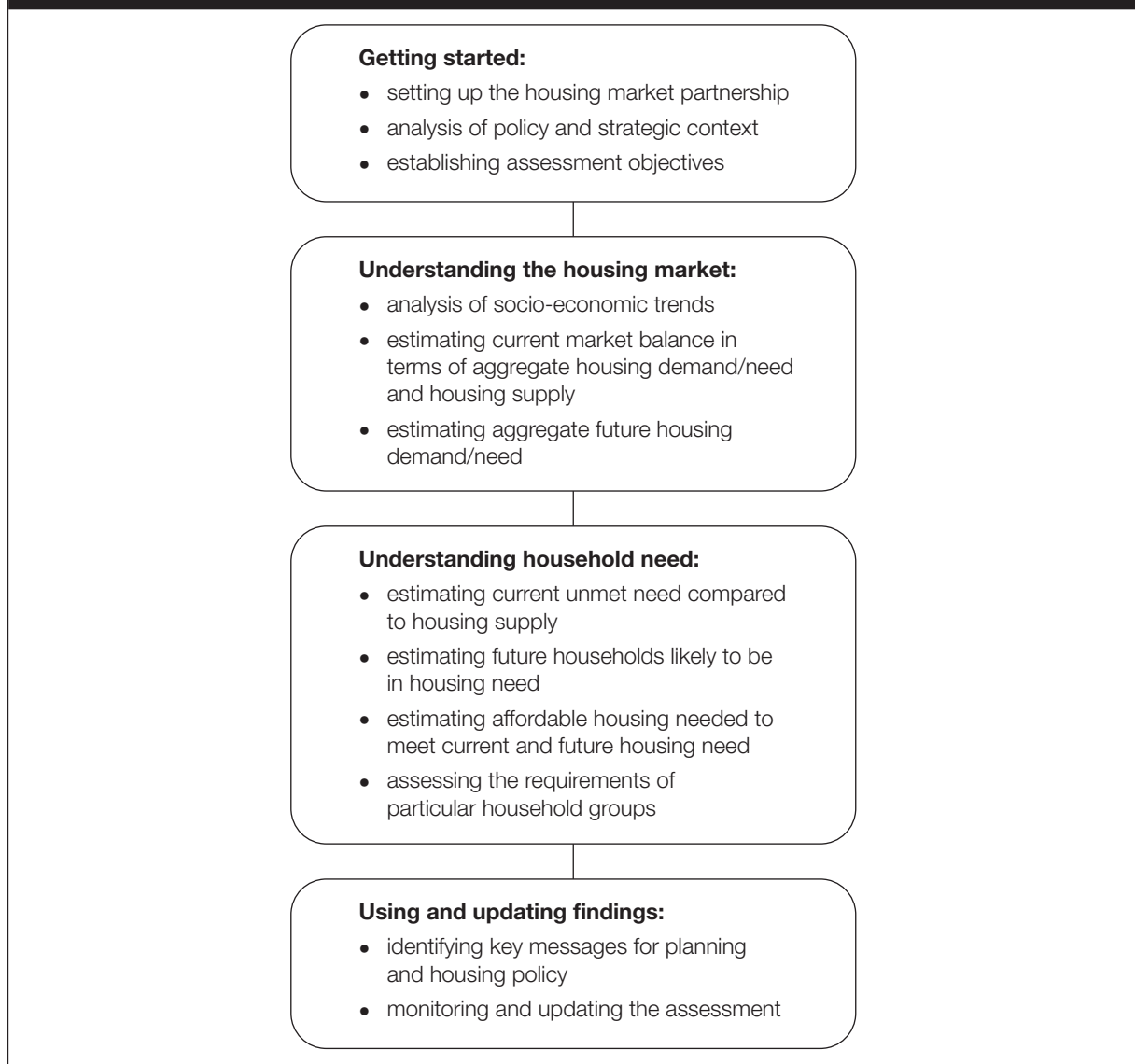
Identifying key objectives and methodology

Introduction

One of the key purposes of this practice guidance is to set out a whole market approach to assessment in sub-regional housing market areas. To understand their housing markets, local authorities will need to have a clear view of the specific objectives and issues that they want housing market assessments to address.

This chapter explains how to identify the assessment's key objectives and use a methodology (as set out in figure 2.1 below) based upon secondary data.

Figure 2.1: **Housing market assessment methodology**



Housing Market Partnerships

On the basis of the sub-regional housing market areas set out in the regional spatial strategy , the relevant local authorities will need to work in partnership with adjoining authorities to undertake the housing assessment. The aim should be to develop a housing market partnership for the sub-regional housing market area, building on existing sub-regional partnership arrangements, where these exist, on the basis set out in Figure 2.2.

Figure 2.2: Housing market partnerships

Working under the leadership of the regional planning body, a local authority, or other appropriate body, the housing market partnership should be a multi-disciplinary team including housing, planning, and economic development and regeneration. Core members, should be representatives from:

- local authorities – housing, planning, economic development, corporate strategy etc.;
- county councils;
- Housing Corporation;
- regional housing boards/regional planning bodies;
- registered social landlords; and
- research and intelligence experts.

Other organisations with relevant market or statistical expertise e.g.:

- housebuilders;
- Government offices ;
- English Partnerships;
- local strategic partnerships; and
- regional development agencies.

Other members could include private sector partners, estate agents, lenders, education and health authority representatives, transport and regeneration agencies.

The responsibilities of partnerships include to:

- provide relevant contextual intelligence and policy information;
- support the housing market partnership core members in their analysis of housing market intelligence;
- share information and intelligence;
- attend workshops and meetings as relevant;
- consider the implications of the assessment, including signing off its outputs and agreeing follow-up actions; and
- linked to the above, assist with the development of an assessment action plan.

The aim should be to ensure that housing market partnerships have sufficient research experience and expertise to undertake as much of the assessment as possible themselves. This will help to develop partners' understanding of housing markets as well as building commitment to tackling any problems that are subsequently identified through the assessment. This guide should enable partnerships to undertake the key components of the assessment process themselves, without the need to commission external work.

Regional planning and housing bodies and county councils may be able to offer some of the research skills that local authorities may lack in terms of undertaking assessments. Research and intelligence expertise is essential, particularly with regard to the maintenance, development and interpretation of basic information, which requires a degree of continuity of investment and specialist knowledge. In terms of working relationships, this could be in the form of regional board representatives on housing market partnerships to provide methodological advice or authorities regularly reporting to regional boards on progress.

It may be appropriate to commission consultants to undertake particular specialist aspects (e.g. forecasting and modelling work). Authorities will wish to ensure that contractors have sufficient understanding and skills (or assistance from other partners) so that the key objectives of the assessment and methodological requirements set out in this guide can be successfully undertaken. Further information about the use of consultants will be set out in appendix XX².

Working with local communities

It will be important to consider the views of local communities, particularly people from differing ethnic minority backgrounds, and to incorporate local knowledge into aspects of the process as purely statistical approaches may fail to reflect particular local issues. However, the housing market partnership will need to consider carefully the appropriate level at which to engage local residents and should draw upon representative bodies, including local strategic partnerships, where appropriate.

Establishing the assessment objectives

Review policy context and available intelligence

Reviews of existing planning and housing policies and practice, together with other relevant literature, are a useful starting point for identifying housing market assessment aims and related research issues. Where policy reviews have been undertaken by stakeholders as part of existing joint-working arrangements, housing market partnerships should draw out the housing market findings and implications of such reviews. Where partnerships undertake reviews, they should aim to:

- assess information in the literature relating to past, current and future housing market trends as well as identifying any 'gaps' in the evidence base;
- identify common housing themes from relevant local initiatives and strategies, particularly in terms of strategic objectives for the housing market area;

² Appendices will be included in the final version of the practice guidance.

- provide an overview of the policy context from a housing need and demand perspective, identifying key issues to be taken into consideration in any assessment, including opportunities and constraints. This should include reviewing spatial planning and housing policy priorities; and
- consider how the assessment should inform the preparation of local strategies and initiatives including local development frameworks, local housing statements, community strategies and neighbourhood renewal initiatives.

Relevant policy documents and sources of information are set out in table 2.1.

Table 2.1: Key policy documents and information sources

- regional and sub-regional economic strategies;
- regional housing statements and sub-regional housing strategies;
- regional spatial strategies and sub-regional strategies;
- regional transport statements and specific sub-regional studies;
- local housing strategies;
- local development frameworks;
- community strategies;
- neighbourhood renewal strategies;
- economic development strategies;
- local transport plans;
- area based regeneration strategies and initiatives;
- CORE (in England) and local authority data on lettings;
- local authority housing register; and
- miscellaneous policy documents and research, including local authority corporate plans, best value reports, house condition surveys, social care and health strategies, fuel poverty strategies, crime and disorder strategies and energy efficiency strategies.

Identify assessment aims and research issues

Following the review, housing market partnerships should be able to identify the key aims and issues that assessments should address. This may include:

- the likely future impacts of economic, demographic and social trends upon the housing market, particularly in terms of housing need and demand;
- the factors that do, and will, influence the popularity of different types of housing in different parts of the housing market;
- as part of this, the factors that do, and will, influence household need for different types of housing in different parts of the housing market area;
- how the potential supply of housing relates to housing need and demand (i.e. housing shortfall or surplus) broken down by area, tenure etc;

- what will be the features of the housing market in 5-10 yrs time, particularly in terms of characteristics, structure and issues;
- linked to above, how are the key drivers underpinning the housing market likely to change over the next 5-10 yrs; and
- how might the housing market's relationship with adjacent markets change over the next 5-10 yrs? What might this mean in terms of its sub-regional and regional role.

As part of this process, partnerships should bear in mind the types of policy issue that the assessment's findings will inform, which could include:

- how to achieve a better balance between housing supply and demand/need;
- what to provide for in terms of market and affordable provision;
- how to improve affordability, especially in high demand areas;
- how to address issues of low housing demand; and
- how to address more complex market situations where there is a mix of high and low demand in close proximity coupled with environmental or other constraints.

Developing questions along the lines set out above will enable partnerships to determine the overall aims of the housing market assessment. They can also provide a reference point for the outputs of the assessment and how it could influence housing and planning policy at the local, sub-regional and regional levels.

Methodology and use of different sources of information

This guidance sets out a methodology which utilises secondary data where possible.

This means that partnerships should not need to undertake large-scale primary data collection exercises such as household surveys to achieve the requirements of this policy approach, provided that they have sufficient information from other sources to estimate housing need and demand. These sources may include surveys undertaken by local authority housing departments for other purposes, such as tenant satisfaction surveys.

It is important to note that neither secondary data nor survey data are necessarily of themselves more or less robust. For example, secondary data, such as house prices, are required to assess housing markets, particularly in terms of affordability. Ideally, income data should be linked to house price data to assess affordability but data on household incomes is poor. Consequently, information on household incomes obtained from a robust household survey with a high response rate can be better than secondary income data. However, income data from a poor or inadequate survey is not necessarily better than modelled income data, which can be purchased from private providers. Housing market partnerships should use the best data that they have available whilst seeking to address 'gaps' in both secondary and primary sources on a regular basis (to be set out in appendix XX).

All assessment methods have limitations which must be clearly identified as part of the assessment, including:

- estimates of future housing demand for market housing and newly arising housing need for affordable housing;
- where average income distributions for the whole population are used as a proxy for the income distribution of newly forming households;
- estimates of existing equity; and
- deriving approximations in terms of potential mortgage capacities and the size and type of affordable housing required.

The approach set out here assumes that judicious and transparent use of secondary data and qualitative intelligence can result in robust assessment results. **Housing market partnerships will need to consider whether the secondary data available will enable them to derive robust assessments of housing need and demand for market and affordable housing linked to the outputs set out in table 2.2 below.** Further details regarding the use of secondary data from housing registers will be set out in appendix XX.

Whilst the methodology set out in this guide assumes that secondary data will be used for the core of the assessment, primary data from interviews with experts or robust local housing surveys can provide additional information about the following issues:

- levels of housing need (e.g. overcrowding/under occupation by tenure and concealed households) and situations where special adaptations are required to ensure that current homes meet the needs of existing occupiers;
- local information about household income, equity, savings and deposits, which are linked to estimates of affordability;
- the average and entry level rents for properties of different sizes and location;
- household aspirations, preferences and concerns in terms of location, tenure, size and type of housing (although a broad idea can be gained from the Survey of English Housing);
- need and demand for intermediate housing products and social rented housing;
- the needs of particular groups of households e.g. those in the private rented sector or living in a regeneration area; and
- the profile (in terms of numbers of bedrooms) of affordable housing needed.

Whilst the outputs from the assessment must be sufficiently robust and transparent to be capable of disaggregation to the local authority level, this should not prevent partnerships considering issues of need and demand at finer spatial scales where secondary data allows. There is merit in considering issues of need and demand at the neighbourhood or

Table 2.2: Outputs from the housing market assessment

Chapter	Stage	Output
3. The current housing market	1. The socio-economic context	Description of past trends and the current housing market, including key drivers that underpin the market and influence levels of housing need and demand (e.g. demography, economic performance).
	2. The current stock of housing	Estimates by tenure about the number of current dwellings of different sizes, types and condition.
	3. The active market	Description of demand pressures for particular sizes and types of dwellings, and the extent of problems such as long-term vacancy and abandonment.
	4. Bringing it all together	Estimate of the current balance between housing supply and demand in different housing sectors. Description of key drivers underpinning the housing market.
4. Future housing market	1. Projecting key drivers of demand	Estimate of future household demand based upon household projections or forecasts. Could be number or range of numbers. Implications for demand of future changes in key drivers underpinning the housing market (e.g. demography, economic performance, employment and affordability) and implications for future households.
5. Housing need	1. Current unmet need	Estimate of current number of households in unmet need.
	2. Future need	Estimate of newly arising households who are unlikely to afford suitable housing in the market.
	3. Required amount of affordable housing	Estimate of annual requirement for affordable housing to reduce levels of current unmet and future housing need.
	4. The profile of affordable housing needed	Estimate of the profile of affordable housing units required.
	5. Assessing need for affordable housing	Level of need for affordable housing in different locations.
6. Housing requirements of different household types	1. Minority and hard to reach groups	Qualitative assessment of housing need and demand in respect to particular groups of people and an appreciation of different methods that can be employed to better understand those groups.
	2. The intermediate market	An estimate of the potential role of intermediate housing in meeting need and the requirement for affordable housing from other groups in the housing market area.

ward level to inform the development of planning and housing policies, particularly in rural areas. This aspect of the assessment will be further developed in the final guidance.

CHAPTER 3:

The current Housing Market

Introduction

This chapter explains how housing market partnerships can assess the current situation in their housing market areas. This will improve understanding about the balance between supply and demand in different housing sectors, the drivers underpinning the housing market and how market demand and the need for affordable housing interact.

The data used to understand housing demand for market housing differs to that used in respect of housing need for affordable housing. Whilst demand is reflected in relative prices for different sizes, types and locations of housing, the needs of those who cannot afford to access market housing are not reflected in these relative prices. However, changes in both market and affordable housing have an impact on relative prices, particularly who can access which types and tenures of housing.

Housing market partnerships should assess past trends (over a period of ten years) so that they can better understand the drivers underpinning housing markets and the reasons for their current position. This requires interpreting a wide range of quantitative data including house prices, demographic factors, labour force structure and the characteristics of the housing stock. Much of these data are held by local authorities and may have been analysed by housing market partnerships as part of identifying housing market areas. Partnerships should ensure that data are presented clearly and transparently in terms of the assumptions, estimates and interpretations used.

For each of the four stages listed below, this chapter describes the steps that should be undertaken, recommends data sources/indicators and discusses issues to consider.

Stage 1	The socio-economic context
Stage 2	The current stock of housing
Stage 3	The active market
Stage 4	Bringing the evidence together

The approach outlined here is the minimum needed to have a good understanding of current housing markets. Partnerships may wish to undertake more detailed analysis of the current housing market, including the requirements of particular groups, to inform the development of other local strategies and initiatives. More detailed analysis could include the use of housing market models and the potential impact of economic factors on household formation at various geographical levels down to neighbourhoods. Examples of such models include that developed by Gibb et al. (2003) for the wider Glasgow housing market and by Bramley (2004) for Communities Scotland. The Cambridge Centre for Housing Planning and Research's Dataspring website provides a basic model which aims to assist housing association investment programmes. Partnerships could apply one of these approaches or commission one to address their local situation specifically.

Stage 1: The socio-economic context

Table 3.1 below sets out examples of data sources that partnerships can draw upon to analyse housing markets social and economic characteristics.

Table 3.1: Socio-economic datasets		
Step	Principal data sources	Outputs
1.1 National and regional economic policy	Local authority economic development teams, regional development agencies/ regional observatories	Interest rate trends, levels of housing benefit, Government funding for regeneration, etc
1.2 Demography and household types	Census data ONS mid year estimates	Population by ethnicity, age and numbers of households by type (couple, lone parent, etc.), age of head, gender of head, ethnicity, economic status and tenure
1.3 Labour force	Labour Force Survey Annual Business Inquiry	Numbers of employees in each industrial sector (SIC), and by occupational classification
1.4 Incomes and earnings	Inland Revenue personal incomes, CACI Paycheck, Experian, CORE, New Earnings Survey, local surveys	Numbers of individuals and households in each income band. Distributions of income by age.
1.5 The cost of buying or renting properties	Land Registry Estate & Letting Agents Rent Service HSSA	Average and lower quartile prices and rents by tenure, sizes and types in locations across the sub region. These data can be translated into weekly costs.

In addition to the above, partnerships will need to consider qualitative and quantitative data regarding social trends, much of which can be obtained from the Office of National Statistics. This will include examining living trends (e.g. increasing numbers of divorcees and people wanting to live alone) and lifestyle choices. For example, growing economic prosperity in recent years has resulted in more people investing in property, either in the form of second homes or buying to let.

Taking each of the steps identified in table 3.1 in turn:

Step 1.1: national and regional economic policy

Housing markets are sensitive to macro-economic policies. The Bank of England use interest rates to achieve and maintain stable, low inflation rates. Higher interest rates make it more expensive to borrow, thereby reducing demand for housing and affecting employment levels by increasing the cost of investment.

Government subsidies and grants can also influence housing markets. Housing supply is influenced by whether an area has access to regeneration budgets or to the Housing Corporation's annual development programme. However, it should be borne in mind that new housing is only a small proportion of total stock (less than 2% per year).

Housing market partnerships will need to consider how interest rate trends, government funding for housing/regeneration and changes to housing benefits (and other benefits) have affected the housing market over the last ten years. Local authorities may already be monitoring these issues as part of their consideration of local economic performance.

Step 1.2: demography and household types

Population and household structures influence the profile of housing need and demand. It is important to consider the age, gender and ethnic structure of the population as well as the type of household.

The **age structure** of the population influences migration trends, household formation and housing need. There are important age ‘cohort’ effects in relation to tenure preference and housing demand as well as vulnerability and the likelihood of housing need. Partnerships should examine the proportion of the population in different age cohorts to identify which household types have grown or declined in each tenure. Age cohorts typically used are young adults (16-24 years), those in their mid 20s to mid 40s, mature householders in their late 40s and 50s and older people.

Gender and ethnicity also have a strong influence on the mix and location of housing need and demand. Different ethnic groups have different age structures, household formation rates, fertility rates, tenure and locational preferences. Female-headed households tend to have lower rates of home ownership rates and to be over represented in older age cohorts compared with male-headed households.

The census provides the most comprehensive picture of the size of the population in terms of age, gender, marital status and tenure. The main characteristics of households are available at census output levels. However, the usefulness of census diminishes over time as people tend to move between categories of economic activity. At the neighbourhood level, demographic information can date rapidly, particularly where there is a high turnover in the population, major housing development or demolition activity.

Changes in the demographic characteristics of housing markets between census years are one of the key drivers of housing market change. The Registrar General is the main source of inter-censal population estimates and mid-year estimates are published annually. They contain information about the total population and its composition in terms of age, gender and marital status. Population estimates can be translated into numbers of households by size and type using census data. This requires an assumption that the propensity to form households of different sizes and types will not change during the inter-censal period, although local knowledge could indicate otherwise. For counties and unitary authorities, household numbers are available from the Office of National Statistics website. For non-unitary districts, demographic experts in county councils may be able to advise how to apportion figures between districts in the same proportion as the distribution of population.

Step 1.3: labour force

The numbers and types of employment available in an area determine the levels of wages that will be paid and the tenure, size and location of housing need and demand. Housing market partnerships will need to consider the balance of employment bases in terms of the proportion of lower and higher paid jobs. This can be assessed both by employment sector (banking and finance, hotels and catering, education, health, etc.) and occupational structure (managerial and professional, skilled manual, unskilled manual, etc.) to give a picture of the overall balance in the labour market. Partnerships should consider the extent to which the economy reflects growing or declining economic sectors as well as the relative affluence of the working population.

Data on employment structure and occupational structure from the Annual Business Inquiry can be obtained from NOMIS (the national on-line information system). This also provides information on economic activity rates (the proportion of the working age population that is either in work or actively seeking work) and unemployment.

Step 1.4: incomes and earnings

Incomes are another key driver of demand. The Inland Revenue provides data on personal incomes which can be used as the basis for calculating affordability. However, data on household incomes are more relevant. Estimates of household income data can be modelled using existing data sources as a starting point (e.g. Inland Revenue personal incomes or individual earnings from the New Earnings Survey). However these sources do not include information about people who are not in work or self-employed, meaning assumptions have to be made in terms of their likely incomes and relative proportion of overall incomes. Where possible, information about household incomes should be estimated by age and household type.

Income distributions can be purchased from a number of sources including CACI, Paycheck and Experian. The data underlying CACI Paycheck is sourced from hire purchase agreements and the income distribution is adjusted to take account of both poorer households (who are less able to hire purchase) and richer households (who may have less need to hire purchase). Important factors to consider include the distribution of incomes in the housing market area and how they change over time, the change in local incomes relative to the national income distribution and the source of household income, including the extent of dependence on benefits.

Household incomes can also be estimated from local survey data where it is available (appendix XX will set out advice on undertaking surveys). To ensure information is robust, the survey should have a high response rate and findings should be checked against regional and national distributions published by the Office of National Statistics.

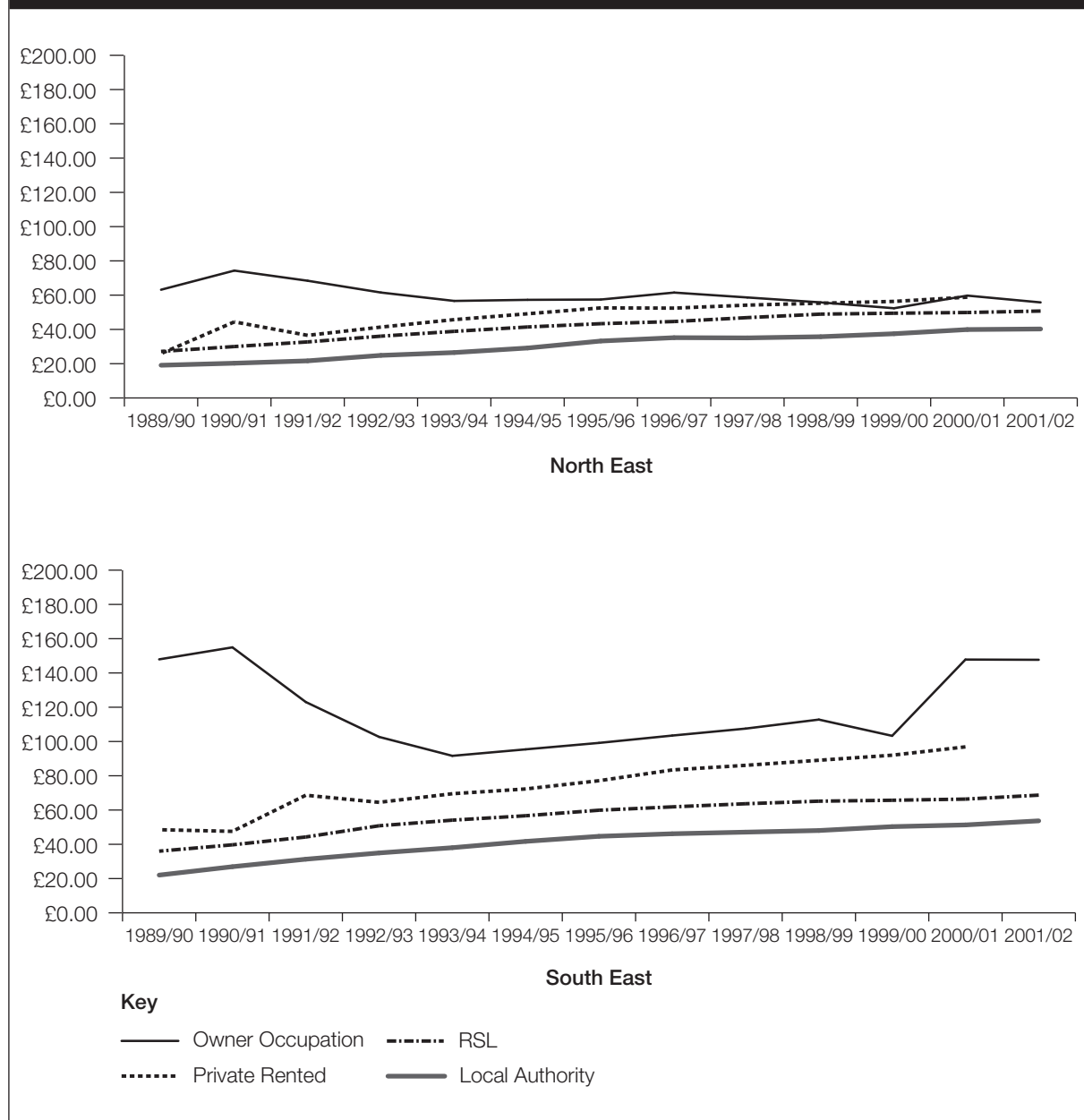
Step 1.5: the cost of buying or renting a property

House prices by type and location are available from the Land Registry at postcode level. They are based on actual transactions but do not provide an indication of dwelling size. To assess affordability, entry-level house prices should be collected as well as the mean or median (see Stage 3 and chapter 5 for more details regarding affordability analysis). Entry-level prices should be approximated by lower-quartile house prices. The cheapest available property prices should not be used since these often reflect sub-standard quality or environmental factors.

There is no definitive source of information on market rents. However, estimates of lower quartile rents by house size can be obtained from local estate agents (to be set out in appendix XX). As with house prices, the lowest possible rents should not be used. The Rent Service market evidence database and the Royal Institute of Chartered Surveyors may be able to provide rental information although there are confidentiality issues at a local level.

An example of monitoring past trends of the costs of buying and renting by tenure is given in figure 3.1 for the North East and South East regions. In the North East, the weekly costs of private renting and owner occupation are similar whilst social renting is not significantly cheaper than market housing. In contrast, in the South East, there is a clear price gap between the social rented sector, private renting and owner occupation.

Figure 3.1: Comparison of weekly housing costs of buying and renting (by tenure) in the North East and South East between 1989/90 to 2001/02



Outputs from Stage 1

Based upon steps 1.1-1.5, housing market partnerships should be able to understand:

- trends in employment and occupational structure in the local economy over the last 10 years;
- trends in the population structure, household numbers and household characteristics over the past 10 years;
- the main trends in local incomes; and
- recent changes in the relative costs of housing of different sizes, type and tenure.

Stage 2: The current stock of housing

Table 3.2: Housing stock datasets

Step	Principal data sources	Outputs
2.1 Total number of dwellings	HSSA Census Council tax register	Total number of dwellings in the area including second homes
2.2 Tenure	HSSA Census Council tax register	Total number of dwellings in each tenure
2.3 House size/type	HSSA Census Local Housing Survey	Number of dwellings by size and by type (number of bedrooms, whether detached, semi-detached, terraced house or flat)
2.4 Condition of stock	HSSA Stock condition survey Decent Homes information Census data on amenities	Condition of stock (unfit, in need of major / minor repairs) by tenure (and location if using stock condition or local housing survey)
2.5 Shared housing and communal establishments	Census Student accommodation services Voluntary sector and key informants Local surveys	Estimated numbers of households living in shared houses and communal establishments

Taking each of the steps identified in table 3.2 in turn:

Step 2.1: total number of dwellings

Levels of current stock by size, type, tenure and location are available from the Housing Strategy Statistical Appendix (HSSA) in England, which is updated annually. The overall number of dwellings has to be adjusted to take into account dwellings that are abandoned, uninhabitable, long-term vacant, or used primarily as a second residence. Vacancy rates for England are available from the HSSA. Estimates of empty properties can be obtained from council tax registers, stock condition surveys or organisations owning or letting property including estate agents. It is difficult to obtain precise estimates of the number of empty houses, meaning that housing market partnerships may have to form judgements. If empty homes are known to be a problem, it is likely that there will be survey information available.

Step 2.2: tenure

Overall figures on tenure changes can be obtained from the census and this information can be supplemented with data from local surveys where available. When estimating changes in tenure over time it is useful to consider the extent to which they are the result of construction, demolition, conversion of existing dwellings or existing dwellings changing tenure. For the social sector construction and demolition figures are available from HSSA data in England.

Step 2.3: house size and type by tenure

House size and type can be obtained from the census.

Step 2.4: condition of stock by tenure

Local authorities are encouraged to undertake stock condition surveys drawing upon ODPM guidance³. Stock condition surveys provide data at a district level. Where survey results from across more than one local authority area are combined, housing market partnerships will need to ensure that the findings are comparable. In addition, partnerships may be able to draw upon the English and Welsh House Condition Surveys although their small sample sizes mean that they can only give a broad indication. The census provides information on amenity provision.

There is no universally accepted definition as to what constitutes housing of an unacceptable physical quality although various benchmarks exist, including the ODPM Decent Homes target for acceptable accommodation. This explains that a home should be above the current statutory minimum standard for housing (the fitness standard), in a reasonable state of repair, have reasonably modern facilities and provide a reasonable degree of thermal comfort (ODPM, 2004). The HSSA has evidence about the numbers of homes that comply with Decent Homes standards in England.

Step 2.5: levels of shared housing and communal establishments

The census records information on the number of people living in communal lodging establishments, and shared dwellings. These are important types of accommodation for homeless households as well as for students. Regularly updated and comprehensive data sources are not available so partnerships may find it useful to consult with social services, the voluntary sector and student accommodation services.

Outputs from Stage 2

Based upon steps 2.1-2.5, housing market partnerships should understand:

- the nature of the current stock of housing, by size, type, location and tenure;
- the location of current stock, by tenure, as a proportion of total stock;
- the quality of the current housing stock; and
- how the housing stock has changed over the last decade.

³ Collecting, Managing and Using Housing Stock Information.
See <http://www.odpm.gov.uk/index.asp?id=1152208>

Stage 3: The active market

As housing markets are dynamic, **information is only readily available on actual buyers and sellers at a single point in time** i.e. the active market. Assessing the active market provides evidence as to how housing demand may be leading to pressures in housing markets, and the extent of problems such as long term vacancy and abandonment.

As it is not possible to precisely identify and quantify the extent of these pressure points, partnerships should examine and interpret indicators to assess how factors influencing housing are changing and how demand for housing is responding (i.e. through changes in relative prices of dwellings and their relative affordability). Where appropriate, this evidence can be supplemented with knowledge from relevant partnership members such as estate agents and developers. Where this analysis suggests that there are issues of low demand within particular parts of the sub-region (and therefore little evidence of ‘active markets’), partnerships may wish to undertake additional research (e.g., Neighbourhood Renewal Assessments, ODPM). Examples of the indicators that partnerships should use to assess the active market, and the steps to be undertaken, are set out in table 3.3 below.

Table 3.3: Active Market Indicators		
Step	Principal data sources	Outputs
3.1 Relative house prices and rents by size, type and location	Outputs of Stage 1.5	House prices and rents by size, type and location within the area
3.2 Affordability of housing	Outputs of Stage 1.5 and Stage 1.4	Mapping of which areas and property types are most and least affordable
3.3 Overcrowding and under-occupation	Census Local Housing Survey	Dwelling size and household size Degree of overcrowding and under-occupancy Concealed households
3.4 Vacancy and turnover rates	Census, HSSA returns, Council tax register ¹ LA/HA records, Land Registry transactions, Estate Agents, Survey of Mortgage Lenders	Vacancy rates by tenure (and by size, type and location if using local survey data). Transactions data, turnover and ‘churn’ relating to different types of property/locations
3.5 Available housing supply by tenure	Estate and letting agents LA and HA re-lets	An indication of available supply by tenure and house type/size/location

Taking each of the steps identified in table 3.3 in turn:

Step 3.1: relative house prices and rents

Trends in relative house price changes for different types and sizes of property in different locations provide an indication of the presence (or absence) of demand pressures and reflect the relative preferences for different locations and types of dwelling. In the private rental market, relative rents for different property types and the rates of change provide a good indicator of demand pressures and preferences.

Table 3.4 compares prices for different types of dwellings in a local authority area with those for the wider region as a means of assessing whether there are demand pressures particular to the locality. In addition, table 3.4 compares the change in lower quartile house prices with change in the mean and median prices. Comparatively high rises in lower quartile prices can signal affordability issues.

Step 3.2: affordability

Analysis of affordability will provide a picture of which locations and types of properties are the most difficult for local people to afford to buy or rent. It will also indicate where the pressures and problems are for different types of housing. Affordability assessments are also used in chapter 5 to estimate housing need for affordable housing.

Assessing affordability involves comparing house costs against the ability to pay. The ratio between the lower quartile of income distributions identified in step 1.4, and lower quartile housing costs identified in step 1.5, can be used to assess the relative affordability of housing. In addition, comparing the mean and the median can indicate the extent to which the income distribution is skewed. For example, where there are large numbers of households on relatively low incomes, the few on high incomes will push up the average, giving a misleading picture of affordability. This analysis can be done by housing type and owner occupation using data from the Land Registry.

Income to price ratios should be mapped to show the relative affordability of different locations in the housing market. A more sophisticated approach that also includes information about the size of the property involves collecting house price information from estate agents according to the size and type of dwelling (to be set out in appendix XX). Housing market partnerships should compare income to price ratios to the regional and national patterns as set out in the example in table 3.4.

Table 3.4: Analysis of relative prices and affordability

House prices in Basildon, 2000 to 2004			
Year	Mean (£)	Median (£)	Lower Quartile (£)
1999	90,574	71,117	55,000
2000	109,314	85,000	60,000
2001	115,322	95,873	68,500
2002	137,977	119,995	85,921
2003	162,861	140,000	108,000
2004	178,129	154,000	124,000
Average annual growth rate 2000-2004	14.7	16.8	17.8
House prices in the Eastern region, 2000 to 2004			
Year	Mean (£)	Median (£)	Lower Quartile (£)
1999	95,700	76,000	54,500
2000	110,372	86,950	60,000
2001	124,616	99,950	71,500
2002	149,299	125,000	88,000
2003	172,257	145,995	109,000
2004	190,218	163,500	125,000
Average annual growth rate 2000-2004	14.8	16.6	18.2
House prices to mean income ratio, 2002/03			
	Basildon	Eastern region	England
Mean house price/mean income	6.46	6.68	6.60
Median house price/mean income	5.59	5.58	5.38
Lower quartile house price/mean income	4.07	4.01	3.36

Source: Land Registry and Inland Revenue

As the table above shows, in Basildon, the house price to income ratios are similar to those in the eastern region. Whilst mean house prices are relatively affordable compared to the eastern region and England, lower quartile house prices are less affordable. There has also been a larger annual growth in lower quartile house prices.

Step 3.3: over-crowding and under-occupation by tenure

The degree of overcrowding and under-occupancy provides an insight into possible future household flows, potential levels of 'concealed households' and changing consumer aspirations. The census provides a measure of over-crowding and under-occupation by looking at households with greater numbers of members (compared to rooms) by tenure. If census data is out of date, and where there are issues regarding occupancy levels, partnerships should consider alternative data sources.

National surveys provide evidence of overcrowding or under-occupation, using the Bedroom Standard to comparing household composition against the number of bedrooms (rather than the number of rooms shown by the census).

Step 3.4: vacancy and turnover rates by tenure

Turnover rates, difficult-to-let properties, and void levels can reveal potential imbalances in the types of housing needed, or areas deemed to be desirable or undesirable. Since housing markets are dynamic, a certain level of vacancy (for short periods of time) is inevitable and may be desirable. However, high rates over the long term may indicate disparities between supply and demand in terms of certain locations and types of housing. High turnover levels should be treated with caution: with social rented housing, for example, it can be a good indicator if households are being moved to housing more appropriate to their needs. Conversely, it can mean that certain housing or areas are unpopular. For this reason, turnover should be considered with vacancy rates.

Vacancy rates for England are available from the HSSA. Estimates of empty properties can be obtained from council tax registers, stock condition surveys or organisations owning or letting property, including estate agents. Partnerships may wish to identify areas with unusually high levels of long-term vacancies and establish the reasons for this through interviews with stakeholders.

Turnover rates vary by tenure. In the private rented sector, the average length of stay is 6-12 months reflecting the leasehold structure, and information can only be obtained from estate and letting agents. Homeowners move on average every 3 to 7 years. Turnover rates should be calculated (in percentage terms) as sales compared to total owner occupied stock. In the social rented sector, high turnover can be created in part by the allocations system; social rented properties can have high turnover rates where vulnerable households are placed in housing not suited to long term tenancies. Turnover rates can be obtained from local authority or registered social landlords.

Step 3.5: available housing supply

The available supply of market housing can be considered as what is currently advertised for sale or for rent. Turnover, particularly the time period during which it remains unsold in the market housing sector, will indicate the degree to which supply is available, together with the length of time housing is on the market or remains un-let.

The current availability of social housing is indicated by the number of re-lets and this can be obtained from the RSR in England and/or local authority housing stock data. Account should be taken of the extent to which certain housing may be constantly available as re-lets, as these are likely to be unpopular or unsuitable for many types of household. The size and type of re-lets should also be considered.

Outputs from Stage 3

Based upon steps 3.1-3.5, housing market partnerships should be able to understand:

- house price change by size, type and location;
- estimate current affordability by tenure and household income;
- the extent to which areas within the housing market are experiencing issues of low or high demand; and
- how these pressures relate to the market and social housing stock.

Stage 4: bringing the evidence together

The evidence gathered in stages 1-3 will provide an insight into the current housing market and past trends in terms of the socio-economic structure, housing stock and housing demand (reflected by house price change and affordability). It will allow housing market partnerships to estimate the current market balance between housing supply and demand in different housing sectors and describe the key drivers underpinning the housing market. When reporting this information, partnerships should consider particular issues in different housing sectors and the key drivers underpinning these relationships. In the next chapter, partnerships are required to build on this understanding to analyse the extent to which these trends and drivers are likely to continue to affect housing demand in the future.

To ensure that they have an informed overview of the whole housing market, partnerships will need to consider how the evidence assessed by the different steps in this chapter relates to each other in terms of linkages and associations. Partnerships have already identified specific research questions (see chapter 2) which can be used to guide this analysis, for example:

- to what extent does it appear that socio-economic change is related to house price change and the different pressure points in the current market?
- where is there a lack of available housing, how is this affecting demand for particular housing types and tenures?
- how have households in social rented housing changed over time and is this related to household change in other tenures?
- which are the most/least desirable and popular housing locations and why?
- are there problems of affordability in the housing market and which income groups/tenures/house types and sizes are affected?

CHAPTER 4:

The Future Housing Market

Introduction

This chapter describes how the understanding of the current housing market derived in chapter 3 can be built upon to understand likely need and demand for housing in the future. It sets out four steps to enable housing market partnerships to derive aggregate estimates of future change in terms of housing need and demand as well as understanding how these relate to economic and demographic factors. The drivers and indicators of housing markets considered include aggregate future numbers of households in the area, economic performance, employment levels and house prices. Partnerships will need to ensure that their analysis of future housing market trends is presented in a clear and transparent manner, particularly in respect to any assumptions used.

Linked to the assessment research questions identified in chapter 2, this analysis will enable partnerships to consider:

- what factors are likely to affect future demand for market housing and affordable housing in the housing market?
- are current pressure points likely to worsen or improve?
- how will levels of affordability change for different sizes and types of housing?
- are any new issues likely to arise over the next 5-10 years and beyond?

This chapter sets out the analysis in four steps:

Step 1	Projecting changes in future number of households
Step 2	Future economic performance
Step 3	Future employment
Step 4	Future affordability

The approach outlined here is a minimum requirement for understanding the future housing market. Partnerships may wish to undertake more detailed analysis. More sophisticated approaches that use housing market models to assess the potential impact of economic factors on household formation and house prices are described at the end of this chapter.

Step 1: projecting changes in future numbers of households

This will enable partnerships to estimate aggregate future housing need and demand over the period of the plan. In many areas, housing need and demand is likely to grow, and this estimate of aggregate change will provide evidence to inform policy decisions regarding the amount of market and affordable housing required.

In previous guidance (Bramley, 2000), household surveys were used to assess the numbers of future households. However, there is a consensus of opinion that survey data is less robust than secondary data since surveys generally rely on asking households about their future intentions, which can be highly unreliable. This approach uses official government population and household projections.

Projections simply project past trends forward into the future. They assume that the underlying economic factors (such as labour market participation rates, unemployment and employment, early or late retirement) and demographic relationships (such as ageing, tendency to form smaller households, tendency to get married or live together or to get divorced or separated) will continue unchanged in the future. Some of these assumptions are explored further in the following steps. More sophisticated forecasting models that allow for such assumptions to be varied and tested are described at the end of this chapter.

Housing market partnerships should obtain and assess the most recent official government population and household projections. These look forward over a 25-year period and are based upon a range of assumptions about migration and household formation. They estimate future change in population according to gender, age and household numbers by type (e.g. single person households, multi-person households, lone parents etc).

Government projections are available for London boroughs, metropolitan boroughs, unitary authorities and counties. These will enable partnerships to derive estimates of future change in terms of the housing market area as well as individual local authorities. For individual local districts, county figures should be allocated in proportion to the distribution of the population.

Step 2: future economic performance

To better understand future housing demand, it is necessary to have some understanding of the ability and willingness to pay for housing. The economic performance of the area can influence both the number of households (e.g. migration) and the willingness and ability to pay for housing (e.g. income).

Housing market partnerships should have a good understanding of the relationship between historical economic performance and housing demand from the analysis undertaken in chapter 3. This step requires partnerships to assess the long-term stability of the local economy to identify key strengths and weaknesses and explore the future implications for demand for housing. For example, continuing over-dependence on an industrial sector that is in decline is a weakness that could imply incomes are unlikely to grow and present trends will continue. On the other hand, recent growth in professional and managerial occupations associated with new firm formation and employment growth is a strength that may result in high levels of in-migration, particularly skilled professionals. Such economic assessments may already have been undertaken in respect to other initiatives and strategies e.g. local economic strategies.

Partnerships will need to assess the housing market's economic performance compared to the region as a whole. This will help to identify areas of under or over economic performance, which may have implications for future housing demand.

The assessment should also have regard to national economic performance. Forecasts of likely future inflation and interest rates, and projected growth or decline in the national economy, are available from the Bank of England, the Treasury, and independent forecasters. Interest rates are critical to housing demand and house prices. Over recent years they have been historically low although higher rates will make mortgages more expensive and can deter people from home ownership.

Step 3: future employment structure

Employment has a direct effect on incomes and households' ability and willingness to pay for market housing. Housing market partnerships can use their analysis of existing employment structures from chapter 3 to derive trend-based estimates of future employment change. This involves calculating average growth rates in each industrial sector over the past decade and projecting this into the future. Information from council tax returns and numbers of Job Seeker's Allowance claimants can also be projected forward to assess likely levels of future unemployment.

To assess whether trends are likely to continue, partnerships can draw on future employment forecasts which are produced by local authorities' economic development teams, learning and skills councils and regional observatories. Labour market analysis will help to establish the extent to which economies are dependent upon part-time and casual work, which could lead to insecure incomes and potential outward migration. In addition, partnerships can consult local major employers (or draw upon local surveys) to assess potentially significant future employment changes.

Step 4: future affordability

Housing market partnerships should now have an aggregate estimate of housing need and demand, broken down by household type (step 1) and an understanding of the likely changes in household income distribution (steps 2 and 3). Step 4 requires partnerships to consider likely future house prices and rents (by size, location and type of unit) so that they can assess whether the affordability of market housing is likely to change in the future plan period.

It is not sufficiently robust to predict future house prices on the basis of past trends. Changes in house prices tend to be cyclical and periods of fast growth can be followed by slower growth, or even decline. Housing market partnerships should build on their understanding of the historical factors that have influenced house price change (derived from chapter 3) to develop estimates of likely change. Since predicting future house prices is an inherently uncertain process, a useful approach is to develop a range of scenarios for house price growth (or decline) based upon different housing demand/need and supply scenarios. More sophisticated modelling techniques to estimate future house prices are described in the following section.

The aim of this stage of the analysis is to better understand the extent to which affordability of market housing is likely to improve or worsen. Guidance about how to estimate housing need is provided in chapter 5.

More sophisticated methods of assessing future housing need and demand

Why use these methods?

These techniques can be used to improve accuracy or generate different scenarios when estimating either aggregate housing need and demand (step 1) or house prices (step 4).

The trend based household projections described in step 1 have various technical limitations (see table 4.1 below) that constrain their accuracy in particular areas. Housing market partnerships should consider whether there is merit in undertaking more complex analyses.

Table 4.1: Technical limitations of household projection techniques

Populations of ethnic background: There are marked differences in household formation, fertility and life expectancy amongst different ethnic communities. For instance, young asian families have a higher tendency to reside with parents (or parents-in-law) than other ethnic groups, although the percentage tends to decrease as household heads near their mid 30s. ONS is currently undertaking experimental research to develop and test a method for estimating and projecting ethnic population and household growth; Migration assumptions: NHS patient registers are the best proxy for internal migration within England and Wales but are known to underestimate migration. In particular, young men are less likely to register with a GP when or after they move; Variation amongst younger households: Although the housing choices of those over 34 years are largely stable, household formation amongst younger adults (especially those under 24) is more variable reflecting a range of factors including housing, employment etc. Research by Ermisch and Di Salvo (1995) shows that high house prices can encourage younger people to remain at home and delay forming separate households; Length of time elapsed since the Census used to derive projections: The process of change is cumulative so the reliability of projections decreases over time; and Private households: Household projections largely disregard concealed households and tend to be based on out of date information regarding the size of the institutional population.
--

The degree of stability in the housing market will influence whether more sophisticated techniques should be used. Where the economy and employment are relatively stable and there are no significant changes expected in the structure and performance of the housing market which could have implications for housing demand, partnerships may be reasonably confident that the trend-based household projections used in step 1 are robust. Where there is relative instability and expected change it may be useful to consider the techniques outlined below.

Estimating future housing change using forecasting techniques

As previously explained, various socio-economic factors influence housing need and demand including interest rates, local employment opportunities and housing costs. Since **household formation is a function of the relationship between supply and demand**, it is also affected by these factors. Where high housing demand drives up housing costs, household formation rates are often suppressed. Where there is low demand, or where affordability is improved through the provision of supply, household formation rates may increase.

The methods of forecasting described here allow partnerships to undertake sensitivity testing of likely future housing change by varying the assumptions underpinning such models, particularly the socio-economic factors e.g. likely levels of migration and economic growth. Local and county council demographers and economists should be able to provide advice about which methods to use.

MIGRATION-LED FORECASTING

Conventional forecasting methods are ‘migration led’ and allow different assumptions to be tested, including:

- a. trend based migration – these can be varied according to the data sets available and the length of time over which a trend is averaged before projection;
- b. zero-net migration – total inward flows are equal to total outward flows (although the population structure may change);
- c. natural change – assumes no migration is taking place and that changes in the population come about through natural causes only (births and deaths);
- d. static population – total population remains the same over the projection period (the rate of migration required to achieve this will be calculated); and
- e. policy led – this could involve a mixture of approaches, for example, assuming a projected trend will decline after a number of years.

Migration estimates (in terms of population moving in and out by age and sex) are normally derived from National Health Service Central Register (NHSCR) data. In addition, the census can be used to investigate patterns of migration (along with travel to work area data). The census Origin-Destination Matrices provide information on flows of migrants or people travelling to work from one specific geographical area to another. As well as overall counts of the flows between areas, the tables provide more detailed information in terms of age and ethnicity. A list of tables with notes is available on the ONS website. In addition, information regarding recent in-migrants can be obtained from relevant local surveys if they have been undertaken.

Some sources of migration data (e.g. NHSCR) give rates for individuals and need to be converted to provide information about the household impact of migration flows. This involves applying the household forming propensities (headship rates) of each age group in the local population to in and out migrants, as set out in example 4.1. As this example shows, an area may have a net in-migration of individuals but a net out-migration of households due to the different age profiles of the migrants (or vice versa).

Example 4.1: Applying headship rates to migration data

Age group	Headship rate	Numbers of in-migrants	Number of in-migrating households	Numbers of out-migrants	Numbers of out-migrating households
16-29	25%	6000	$25\% \times 6000 = 1500$	2000	$25\% \times 2000 = 500$
30-44	50%	5000	$50\% \times 5000 = 2500$	4000	$50\% \times 4000 = 2000$
45-64	60%	4000	$60\% \times 4000 = 2400$	5000	$60\% \times 5000 = 3000$
65 +	70%	2000	$70\% \times 2000 = 1400$	4000	$70\% \times 4000 = 2800$
Total		17000	7800	15000	8300

The figures in this table are for illustration only. Partnerships should obtain current headship rates for their region.

HOUSING-LED FORECASTING

Housing-led forecasts consider future housing change in terms of the capacity of an area to accommodate households. This is calculated from base numbers of dwellings and building /demolition rates. As well as using completion rates to forecast population and household change, it is possible to use the average number of housing permissions granted to examine how recent trends in permissions could be extrapolated into the future.

While this may sound complex, in practice it is straightforward but time-consuming. Many County Council research and information units already undertake this kind of work, broken down to district level. Census data enables the number of household representative persons (by age) to be divided by the number of residents in households (by age of representative), giving a set of age-specific household formation rates. These can then be applied to forecast population increases while constraining the population to a particular mid-year estimate until the total dwelling stock matches the proposed dwelling stock. This can be continued throughout the forecast period. Vacancy rates and non-household population rates can be calculated from the census and held constant throughout the forecast period.

ACCESSING FORECASTING MODELS

There are some 'off-the-peg' models that can be used to forecast population and household growth that can be found via a search of the web. Some of these show how to calculate the relevant data for different migration assumptions (e.g. age-specific birth and death rates for natural change calculations). One example is the 'Housegroup' model run by the Centre for Census and Survey Research, University of Manchester.

Some authorities already commission models which are variants of the official government projection methodology. One example is the 'Chelmer model' run by the Population and Housing Research Group at Anglia Polytechnic University. This provides household growth estimates down to district level that can be tested by varying inputs e.g. trend migration may be compared with zero net migration. Using the Government projections as a starting point, it is possible to model the effects of actual economic performance on headship rates and household formation.

Modelling future changes in house prices

Examples of these models include econometric models (Peterson, 1997) and simulation models (Gibb et al., 2003). Some models can identify and predict future house price trends and future housing demand. These should be used with care but can help to identify baselines against which to benchmark estimates of house price growth. Again, models can be used 'off the peg' or commissioned specifically for the housing market area.

Outputs from Chapter 4

Based upon this chapter, housing market partnerships should be able to:

- estimate aggregate future housing need and demand, including the future number of households in terms of age, gender, ethnicity and type;
- assess likely future changes in the economy and employment levels, and the implications of this for key drivers of demand, such as incomes and migration;
- consider future changes in the affordability of market housing.

CHAPTER 5:

Current and Future Housing Need

Introduction

This chapter explains how to estimate current unmet housing need and the number of future households that may be unable to afford to meet their housing needs within the housing market. Estimates of housing need are legally required to support affordable housing policies in local development documents. In addition, local authorities have a statutory obligation to provide secure accommodation for (unintentionally) homeless households who are in priority need. Non-priority households who are homeless or in unsuitable housing are also entitled to apply for housing within their local authority area. It is therefore important to have up-to-date assessments of housing need within local authority boundaries, and housing market partnerships should ensure that findings are disaggregated to individual local authority areas.

As discussed in chapter 2, the approach is predicated upon using robust secondary data where available. Housing market partnerships should have assessed the quality of the data available to them and where information is unreliable, efforts should have been made to either improve the secondary data or obtain information through other sources. Advice about the quality of secondary data, and how to integrate findings from robust household surveys when estimating housing need, will be set out in appendices XX and XX respectively. If partnerships commission consultants to undertake the needs assessment, they must remain fully involved and provide clear guidance as to what definitions and methods should be applied. Advice on commissioning research will be set out in appendix XX.

Partnerships should already have information about the extent to which affordability is and will continue to be an issue from the affordability assessments in Chapters 3 and 4. This chapter takes the same assumptions about affordability and applies those to estimate the numbers of households that are unable to afford suitable market housing and therefore in housing need.

This chapter sets out how to calculate housing need in a series of steps. It also explains how partnerships can consider the size of housing required by households in need and any requirements for affordable housing of different types in different locations.

Definitions of key concepts and terms

What is housing need?

Housing need refers to **households who lack their own housing or live in unsuitable housing and who cannot afford to meet their housing needs in the market.**

Households who are not in housing need but would like affordable housing are excluded from this part of the assessment (this issue is discussed further at the end of this chapter). The types of housings that should be considered unsuitable are listed in table 5.1 below.

Table 5.1: **Unsuitable housing**

Main category	Sub-divisions
Homeless households or with insecure tenure	Under notice, real threat of notice or lease coming to an end
	Too expensive, and in receipt of housing benefit or in arrears due to expense
Mismatch of housing need and dwellings	Overcrowded according to the 'bedroom standard'
	Too difficult to maintain (e.g. too large, requiring repairs beyond the means of the household) even with equity release
	Couples, people with children and single adults over 25 sharing a kitchen, bathroom or WC with another household
	Household containing people with mobility impairment or other special needs living in unsuitable dwelling (e.g. accessed via steps), which cannot be made suitable in-situ
Dwelling amenities and condition	Lacks a bathroom, kitchen or inside WC, and household does not have the resources to make fit (e.g. through equity release or grants)
	Subject to major disrepair or unfitness, and household does not have the resources to make fit (e.g. through equity release or grants)
Social needs	Harassment or threats of harassment from neighbours or others living in the vicinity which cannot be resolved except through a move

What is affordable housing?

The Government defines affordable housing as non-market housing, which can include:

- **Social rented housing:** rented housing owned by local authorities and registered social landlords, for which guideline target rents are determined through the national rent regime set out in the *“Guide to Social Rent Reforms”* published in March 2001. It can also include rented housing owned by other persons and provided under equivalent rental arrangements to the above as agreed with the local authority or funded with grant from the Housing Corporation, as provided for in the Housing Act 2004.
- **Intermediate housing:** housing at prices or rents above those of social rent but below market prices or rents. This can include sub-market renting, low cost home ownership and shared equity products including Government products such as HomeBuy. (Chapter 6 considers the role of intermediate housing in more detail).

How to assess affordability

The ratio between household incomes and housing costs were assessed in chapters 3 and 4 to identify the extent to which affordability is, and is likely to continue to be, an issue for housing markets. The needs assessment uses household incomes and entry level house prices to estimate housing need for affordable housing. This involves assessing:

- whether current households who are in unsuitable housing can afford suitable market housing; and
- applying affordability tests to the incomes of newly forming households to establish the numbers who are likely to be in need of affordable housing.

It is not necessary to use the affordability measures to test whether households can afford their existing accommodation. Only households in arrears (for mortgage or rent) or in receipt of housing benefit should be regarded as in housing need, on the grounds that their accommodation is too expensive. Otherwise, it should be assumed that households are managing to afford their housing.

Household income

Gross household income should be used to assess affordability. Working tax credit should be included, but all other benefits should be excluded.

Tax credits are important because they are received by substantial numbers of low and middle-income households who may be on the margins of affordability. It is difficult to collect accurate information on other benefits which are intended to meet specific needs rather than housing costs (e.g., disability living allowances). Since housing benefit is only paid to households who would otherwise be unable to afford their housing, it should not be included as income. In addition, benefit incomes are usually low and will not have a major impact on affordability.

Assessing whether a household can afford to buy a home

A household is considered able to afford to buy a home if it costs 3.5 times the gross household income for a single earner household or 2.9 times the gross household income for dual income households. Where possible, allowance should be made for existing equity that could be used towards the cost of home ownership. Only the income of the head of household and their partner (if any) should be considered. Income earned by other adults (e.g. grown up children) living in the household should not be included as these household members are likely to move out within the timescale of a mortgage.

The size of mortgage required should be compared to the entry-level price of a property of an appropriate size⁴ for the household. Lower quartile house price should be used to approximate entry-level prices (see chapter 3, step 1.5).

Assessing whether a household can afford to rent a home

A household is considered able to afford market housing in cases where the rent payable would constitute no more than 25% of their gross household income. The income of households living within another household (or from all the members of a multi-adult household) should be included if they intend to remain living together for at least the next six months.

'Rent payable' is defined as the entire rent due, even if it is partially or entirely met by housing benefit. Other housing-related costs, such as council tax and utility bills should not be included as rent. In chapter 3 (step 1.5), partnerships should have identified rent levels that approximate entry levels, using letting and estate agent intelligence.

⁴ This would typically be calculated according to the Government's Bedroom standard. However, if there are very few properties in the locality of appropriate size (such as a rural area with no one bedroom properties) then it is reasonable to assume that a household should be able to afford the next size up (e.g. a two bedroom property)

Assessing where a household should be able to afford to live

Since house prices vary between different locations, decisions about where a household should be able to live affect estimates of housing costs. Issues that affect judgments about where a household should be able to live vary between housing markets and it is not possible to be prescriptive. In some urban areas, it may be reasonable to assume that households should be able to buy or rent in an adjoining district. In other areas, this may not be reasonable and property prices should be averaged for local authorities separately. There may be reasons why it is preferable to look below the district level, however, household income data is rarely robust at this level.

Judgements about suitable locations should be informed by evidence. For example, where it is assumed that households can live in a neighbouring authority, this should be based upon evidence that households often move between areas. This may have been obtained through work undertaken to identify housing market areas (see forthcoming draft PPS3 companion guidance) and assess past trends (chapter 3). Authorities that assume households can live in neighbouring areas should work with these authorities to ensure they and other key stakeholders agree and are able to take account of this assumption.

The housing needs assessment

Table 5.2 outlines the stages in quantitative assessments of housing need at the housing market and local authority level. Whilst it is possible to undertake more localised assessments using geo-coded data (where available) and information from housing surveys, partnerships should be aware that there are limits to the accuracy and robustness of estimates at smaller scales (to be set out in appendices XX and XX on data quality and sample sizes respectively).

Table 5.2: Outline of housing needs assessment model

CURRENT NEED

Minus

AVAILABLE STOCK

Plus

NEWLY ARISING NEED

Minus

FUTURE SUPPLY OF AFFORDABLE UNITS

Equals

NET SHORTFALL (OR SURPLUS) of affordable units

The model is based upon the Basic Needs Assessment Table developed for the 'Local Housing Needs Assessment: A Guide to Good Practice' by Bramley et al (DETR, 2000). Building upon the previous model, it aims to provide greater clarity and consistency of approach by setting out precisely how to calculate the numbers at each step.

An essential feature of the model is that housing need and housing supply are expressed in terms of annual flows (i.e. the number of units per year) over a prescribed period. Gross figures (such as household formation, migration, etc) are inputs into the model which, after subtracting supply from need, can then produce a net annual shortfall of dwellings. Whilst this assessment can be used to establish an aggregate picture of current and future need, it does not provide information about the movements of individual households.

For some steps, there is no one authoritative source of data, and partnerships may have to make estimates based upon a variety of data sources. Where estimates are used, these should be set out in a clear and transparent manner. Partnerships may wish to go further to better understand how different estimations can result in different levels of housing need. This would involve undertaking the calculations within the model with different estimates at particular steps and then comparing the differences in the net surplus or shortfall of affordable housing required.

Table 5.3 below shows the steps involved in the numerical calculation and relevant data sources. These calculations should be carried out on a number-per-year basis for each local authority and the housing market area.

Table 5.3: Detailed needs assessment table	
Stage and step in calculation	Data sources
STAGE 1: CURRENT NEED (Gross)	
1.1 Current occupiers of affordable housing in need	Housing Register, Local Authority and RSL transfer lists, Over-crowding data
1.2 <i>plus</i> Households from other tenures in need	Housing register, Priority homeless households in temporary accommodation
1.3 <i>plus</i> Households without self-contained accommodation	Housing Register, Hostel move-on needs, Homeless agencies data
1.4 <i>equals</i> Total current housing need (gross)	1.1 + 1.2 + 1.3
STAGE 2: AVAILABLE STOCK TO OFFSET NEED	
2.1 Current occupiers of affordable housing in need	Housing Register, Local Authority and RSL transfer lists, Over-crowding data
2.2 <i>plus</i> Surplus stock	Local Authority and RSL records
2.3 <i>plus</i> Committed supply of new affordable units	Development programmes of LAs, RSLs, Regeneration\Pathfinder Schemes, including conversions and intermediate housing products
2.4 <i>minus</i> Units to be taken out of management	Demolition and conversions programmes of LAs, RSLs, Regeneration\Pathfinder Schemes
2.5 <i>equals</i> Total stock available to meet current need	2.1 + 2.2 + 2.3 – 2.4
2.6 <i>equals</i> Total current unmet housing need	1.4 – 2.5
2.7 <i>times</i> annual quota for the reduction of current need	Policy judgement
2.8 <i>equals</i> annual requirement of units to reduce current need	2.6 x 2.7

Table 5.3: Detailed needs assessment table (*continued*)

Stage and step in calculation	Data sources
STAGE 3: NEWLY ARISING NEED	
3.1 New household formation (gross per year)	From chapter 4
3.2 <i>times</i> Proportion of new households unable to buy or rent in the market	Household incomes and entry level rents / property prices identified in chapter 3
3.3 <i>plus</i> Existing households falling into need	Numbers joined housing register within last year from owner occupation or private rented tenures; LA/RSL data on households recently housed outside normal housing register.
3.4 <i>equals</i> Total newly arising housing need (gross per year)	$(3.1 \times 3.2) + 3.3$
STAGE 4: FUTURE SUPPLY OF AFFORDABLE UNITS	
4.1 Annual supply of social re-lets (net)	Lettings/voids system for LA and RSLs, CORE data for RSLs, HSSA data
4.2 <i>plus</i> Annual supply of intermediate housing available for re-let or resale at sub market levels	LA and RSL Lettings/voids system and data on re-sales of sub-market LCHO or shared equity schemes.
4.3 <i>equals</i> Annual supply of affordable units	$4.1 + 4.2$
NET SHORTFALL OR SURPLUS OF AFFORDABLE UNITS	
Overall shortfall or surplus	$2.8 + 3.6 - 4.3$

Stage 1: current need (gross)

Step 1.1: current occupiers of affordable housing in need

Housing registers or local authority/ RSL transfer lists can be used to estimate the number of existing affordable housing tenants in need i.e. households being housed in unsuitable dwellings. Care should be taken to avoid double-counting households registered on more than one transfer list. As discussed in chapter 3, there are alternative sources of information about some aspects of unsuitable housing, such as census figures on over-crowding, and these can be used to verify data where relevant. Where households are able to access suitable housing in the market without financial assistance, they should not be counted as being in need.

Step 1.2: households from other tenures in need

Housing registers can be used to estimate the number of households from other tenures in need. Again, where households are able to access suitable housing in the market without financial assistance, they should not be counted. Additional information about rent and mortgage arrears can be used to verify information from housing registers.

Step 1.3: households without self-contained accommodation

Homeless households and those in priority need who are currently housed by authorities in temporary accommodation should be included as current need. Housing registers should provide information about concealed households who are unable to meet their needs within the market (e.g. couples, people with children and single adults over 25 sharing a kitchen, bathroom or WC with another household). Care should be taken to avoid double counting with households identified in steps 1.1 and 1.2.

Step 1.4 total current housing needs (gross)

This is the sum of the numbers of households identified in steps 1.1-1.3.

Stage 2: available stock to offset need

Step 2.1: current occupiers of affordable housing in need

This is an important consideration in establishing the *net* levels of housing need as the movement of these households within affordable housing will have a nil effect in terms of housing need. The figure identified in step 1.1 should be used, although care should be taken to ensure that dwellings vacated by current occupiers are fit for use by other households in need.

Step 2.2: surplus stock

A certain level of voids is normal and allows for transfers and works on properties. However, if the rate is in excess of approximately 3% and properties are vacant for considerable periods of time, these should be counted as surplus stock.

Step 2.3: committed supply of new affordable units

This includes new (and conversions) social rented and intermediate housing which are committed to be built over the time period of the assessment.

Step 2.4: units to be taken out of management

This involves estimating the numbers of social rented or intermediate units that will be taken out of management. It should not include right-to-buy sales as gross figures as authorities are not required to re-house these households. Planned demolitions or redevelopment schemes that lead to net losses of stock (and households in need of re-housing) should be counted. Any empty properties that are due for demolition will have been counted as surplus housing in step 2.2, however, they must now be removed as they will not be available to meet need.

Step 2.5: total stock available to meet current need

This is the sum of steps 2.1 (current occupiers of affordable housing in need), 2.2 (surplus stock) and 2.3 (committed additional housing stock); minus 2.4 (units to be taken out of management).

Step 2.6: total current unmet housing need

This is the sum of step 1.4 (total current gross housing need) minus step 2.5 (total available stock to meet current need). **This calculation assumes a one-to-one relationship between households and dwellings.**

Step 2.7: quota to reduce levels of current need

Partnerships will need to judge the rate at which identified current need in step 2.6 should be met. Whilst the decision is the responsibility of individual local authorities, partnerships should bear in mind the need for comparability.

Levels of unmet need are unlikely to ever fall to nil given that peoples' housing circumstances change and there will always be households falling in and out of housing need. The quota should be based upon meeting need over a period of five years or the relevant local development framework time period, whichever is the longer. In particular, there may be merit in linking quotas to the remaining time period of adopted housing policies in local development frameworks. Partnerships should avoid using a period of less than five years in which to meet unmet current need. If a five-year period is used, this means that 20% of current unmet need should be addressed each year.

Step 2.8: annual requirement to reduce the level of current unmet need

This is the number of affordable units that could be needed each year to address levels of unmet housing need over the time period agreed in step 2.7. It is obtained by multiplying current unmet need (step 2.6) by the quota (step 2.7).

Stage 3: Newly arising need

Step 3.1: new household formation (gross per year)

This requires partnerships to estimate future change in the number of households on an annual basis. This is based upon information about both household formation and household dissolution. **The estimates of aggregate change in housing need and demand derived from chapter 4 will provide the information for this step of the assessment.**

Step 3.2: proportion of newly forming households unable to buy or rent in the market

First, partnerships will need to identify the minimum household income required to access entry level (lower quartile) market housing using the definitions set out previously. When estimating housing costs, housing market partnerships can either use current housing costs or their estimates of future housing costs from chapter 4 (step 4).

To assess what proportion of newly forming households will be unable to access market housing, these minimum incomes need to be compared against the distribution incomes for newly arising households. In chapter 3, current household incomes should have been estimated by household type or age of household reference person. **The estimates of aggregate future change in housing need and demand derived from chapter 4 will have provided information about the numbers of newly forming households by household types.** This will include consideration of any evidence about how incomes of either in-migrants or out-migrants differ significantly from the income distribution for the current population. Such evidence could include information about international migrants and asylum seekers.

In addition to making adjustments for changes in household type, partnerships may wish to adjust incomes distributions to take account of the likely changes in economic and employment factors assessed in chapter 4 steps 2 and 3. The assumptions behind the estimates should be clear and transparent.

Linked to the above, partnerships may also wish to consider households' access to capital. This information will have to be estimated from information about current access to capital, which is often not readily available. Possible data sources include local surveys, relevant national or regional research, or information from mortgage lenders about the levels of deposits offered by households buying at the lower quartile.

Step 3.3: existing households falling into need

Partnerships should estimate the number of existing households falling into need each year by looking at recent trends. This estimation should include households who have entered the register and been housed within the year as well as households housed outside of the register (such as priority homeless households applicants).

Step 3.4: total newly arising housing need (gross per year)

This involves multiplying step 3.1 (newly forming households) by step 3.2 (the proportion unable to afford market housing). The output should then be added to step 3.3 (existing households falling into need) to give an annual gross figure for future households in need.

Stage 4: Future supply of affordable housing

Step 4.1: annual supply of social re-lets (net)

Partnerships can calculate this on the basis of past trends. Generally, the average number of re-lets over the previous three years should be taken as the predicted annual level. However, this should not include transfers within the social sector. Some local authority or housing association re-let figures will include instances where a new tenancy is issued to an existing occupier when the tenancy holder dies or moves out or where a joint tenancy is converted to a sole one or vice versa. Only properties that come up for re-let to a new household should be counted. In areas where the stock base of affordable housing is changing substantially (e.g. due to high levels of Right to Buy or substantial new stock being built), it may be appropriate to take into account the changing stock base when predicting the levels of future voids.

Step 4.2: annual supply of intermediate housing

The number of units that come up for re-let or resale should be available from local operators of intermediate housing schemes. It should only identify properties within the definition of intermediate housing. For example, if a shared equity scheme allows the purchaser to buy out the landlord's share, once the latter's share has been bought (or substantially bought) out, it is no longer affordable housing. However, if the money received by the landlord is used to fund future shared equity schemes through the recycling of capital grant (ODPM, 2002⁵), these units will be counted under step 2.3, the new supply of affordable housing.

⁵ *Evaluation of the Low Cost Home Ownership programme*, ODPM 2002.

Step 4.3: annual supply of affordable housing units

This is the sum of 4.1 (social rented units) and 4.2 (intermediate housing units).

Net shortfall or surplus of affordable housing supply

This represents the overall level (i.e. shortfall or surplus) of affordable housing that would need to be provided each future year to meet housing need over the chosen time period. It is calculated by subtracting step 4.3 (the future annual supply of affordable housing) from annual need (step 2.8 plus step 3.6). **As with step 2.6, this calculation assumes a one-to-one relationship between households and dwellings.** A negative figure implies a net surplus of affordable housing with the actual number indicating the rate at which the surplus is predicted to grow each year.

The size of affordable housing needed

Whilst the assessment cannot give a definitive view on the types of property needed to meet housing need, it can provide a rough estimate of the relative pressure on different property sizes based upon housing register data. Factors to consider include:

- the number of households waiting for each property size relative to the turnover rates of each size;
- the severity of need of households being offered each size of property. A points system is often used, which will allow comparison;
- the length of time households are waiting for each property size;
- the annual rates of households of different sizes joining the register; and
- vacancy levels and turnover rates of different property sizes.

If there is any overcrowding within the social sector, it should be remembered that new larger properties could help to resolve the needs of several households for each property built, as households “move up” through the system into larger properties.

Assessing need for affordable housing

Affordable housing is usually built in response to identified housing need. Nevertheless, households in need may choose to live in other types of housing such as private rented (possibly with the use of housing benefit) or housing that would be classified as unsuitable, even though they are eligible for affordable housing. Furthermore, in parts of the country where there is an excess supply of social housing, it is demand for such housing which is of interest in determining the future of the stock.

Demand for affordable housing from market residents

Partnerships can use a variety of methods to understand the nature and levels of demand for affordable housing and preferences for self contained versus shared information. Partnerships could undertake discrete surveys, use available survey information or undertake focus group discussions to consider these matters further. In addition, waiting list information can be used or current tenure patterns can be projected forward (Holmans, 2004).

Demand for affordable housing from existing affordable housing tenants

Social landlords hold the most comprehensive data on the preferences and circumstances of existing affordable housing tenants. Information about existing social sector tenants comes from the Existing Tenants Survey (which is not reliable at local authority level), the census (although this will become dated), or from specially commissioned household surveys. CORE provides detailed information for housing association tenants in relation to new tenancies although this has been extended to the local authority sector. Some authorities use management organisations to update information on tenant characteristics.

Housing turnover information relating to different property types, sizes and locations is a good indicator of demand. However, in some cases they may reflect allocations systems. Choice-based systems can reveal the preferences of households seeking social housing. For instance, some households may be willing to accept housing that is further away in return for more space. Through looking at the choices households make, more can be learned about the demand for social housing.

Partnerships should supplement this information with the insight and expertise of key stakeholders who have a clear understanding of recent trends e.g. neighbourhood housing managers. Issues may vary across the housing market area; for example, in some areas overcrowding may be a key issue whilst in others sheltered housing could be unpopular because it involves shared facilities.

Identifying future demand for market housing

This chapter explains how estimates of newly arising housing need (stage 3) can be derived from aggregated estimates of future housing demand/need in Chapter 4. As such, the residual (i.e. difference between aggregated demand/need and the estimates of need) will represent the future housing demand for market housing. This can be combined with the current demand for market housing identified in chapter 3.

Outputs from Chapter 5

Housing market partnerships should be able to produce:

- estimates of the level of current unmet and future arising housing need;
- estimates of the overall level of affordable housing that would need to be produced each year to meet household need within a specified time period;
- estimates of the size of affordable housing units required; and
- an appreciation of the need for affordable housing.

CHAPTER 6:

Housing Requirements of Different Household Groups

Introduction

There are several reasons why housing market partnerships should consider undertaking additional assessments of the housing requirements of different household groups, including:

- the Race and Equality Act requires Government and local authorities to assess the impact of their policies on different ethnic and minority groups, and local authorities should ensure that no one group is systematically excluded from the assessment;
- additional information about ethnic groups and others, including households with disabilities and/or special needs, will help to inform future planning and housing policy;
- other groups may exert influences within the housing market and/or local economy that need to be better understood and planned for (e.g. students or key worker households); and
- partnerships may wish to obtain evidence about the types and proportions of households that form an 'intermediate' market.

If there are specific concerns about the housing needs of certain groups or existing evidence suggests that their needs significantly differ to others, partnerships should undertake additional analysis. Linked to chapter 2, such issues may be identified as specific research questions for the assessment to address. This chapter outlines some of the issues and approaches that partnerships may wish to consider with respect to minority and hard to reach groups and the intermediate market.

Minority and hard to reach households

Households from particular social or ethnic groups can differ in terms of location and types of accommodation (e.g. caravan sites rather than housing). Working on a sub-regional basis will mean that partnerships are likely to include a larger number of households from ethnic minority backgrounds in their assessments, which will strengthen their ability to understand the housing requirements of different groups. However, 'gaps' in knowledge are still likely to emerge.

Households are considered hard-to-reach if they are less likely than others to complete surveys or questionnaires, including national surveys such as the census. This is likely to be the case for homeless households, private renters and households in shared accommodation such as students' halls of residence and army barracks. It will also include households in non-brick and mortar accommodation such as caravans or barges, and households who do not read well in English.

Qualitative assessments of minority group needs can include holding focus groups or interviews with representatives from the groups concerned. If the populations are very small, this may be the only feasible way of gaining information. In addition, it may be possible to use interviews to investigate particular issues in more depth.

Where local surveys are undertaken, partnerships should be aware that sampling frames can systematically exclude certain groups. For example, households living in properties that are not liable for council tax will be excluded from a survey that uses the council tax register as a sampling frame. Various strategies can be used to improve response rates. Face to face interviews should always try to offer interpreters, and postal surveys should be printed in different languages or translation services offered. Background research may be required to establish which languages are spoken. Cultural issues may also affect response rates so partnerships should ensure that representatives from minority groups are involved in the assessment process (see chapter 2). In addition, non-response from private renters may be reduced by using face-to-face interviews, with repeat visits timed when people are most likely to be at home. Survey results should also be weighted by tenure to help address non-response bias.

It may be possible to undertake supplementary samples that target particular types of households to increase the number of responses from particular groups. However, it should not be assumed that over-sampling will necessarily produce representative data for particular groups. For example, households in neighbourhoods with a high proportion of residents from the same ethnic background may have different characteristics to households with the same ethnic background living elsewhere. Any findings should therefore be treated as qualitative rather than being necessarily statistically valid.

Further information on assessing housing needs of BME groups is set out in Atkins et al. (1998). Advice about assessing the accommodation requirements of Gypsies and Travellers will be set out in forthcoming draft assessment guidance.

Special needs housing

Housing may need to be purpose built or adapted for households with special needs. Such groups can include older people and those with mobility impairments, such as wheelchair users. Partnerships should be able to identify available and likely future stock using housing registers, land availability assessments and other relevant management or administrative sources. Only the need for specific types of housing should be assessed here. Other kinds of needs which can be met through floating support (not tied to specific accommodation) should not be included.

The intermediate market

Recent years have seen growing price differentials between the social rented and private housing sectors in many areas. There are two types of household that comprise the potential client group for intermediate housing:

- households that would be categorised as in housing need because they cannot afford suitable housing in the private market either as tenants or homebuyers but who could afford to pay more than social rents; and
- households who cannot afford to meet their demand within the authority or housing market area (e.g. for home ownership or larger accommodation suitable for families) and are unable to access housing assets and / or are likely to move location.

Where households with particular skills or characteristics move from an area in larger numbers (e.g., key workers or young adults) this can have negative effects on service provision and the local economy.

The numbers of households requiring intermediate housing is likely to fluctuate, reflecting changing relationships between house prices, market rents and incomes. As example 6.1 shows, if entry-level house prices are more than fourteen times annual social rents then there is likely to be scope for intermediate housing. Likewise, if private rents are substantially higher than social rents, this also suggests that there may be a need for intermediate housing.

Example 6.1: Assessing the scope for intermediate housing

Typical social rented housing is around £60 a week which equates to £3,120 a year.

This is affordable for those on incomes approx £12,480 (using 25% of gross income as the indicator for what is affordable) who in turn would be able to obtain a £43,680 mortgage (based upon a 3.5 times multiplier).

If there are suitable properties available for £43,680 then there would be no role for intermediate housing. However, given that lower quartile house prices in England for 2004 were £105,000, this indicates the potential for intermediate housing in many areas.

The role of intermediate housing in meeting need

To estimate potential requirements for intermediate housing, partnerships should analyse housing need and newly arising housing need by income bracket. Partnerships will also require details of the costs of existing or planned intermediate housing products. Intermediate products that could meet the needs of this group should require less initial subsidy than social rented housing and could include sub-market rented accommodation and Low Cost Home Ownership (LCHO).

Definitions and methods of assessing whether households can afford different types of housing are set out in chapter 5. Partnerships will need to assess whether households can afford shared equity properties, given that some will require both mortgage payments (on the part they own) and rental payments (on the landlord's share). In these cases, rental and mortgage payments should together constitute no more than 30% of gross income.

Mortgage outgoings can be calculated from the overall size of the mortgage and current mortgage interest rates. In England, CORE shared ownership data should enable a general estimate of costs to be made. However, costs will vary according to market conditions and property size, so it is important to gather precise costings by scheme and area. An example of how to derive the income required to afford a shared equity property is set out in example 6.2 below.

Example 6.2: Assessing whether a household can afford a shared equity property

A shared ownership scheme requires occupiers to purchase 50% of a property worth £120,000.

The mortgage (for £60,000) has monthly outgoings of £350 (calculated from current mortgage lending practice).

The rent payable on the landlord's share is £150 a month.

Total monthly outgoings are therefore £500 a month.

A household could therefore afford this property if their monthly gross income was over £2000 (or £24,000 a year).

The needs estimates derived from chapter 5 can be used to establish the proportion of those in housing need (both current and future) who cannot afford intermediate housing and are therefore in need of social rented housing. Where detailed and robust income data are not available, partnerships should assume that households on housing registers who have expressed an interest in intermediate housing are able to afford it whilst those registered only for social rented housing are not able to afford it.

Having established need, partnerships will then need to consider how this relates to the potential shortfall or surplus of social rented and intermediate housing separately as demonstrated by example 6.2.

Example 6.2: Assessing whether households in need can afford intermediate housing

Annual household need who cannot afford intermediate housing	= 1500	
Annual household need who can afford intermediate housing	= 500	
Annual social rented unit re-lets	= 1200	
Annual intermediate housing supply	= 100	
Shortfall of social rented units	(= 1500-1200)	= 300
Potential shortfall of intermediate housing	(= 500-100)	= 400

In such instances, the proportion of intermediate housing could be increased if there is evidence that some will be used to accommodate existing social sector tenants who, although not in housing need, would release a social rented unit by moving into such housing. There would need to be evidence that there was a need for social rented units which could be met by the resulting re-lets.

Further discussion is set out in A Home of My Own (Government Low Cost Home Ownership Task Force) – November 2003 or Evaluation of the Low Cost Home Ownership Programme, (ODPM) 2002.

Assessing the demand for intermediate housing

The ability and willingness of households to purchase intermediate housing products should be considered. Evidence suggests that demand exists in areas with substantial stocks of intermediate housing, however, in areas where the tenure is less well known, demand may not be easy to identify initially. In addition, socio-economic factors can influence demand. For example, if house prices are high relative to wages, then the numbers of people squeezed out of owner occupation and struggling to rent privately will probably be larger than the stock of new intermediate housing. If, however, house prices or rents fall, then the need for intermediate housing may be the first type of housing need to decline, as its potential clients would be able to afford housing in the private market.

Demand for intermediate housing products is affected by their nature. For example, there may be a good deal of interest among social sector tenants for shared equity schemes, but there may be less interest in sub-market rented accommodation. Young mobile private renters (as well as young in-migrants to an area) may be interested in sub-market rented units in preference to any form of home ownership, even if it were affordable. For these reasons, it is vital that any measure of the size of the potential intermediate market is related to specific products that either exist, or are being considered, and takes into account both the needs and the demands of prospective clients.

Local surveys could be used to assess the aspirations and preferences of these households. However, assessing future demand for intermediate housing products may prove problematic given that many households are unaware of what is available or unsure which of the products apply to them. Any surveys or qualitative work (e.g. focus groups with potential clients) undertaken should ensure that products are clearly explained to participants followed by appropriately framed questions.

Other groups eligible for assistance

Partnerships may wish to consider the requirements of key workers and other first time buyers prioritised by regional housing strategies, along with any other groups found to play a key role in housing market from chapter 3. The definition of key workers only includes groups eligible for the Housing Corporations Key Worker Living programme⁶ and others employed within the public sector (i.e. outside of this programme) identified by regional Housing Boards as requiring assistance.

In addition, partnerships may wish to consider the needs of the following particular households:

- a. People in employment and in particular income ranges;
- b. Particular groups within the income range, e.g., key public sector workers in regions outside of the south (i.e. where the Key Worker Living programme is not operating); and
- c. People with a local connection, e.g., people who serve the community or have a commitment to a particular area.

To understand key workers' housing needs, partnerships should first examine employment data to assess recruitment or retention issues. Where these are found and can be linked to housing affordability, partnerships should undertake surveys based upon local samples of key workers. It is not always possible to use resident-based housing surveys to investigate key worker issues given that the sample may consist of key workers that live rather than necessarily work locally. That said, resident-based surveys should be able to provide information by defined groups of occupations living in an area. It should also be able to collect information about which occupations have a low degree of affordability or commuting problems. Where such surveys are undertaken, partnerships should ensure that they:

- identify key workers in line with government definitions, considering occupation and whether respondents are employed in the public or private sector;
- identify key workers of local interest. This might include those working in occupations where there is a skills shortage;
- identify where key workers work; and
- assess the interest in specific key worker products.

⁶ Further details are provided in the *Housing Corporations Capital Funding Guide*. See <http://www.housingcorp.gov.uk>

CHAPTER 7

Using and updating assessment findings

Introduction

Having undertaken the housing market assessment, partnerships will need to bring together the estimates of housing need and demand derived from chapters 4 and 5 with the more qualitative considerations of existing housing markets and the housing requirements of certain groups as set out in chapters 3 and 6 respectively. This chapter considers how this evidence should be brought together as well as explaining how, from a planning policy perspective, partnerships can ensure assessments are robust and credible. It then outlines how assessments should be monitored and updated on a regular basis.

Identifying and presenting the main messages

Based upon the advice set out in this guidance, the housing market assessment should allow housing market partnerships to develop an overview of their housing market areas in terms of its current and likely future features. This will include:

- i) an historic perspective of performance based upon past trends;
- ii) understanding existing market characteristics in terms of its structure, diversity and linkages, especially in terms of any sub-markets or neighbourhoods that may exist;
- iii) considering how existing issues are likely to develop over time and whether any new trends are likely to emerge. An important aspect of this will be the identification of key drivers of change that exist and may develop over the next 5-10 yrs. These can be social, economic, demographic and environmental, or a combination of all four
- iv) the functional relationships that exist both within the housing market and with adjacent markets, and how these might change over time;
- v) a numerical estimate of the likely scale of future housing need and demand for market and affordable housing will be over the next 5-10 yrs; and
- vi) linked to v), an indication of types of different households that will require housing in future.

As explained in chapter 1, housing market assessments cannot provide definitive estimates of current and future housing need and demand, or housing market conditions, given their dynamic nature. Instead, drawing upon the themes identified above, assessments can provide an insight into how housing markets do and may operate in future. As such, they provide a fit for purpose basis upon which to develop planning and housing policies by providing an appreciation of how markets work and the possible scale of likely housing change in future.

In terms of structuring outputs, partnerships should draw upon the assessments key objectives and aims. In particular, they should consider how the findings relate to the types of research and policy questions identified at the beginning of the assessment process, as described in chapter 2.

In terms of presenting the assessments findings, partnerships will need to carefully consider how the quantitative elements of the assessment, particularly the estimates of future housing change, relate to the wider contextual information, much of which may be qualitative in nature. In particular, the assessment must clearly distinguish between the numerical estimates of current and future housing need and demand and any qualitative information collected in terms of people's preferences for housing.

Partnerships should clearly explain the limitations of data sources and any assumptions or judgements used throughout the assessment. Partnerships should bear in mind that as the assessment is an analytical exercise, its findings should be presented in an objective and transparent manner. Linked to this, they will need to set out what quality control mechanisms have been used to ensure the assessments outputs are statistically robust and fit for purpose.

Any consideration of how the outputs relate to policy questions, as discussed above, should clearly identify where the partnership is making judgements or interpretations based upon the assessment findings. Where such analysis is undertaken, any conclusions drawn or recommendations will need to be fully justified. To assist this process, it will be important to involve all members of the partnership in drafting the assessments findings, particularly any analytical or interpretative work undertaken.

Robust and credible assessments

As chapter 1 of this guidance, and subsequent chapters have reiterated, housing market assessments are a crucial aspect of the evidence base in terms of preparing regional spatial strategies, local development frameworks, regional housing strategies and local housing strategies. From a planning perspective, PPS12⁷ and related guidance⁸ emphasise the importance of policies being founded on a thorough understanding of the needs of areas, particularly the opportunities and constraints that exist. They explain that at the earliest stage of preparing development plan documents, local planning authorities should gather evidence about their area, including an understanding of the housing required in their communities.

PPS12⁹ identifies a robust and credible evidence base as being one of the determinants of whether the policies proposed in such documents are appropriate. **From a housing market assessment perspective, it should be borne in mind that no one methodological approach or use of particular datasets will result in a definitive assessment of housing need and demand.** What is important is that the assessment adopts a pragmatic approach towards identifying housing need and demand and understanding how housing markets function, from which planning and housing policies can be developed.

7 PPS12 paragraphs 4.8-4.11(p32-33). See <http://www.odpm.gov.uk/index.asp?id=1143846>

8 Creating Local Development Frameworks sections 2.9 (p11) and 5.2 (p34-35). See <http://www.odpm.gov.uk/index.asp?id=1143846>

9 PPS12 paragraphs 4.23-4.25 (p39-40). See <http://www.odpm.gov.uk/index.asp?id=1143846>

In line with PPS12, the **presumption will be that a housing market assessment is robust and credible if the approach set out in this guide is followed. Consequently, there should be no need for the assessment, particularly its outputs, to be re-considered at the independent examination.**

The criteria for determining if a housing market assessment is robust and credible are whether its:

- i) findings are presented at the local authority level as well as being capable of aggregation to the sub-regional and regional levels;
- ii) findings are presented in terms of the numbers of current and future housing need and demand, broken down by household type, and what this means in terms of the demand for affordable housing (including the split between social rented and intermediate tenures);
- iii) approach to identifying housing market area(s) is consistent with other approaches to identifying markets within the region;
- iv) provides authorities with a wider appreciation of housing market(s) within the sub-region;
- v) where appropriate, considers the needs of specific groups such as key workers, homeless households, black and ethnic minority groups, disabled people, the elderly, students and young people;
- vi) where appropriate, assists the determination of the needs of local people in rural areas;
- vii) involves key stakeholders, particularly local communities, housebuilders and others with an appreciation of housing markets (see chapter 2);
- viii) presents a full technical justification for the methodology, particularly how secondary and primary data has been used to derive a robust output;
- ix) linked to viii), the assumptions, judgements and findings are fully justified and presented in an open and transparent manner;
- x) uses effective quality control mechanisms, which are reported upon; and
- xi) presents evidence showing how that the assessments findings have being monitored and updated (where appropriate) since it was originally undertaken.

These criteria are best achieved where regions co-ordinate housing market partnership-led assessments. **For the purposes of the independent examination, an assessment will be considered robust and credible where it achieves all¹⁰ of the criteria set out above.**

¹⁰ Criteria v) and vi) should only be applied (in terms of whether an assessment is robust and credible) in appropriate areas.

As set out in chapter 2, one of the key aims of the new planning system is to involve local communities and stakeholders from the earliest stages of plan preparation, which includes housing market assessments. This will help to minimise objections to housing market assessments as stakeholders will have had the opportunity to express their concerns within the housing market partnership. The expectation will be that if there are any issues or technical matters they should be raised with the partnership at an early stage.

Guidance on how the findings of housing market assessments should inform the preparation of housing policies, particularly those relating to mixed communities, will be set out in forthcoming draft PPS3 companion guidance.

Monitoring and updating assessments

The new approach to planning for housing set out in draft PPS3 requires authorities to take account of housing markets when developing policies. To this end, authorities will need to continually monitor trends and activities in housing markets, reflecting the Government's 'plan, monitor and manage' approach to the planning system. Monitoring should be undertaken on a continuous, pro-active basis as set out in PPS11 and PPS12.

Working with regions, housing market partnerships should develop comprehensive strategies for monitoring housing markets and updating housing market assessments, having regard to existing monitoring guidance¹¹. These monitoring activities should be linked to the existing requirement for monitoring, whereby each local planning authority and region is required to submit an annual monitoring report to the Secretary of State. This should contain information on the extent to which the policies set out in local development frameworks and regional spatial strategies respectively are being achieved. Based upon these reports, authorities and regions will need to consider the need to revise policies in their local development frameworks and regional spatial strategies.

Adopting a coordinated approach to monitoring between regions and housing market partnerships will help to ensure the most efficient use of resources and expertise. Linked to this, county councils should be encouraged to play a key role in monitoring housing markets given their resource and expertise in such matters.

Housing market assessments will provide a robust basis for developing housing and planning policies by considering current and future housing need and demand over a period of 5–10 years and beyond. This suggests that partnerships should not need to undertake comprehensive assessment exercises more frequently than every five years. However, linked to above, they will need to be updated regularly. Particular aspects which will require frequent revision include the numbers and types of need and demand and movements between tenures, including through the Right to Buy.

It is important that partnerships recognise the difference between monitoring and updating housing market assessments. As the LDF monitoring guidance explains, monitoring, as described above, is concerned with establishing what is happening now and what may happen in future. It then compares these trends against existing policies and targets to determine what needs to be done. Updating is a continual process of tracking short-term changes in housing market conditions.

¹¹ Local Development Framework Monitoring: A good practice guide (ODPM, 2004). See <http://www.odpm.gov.uk/index.asp?id=1143846>