

10 Future Affordable Housing Provision

Key Points

- There are tangible signs of a considerable shortfall in social housing in South Hampshire as evidenced by high levels of homeless acceptances, growing numbers of households on the housing register and rising numbers of households in temporary accommodation.
- DTZ suggest that cultivating an expansion in the market for intermediate housing will be an important vehicle for meeting South Hampshire's future housing need.; intermediate market products have a reduced requirement for public subsidy, which enables more affordable housing units to be produced from a given budget.
- DTZ suggest that the adoption of (broadly) a 65:35 split in affordable housing targets between social rented and intermediate market provision could be appropriate for South Hampshire.
- While it is difficult to accurately quantify the current and future requirement for affordable housing, and this will constantly change depending on what happens to house prices and rents, the position in South Hampshire is simply stated. The sub-region needs as much affordable housing as it can realistically secure across all sites, without damaging the overall output of new homes. DTZ recommend an overall 30% to 40% target of affordable housing, split 65% social rented and 35% intermediate market products. Potential composition of intermediate market products:

10%	Sub-market rented
5%	Client group specific housing eg assisted living, key worker or BME housing
10%	Low cost (intermediate) home ownership – shared ownership
10%	Low cost (intermediate) home ownership – discounted sales- term to be determined
- The precise form that intermediate market products in South Hampshire will take will need further development and will be determined by a combination of market appetite, funding pots, housing need and developer's attitude.

Supply and Demand Recap

- 10.01 As the demand and supply analysis highlighted, the economy of South Hampshire has undergone significant transition over the last decade. Economic output (GVA) has risen progressively and rapidly and has outpaced the growth exhibited in the regional and national economy. This expansion in economic output, which totalled some 25% between 1995 and 2001, has been underpinned by an employment base that expanded rapidly and gradually moved away from a reliance on lower value added sectors such as manufacturing and into high growth service related activities.
- 10.02 Yet, whilst the South Hampshire economy has undergone a marked restructuring it would not appear that the alteration in its economic base has been achieved at the expense of employment. Although the cyclical path of unemployment in the Sub-Region has fluctuated in line with the broad pattern observed in the national economy, claimant count

unemployment has decreased more quickly over the last twenty years than in both the regional and national economy.

- 10.03 In keeping with the rest of the South East, economic expansion and movement into higher value added service sector activities has perpetuated, and been fuelled by, high net inward labour migration. This has been a key factor in the rising population base of South Hampshire, particularly in its Western area, where population rose by 11% between 1981 and 2003 at a district level. This was roughly the same magnitude as observed in the South East, but significantly higher than that displayed nationally. Population increases have primarily been attributable to growth in lower age bands and those generally associated with being economically active, which has acted as a catalyst to the expansion of the Sub-Region's labour force.
- 10.04 The expansion in the population base of South Hampshire, combined with the decrease in average household size (due to factors such as increased labour mobility, longer life expectancy and the decline in inter-generational households) has fuelled a rapid increase in the total number of households within the Sub-Region. The number of additional households in South Hampshire over the last recorded decade has also been in excess of the number of new dwellings brought forward. The number of occupied households grew in the Sub-Region in the decade preceding 2001 by 43,000. By contrast, the total net additional housing stock brought forward over this period (both private and non-private and new build and conversion), totalled 33,000.
- 10.05 In terms of tenure split, the growth in the number of households has been driven by increases in private households (owner occupied and privately rented), which have risen by 43,000 between 1991 and 2001, compared with a net decline of around 1,000 in the number of households either renting from a LA or in other social rented accommodation.
- 10.06 The growth in occupied household numbers compared with the expansion of the dwelling stock has placed a heavy strain on available housing resources and offers a clear insight into the current affordability difficulties experienced within the sub-region. Using the preferred government definition of affordability (the long-term trend in the ratio of lower quartile house prices to lower quartile earnings) the Sub-Region has an affordability ratio that lies significantly above the national average and in line with the South East. In 2003, the affordability ratio for South Hampshire was 10.51, compared with 7.92 in England and 11.22 in the South East.
- 10.07 The high affordability ratios in South Hampshire have priced out many first time buyers from the housing market and have compounded the need for accelerated provision of affordable housing. Wages are lower in South Hampshire than in England and the South East and therefore access to both private rented and owner occupied housing is more restricted, despite the fact that South Hampshire has relatively low average house prices. Affordability pressures are also likely to grow in South Hampshire in the future if the current above average rates of house price inflation are sustained.
- 10.08 The need for affordable housing also manifests itself in the high levels of homelessness currently displayed within South Hampshire. The rate of homelessness per 100,000 people has consistently been around 6%, compared with around 4% in the South East as a whole. The large and progressively increasing numbers of people on the housing register also reveal the difficulties being faced by many households in accessing market housing.
- 10.09 Analysis undertaken in October by DTZ suggested that housing requirements linked to new jobs in the sub-region will be in the range of 63,000 to 81,000 for growth rates between 3.0% and 3.5% GVA. The South Hampshire authorities have calculated that about 23,500 additional affordable homes will be needed in South Hampshire during 2001 – 2021. In

addition, it has been estimate that there is a backlog of affordable housing need of about 5,000. Together, this represents a total need for 28,500 affordable homes.

- 10.10 On the basis that 30% of total housing is delivered for affordable housing via the planning system, a total of around 95,000 new homes would be needed to meet affordable housing requirements up to 2026.
- 10.11 The PUSH Steering Group has decided to work within a range of estimated housing need that equates to a dwelling provision that is between 15% to 20% higher than that stipulated in the RPG. Over the period 2006 to 2026, this represents a range of between 79,000 and 82,000 new homes, which equates to a rate of new dwelling completion of between 3,950 and 4,100 per annum.
- 10.12 To achieve these rates of housing provision will require a considerable acceleration of new housing development. Total completions between 2000 and 2004 have averaged 3,219 units per annum, some 20% lower than the future targets for housing provision require.
- 10.13 Accelerating the pace of development represents a considerable challenge and every year that passes with completion rates below the average annual requirement adds to the requirement to be delivered in subsequent years. If current targets for South Hampshire are to be achieved it is important that an early start is made to raise the output of new homes.
- 10.14 Nevertheless, the most recent completion rates offer reason for optimism, with annual total completions rising in South Hampshire from 2,760 to 3,830 between 2001 and 2004. The future political focus on South Hampshire as an area targeted to capture a rising share of the South East's economic growth, combined with a policy environment geared to achieving such objectives, offer further cause for optimism that the quantum of market and affordable housing stipulated within sought targets are achievable.

Breakdown of Future Affordable Housing Provision

- 10.15 There are tangible signs of a considerable shortfall in social housing in South Hampshire as evidenced by high levels of homeless acceptances, growing numbers of households on the housing register and rising numbers of households in temporary accommodation. Furthermore, the distribution of household income within South Hampshire highlights a greater dependency on the provision of social housing by the poorest elements of its population compared with the South East.
- 10.16 CACI data commissioned for this study analysed the socio-economic characteristics of the poorest through to the richest households (as defined by their household income levels) within South Hampshire and benchmarked this against the South East. A comparison of the tenure characteristics of the 10% poorest households compared with the richest 10% of households, within South Hampshire and the South East, is presented in Table 10.1 below.

Table 10.1: Tenure Composition of Poorest and Richest 10% of Households in South Hampshire and South East

Tenure	Lower Decile (0-10%)		Upper Decile (90%-100%)	
	South Hampshire	South East	South Hampshire	South East
Owner Occupied	29.7%	43.6%	90.5%	89.1%
Social Rented	60.2%	44.4%	2.2%	1.9%
Privately Rented	6.3%	8.9%	6.4%	7.5%

Source: CACI

- 10.17 As Table 10.1 highlights, within South Hampshire, 60.2% of the poorest (10%) households occupy social rented accommodation, compared with 44.4% in the South East. Currently, therefore, the vast majority of the poorest households in the Sub-Region rely on the provision of social rented accommodation. This current high dependency on social housing, combined with rising homelessness and a growing housing register within the Sub-Region, suggest that a future target of 30% to 40% affordable housing provision on new developments should be viewed as a minimum requirement and can not necessarily be relied upon to meet all affordable housing need.
- 10.18 It is possible to argue that on the basis of the current household income structure and rising homelessness that a higher overall affordable housing provision target would be more appropriate for the Sub-Region. However, DTZ believe that introducing a higher provision figure would deter and slow the future pace of housing development in South Hampshire to such an extent that fewer affordable dwellings (a larger amount per development, but fewer overall developments) would be brought forward. Further analysis of the affordable housing provision is presented in the summary paper at the beginning of this report.
- 10.19 DTZ suggest that (in order to reconcile the above considerations) cultivating an expansion in the market for intermediate housing will be an important vehicle for meeting South Hampshire's future housing need. Intermediate market products have a reduced requirement for public subsidy, which enables more affordable housing units to be produced from a given budget. Presented below is an overview of potential intermediate housing products and a preliminary investigation of the configuration these could take in South Hampshire.

Intermediate Market Products

- 10.20 This study has identified the growing number of households living in South Hampshire who can not afford to buy an appropriate house or flat in the open market, but who are equally unable to access social rented housing. Hitherto provision for this group of people has been patchy. For those living in social rented housing assistance has been provided to help free up social rented housing, through schemes such as Homebuy. Some associations have developed shared equity schemes. There has been some development of key worker housing – which also generally entails shared equity, though this has been limited to the Starter Home Initiative which has operated on a very modest scale up to now in the subregion.
- 10.21 Such developments have met with mixed success. Over past years schemes have been launched, then discontinued when priorities have changed or resources have been used up. Equally at various points in the housing market cycle, shared ownership has not appeared to provide value for money to purchasers. Such a stop-start approach has had a number of consequences.
- There is very little consumer understanding of what shared ownership involves and indeed a degree of suspicion given people's overwhelming desire to become owners (though shared equity can be a stepping stone to achieving this).
 - There are few organisations dedicated to developing intermediate housing products. Some housing associations have a track record, and some developers have dabbled in the market, but there is not the same expertise or market knowledge as in the development of housing for sale or social renting.
 - The limited volume of past activity means that there is in practice a very limited market in the sense that people can readily sell a shared ownership dwelling in one location and buy another elsewhere. There is no volume provision, such as might

drive cost reductions and provide the funds for marketing further developments in the market.

- There is the problem of continued product leakage, in the sense that with shared ownership schemes, owners can staircase to 100% ownership and then sell on the open market.
- 10.22 However, there are positives with regard to the development of a market in intermediate housing products. The need for intermediate housing products is becoming more apparent. A housing association active in the South East reports a 21% increase in enquiries in shared ownership schemes between 2001 and 2002.
- 10.23 There are indications that some developers would prefer to see shared ownership schemes rather than social rented housing developed as part of their schemes. If the presence of social rented housing is believed to depress values then it should be possible to extract more land value through a scheme involving shared ownership than social rented housing. Put simply it should be possible by negotiation to secure a larger number of shared ownership properties than would otherwise be the case.
- 10.24 From 1 April 2004 a fund is to be established in the South East to support the development of key worker housing The Key Worker Challenge Fund in the South East will provide funds for the development of a number of intermediate housing products
- Homebuy which provides an equity loan of at least 25% of the property value up to a limit of £50,000 (which of course generates additional demand without making a contribution to enhanced supply)
 - An intermediate renting product with rents set between social rented housing and open market rates
 - New build shared ownership schemes where the purchaser buys a share of the equity from a minimum of 25% and pays rent on the balance.
- 10.25 The Barker Review recommends that the provision of sub-market housing be increased, but does not indicate how resources should be split between social rented housing and intermediate housing products. The government has indicated in its response to the Barker Review that it accepts the case for increased investment in social housing, and has stated that this will begin to be addressed in the current year's spending review. Beyond an indication by the Deputy Prime Minister of the need for more affordable housing, especially for key workers and families, there has been no indication of how resources might be divided between different forms of sub-market housing.
- 10.26 In principle an increased use of intermediate housing products should be an efficient way of assisting those who are unable to afford market prices or rents. The delivery of social rented housing involves a high level of subsidy. Yet this study has shown that it is not the tenure of choice of most households. Moreover, many of those unable to afford market prices can afford to pay a higher contribution to their housing costs than paid by social housing tenants. The level of subsidy required to deliver intermediate housing products is less than that required for social rented housing, so if such products meet the needs of those unable to afford market housing, available resources can be stretched further and so assist more people who have been excluded from the market by rising prices and rents.¹

¹ It should be noted that many developers are attempting to undertake transfer deals with RSLs that are based upon transfers at market value rather than cost. Clearly this has implications on the subsidy benefit of intermediate housing provision. It is important, therefore, that developers attempting at transferring intermediate products at value rather than cost do not diminish the benefits of intermediate housing provision.

10.27 DTZ would recommend the following actions to partners in South Hampshire regarding the development of intermediate housing products:

- Partners in South Hampshire need to take an in principle decision whether they are willing to see resources secured through the planning process (via Section 106 agreements or future arrangements) for delivery of intermediate housing products rather than social rented housing. Clear criteria need to be established to inform decisions about the balance of resource allocation between these two competing demands on available resources.
- These decisions need to be informed by up to date Housing Needs Assessments (soon to become Local Housing Assessments). In future it is imperative that Housing Needs Assessments identify both the tenure preferences of those deemed to be unable to afford market housing, and the proportion of market prices they can reasonably be expected to pay. HNAs should identify what proportion of those in need can afford between 90-99% of market prices, 80-89% of market prices, 70-79% of market prices etc, so that a view can be taken of the need for housing products with different levels of implied subsidy.
- Assuming that resources from central government or through the planning system will be available for products targeting the intermediate market, partners need to establish a research programme to establish what works and procure advice on how best to develop intermediate housing products. Such research should seek to learn lessons from past development, review overseas practice, advise on the scope for development of specialist providers and the products they would provide.
- Finally, it is reasonable to expect that in due course additional government resources will be made available to support development intermediate housing products in response to the Barker Review's recommendations on this subject. Partners may wish to influence government decisions on the allocation of resources between social rented housing and intermediate housing products. This will probably be best undertaken through the Regional Housing Board. Anticipating that additional government resources will be made available for specific intermediate housing products, the South Hampshire partners should prepare now to take advantage of these additional resources. This will mean ensuring that participants know what works and can instil in government the confidence that they can deliver.

10.28 However, though useful initiatives can be taken at the sub-regional level, the development of a proper market in intermediate housing, where households have the same flexibility to buy and sell and move to a different property, depends to a substantial degree on national policy. It remains to be seen if national government will devote significant resource to developing intermediate housing products. Action at the sub-regional level can position the sub-region so as to take advantage of any such new funding by developing market knowledge and institutional capacity. It could also demonstrate to government the value of a more strategic approach to developing intermediate housing products.

Potential Composition of Future Intermediate Housing in South Hampshire: A Preliminary Investigation

10.29 For the reasons outlined above is not possible to be prescriptive about the exact structure of future intermediate housing products in South Hampshire. The demand for and supply of intermediate housing products will be dependent upon the interaction of consumer appetite, available funding resources, developer attitudes and the level of housing need. Nevertheless, DTZ have prepared a preliminary and broad investigation about the type of intermediate products that may be appropriate given household characteristics in South

Hampshire, which has been informed by data from CACI on household income and socio-economic structure.

10.30

Analysis of the poorest households within South Hampshire reveals robust scope for the introduction of intermediate market products to provide those currently residing in social rented accommodation with mechanisms to (partially) access the housing market. For example, despite the notably higher proportion of the poorest households within South Hampshire residing in social rented accommodation compared with the South East, as presented in Table 10.1, economic activity levels and the occupational breakdown of these households within the two areas are broadly similar, as presented in Tables 10.2 and 10.3. Moreover, average (maximum) incomes for the poorest 10% of households in South Hampshire and the South East are far more closely aligned than the tenure breakdown would intuitively suggest (£19,566 in South Hampshire compared with £21,588 in the South East).

Table 10.2: Economic Activity Levels of Poorest and Richest 10% Households in South Hampshire and the South East

Economic Activity	Lower Decile (0-10%)		Upper Decile (90%-100%)	
	South Hampshire	South East	South Hampshire	South East
All Economically Active	57.1%	58.9%	75.0%	72.8%
Employee	45.0%	45.9%	60.4%	56.4%
Self Employed	4.4%	6.0%	10.2%	12.5%
Unemployed	4.7%	4.4%	1.3%	1.5%
Full Time Student	3.0%	2.6%	3.1%	2.4%
All Economically Inactive	42.9%	41.1%	25.0%	27.2%

Source: CACI

Table 10.3: Occupational Breakdown of Poorest and Richest 10% Households in South Hampshire and the South East

Occupational Classification	Lower Decile (0-10%)		Upper Decile (90%-100%)	
	South Hampshire	South East	South Hampshire	South East
Managers and Senior Officials	7.8%	9.8%	22.6%	27.5%
Professional Occupations	4.5%	5.9%	16.8%	17.5%
Associate Professional and Technical Occs	11.8%	10.2%	17.6%	16.3%
Administrative and Secretarial Occs	10.6%	11.2%	14.6%	14.1%
Skilled Trades Occupations	14.0%	13.6%	7.9%	6.8%
Personal Service Occs	7.9%	9.4%	5.0%	5.0%
Sales and Customer Service Occs	10.1%	9.9%	6.0%	5.2%
Process, Plant and Machine Operatives	12.3%	10.7%	3.8%	2.8%
Elementary Occupations	20.9%	19.4%	5.7%	4.8%

Source: CACI

10.31

DTZ suggest that the adoption of (broadly) a 65:35 split in affordable housing targets between social rented and intermediate market provision could be appropriate for South Hampshire. This, we believe, could satisfy the underlying requirement for social rented accommodation whilst offering access to intermediate market housing to those with the

- ability to access it, but who currently do not have the means to enter fully into the private housing market.
- 10.32 DTZ suggest that 10% of the intermediate housing total could be used for housing let at a sub-market rent. We consider this may be suitable given the comparatively high proportion of households in elementary occupations and the relatively young age profile of those classified in the poorest households brackets (23.4% of the poorest 10% of households in South Hampshire are aged between 16-34, compared with 19.9% in the South East- see Appendix A) who are naturally more mobile and less likely be interested in shared ownership schemes. This form of intermediate market product could also offer the Sub-Region greater labour market flexibility and the ability to house mobile key workers.
- 10.33 This could be supplemented, DTZ suggest, by a further 5% of intermediate housing targeted at specific needs groups, which might take the form of assisted living units, key worker, special needs or provision for Black and Minority Ethnic (BME) Groups. Such provision might be quite mixed in tenure with elements of both renting, and ownership. Provision for BME groups may be particularly important in South Hampshire given that 8.8% of households classified in the poorest household income bracket are from BME groups, compared with 6.5% in the South East (see Appendix A).
- 10.34 The objective of building sustainable communities in South Hampshire will not, however, be well served by over provision of purely rented housing. Furthermore, South Hampshire has already witnessed a rapid growth in the number of households within the private rented sector over the last decade. Good practice would indicate the desirability of fostering tenure diversity within major new housing developments. There is also evidence from CACI that a considerable number of people in housing need in South Hampshire could afford Low Cost Home Ownership (LCHO) options, as reflected in the reasonably high maximum and minimum mean income figures of households in the lowest percentile brackets.
- 10.35 DTZ would therefore recommend that significant level of planned provision could be made for low cost home ownership (LCHO) to complement the provision of social rented accommodation and the intermediate market products outlined above. A recent report commissioned by the ODPM entitled "*Evaluating the Low Cost Home Ownership Programme*" found that consumer satisfaction with all LCHO was found to be very high, and especially so for Homebuy. In terms of subsidy, all the main LCHO schemes were found to offer value for money in the four regions: London, South East, East of England and West Midlands, although in other regions the results are mixed, with northern regions in particular scoring poorly in terms of value for money.
- 10.36 We do not favour the sale of market housing at a discounted rate, unless this can be secured on a fixed term or in perpetuity via title restrictions. This is possible by ensuring that property is sold subject to a deed of covenant that binds all future vendors to sell at the implied discount to market value at which they purchased the property (so if they bought at 85% of market value, they have to sell at 85% of market value). Without such safeguards, the ability of the first purchaser to sell the property at market value in effect removes the property from the affordable sector at the first onward sale.
- 10.37 Equally without control on who is able to buy such discounted property, the discounts may be realised by those who can buy property at full market values. Thus there needs to be some form of control on purchasers to ensure continued targeting on those in need. One arrangement is to require resale at the discounted value to an intermediary that controls onward sale or to limit onward sale to a restricted list or group of people.
- 10.38 We recommend that part of the low cost home ownership component of the affordable housing quota (say 10%) could be achieved through protected discount sales (as described

in para 9.27 and 9.28) and part in the form of general needs shared ownership (say 10%). The proportion of dwellings provided by these different mechanisms of LCHO will need to be determined in the light of market conditions as development proceeds.

10.39 A summary of the proposals outlined above for the indicative mix of affordable housing is presented below.

Summary of Preliminary Example of Affordable Housing Mix

Overall 30% target of affordable housing, split 65% social rented and 35% intermediate market products. Composition of intermediate market products:

- 10% Sub-market rented
- 5% Client group specific housing eg assisted living, key worker or BME housing
- 10% Low cost (intermediate) home ownership – shared ownership
- 10% Low cost (intermediate) home ownership – discounted sales- term to be determined

10.40 As presented in Table 10.4 and 10.5 below, the data from CACI highlights that a large proportion of those occupying the lowest household income bracket and therefore most likely to be defined as facing housing need are single parents families and single people. Much of the existing social housing stock in South Hampshire, which is still dominated by local authority dwellings, comprises family accommodation. For example, over 50% of other social rented accommodation comprises terraced, semi-detached and bungalow properties. There is, therefore, potential scope to plan in greater provision of smaller units into the affordable housing component of new developments.

Table 10.4: Household Composition of Poorest and Richest 10% Households in South Hampshire and the South East

Household Composition	Lower Decile (0-10%)		Upper Decile (90%-100%)	
	South Hampshire	South East	South Hampshire	South East
One Person Households	41.1%	39.7%	18.2%	18.3%
Married Couple Households	20.7%	23.7%	54.7%	54.7%
Cohabiting Couple Households	7.7%	7.9%	7.8%	7.3%
Cohabiting couple family households - no Children	3.1%	3.5%	5.2%	5.0%
Cohabiting couple family households - with Children	4.6%	4.4%	2.6%	2.4%
Lone Parent Households	15.8%	13.1%	5.1%	4.5%

Source: CACI

Table 10.5: Proportion of Single Person Households Within Richest 10% Households in South Hampshire and the South East

Single Person Households	Lower Decile (0-10%)		Upper Decile (90%-100%)	
	South Hampshire	South East	South Hampshire	South East
Single Person Households	41.1%	39.7%	18.2%	18.3%

Source: CACI

- 10.41 Intermediate market products help break down the stigma of social renting by using affordable, flexible, intermediate products. By addressing supply in the intermediate housing market in more creative ways, improved choice and tenure mobility can be delivered in the wider housing market. The current socio-economic structure and household income distribution within South Hampshire suggests that there is considerable scope for the introduction of such intermediate products within the sub-region. The preceding analysis has attempted to provide a broad preliminary overview on a potential configuration that such intermediate products could take. It is not meant to be prescriptive or formulaic, but rather should be viewed as an indicative potential structure for affordable and intermediate housing in South Hampshire, given the characteristics of those either occupying or most likely to occupy social rented property in the future.
- 10.42 As previously stated, the precise form that intermediate market products in South Hampshire will take will need further development and will be determined by a combination of market appetite, funding pots, housing need and developer's attitude. Nevertheless, it is clear that significantly increasing the volume of such intermediate housing market products will be central in meeting the Sub-Region's future housing needs and maximising the effectiveness of public housing finances.