

3 DRIVERS OF THE HOUSING MARKET

3.01 The housing market of any area is driven by a range of demand and supply factors (see Figure 3.1). The same factors exist across the country but the way in which these factors operate differ considerably between different housing markets. It is this which gives rise to significant differences in housing markets across the country. This section outlines the generic factors which to varying degrees impact on all housing markets before subsequent sections address the specific trends and dynamics of the South Hampshire housing market.

Market Demand and Housing Need

3.02 In thinking about the housing market it is helpful to recognise the distinction between housing demand, housing need and housing requirement.

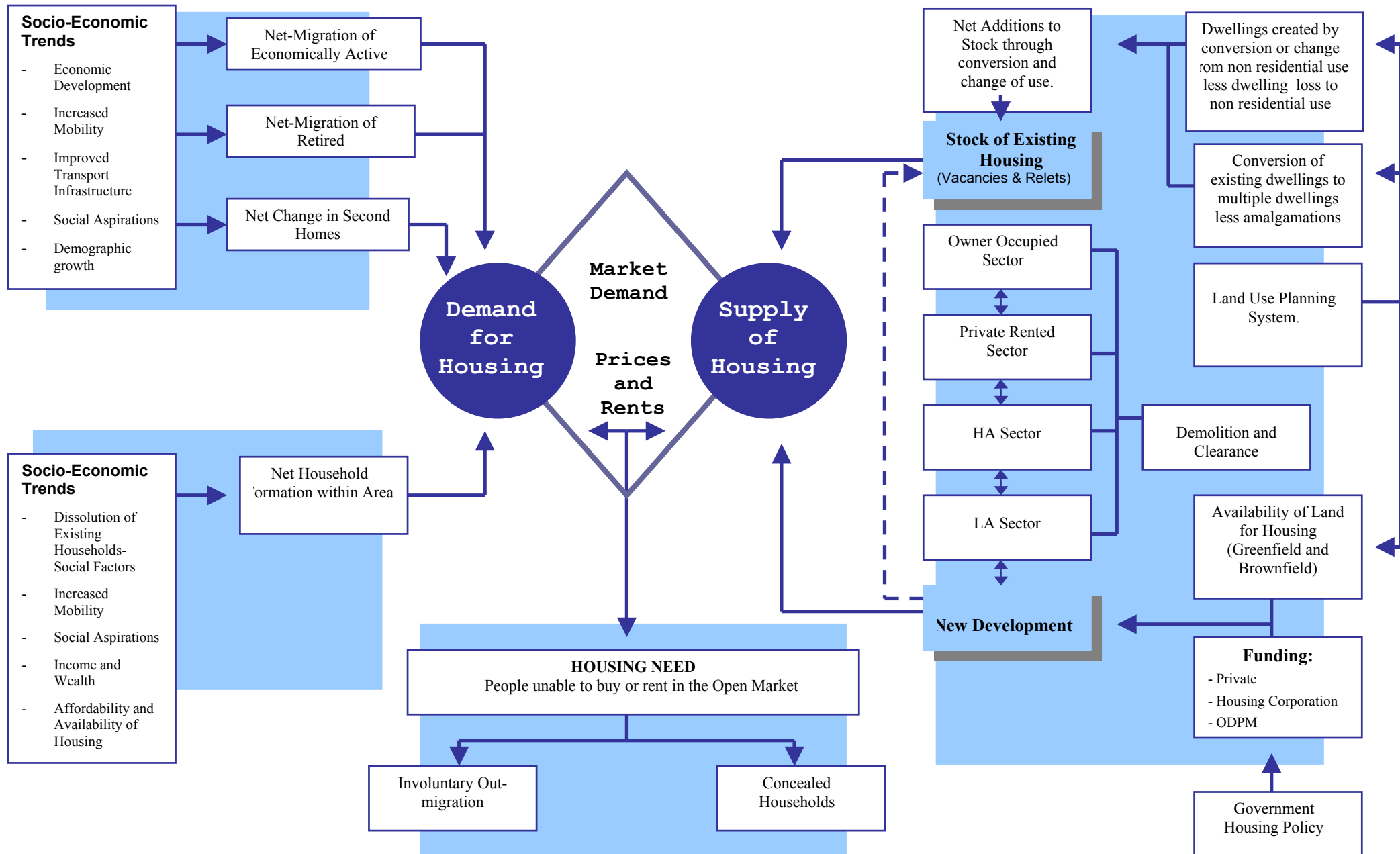
- **Housing Demand** is the quantity of housing of the type and quality that households both want and can afford to buy or rent in the open market without subsidy. Housing demand thus takes into account both preference and the ability to pay.
- **Housing Need** is the quantity of housing of the type and quality necessary to house those households currently lacking their own housing, or living in housing which is unsuitable or inadequate and who can not afford to buy or rent suitable housing in the open market. So housing need takes account of those without adequate housing who are unable to resolve their situation without assistance. It is also increasingly taking into account choice based lettings.
- **Housing requirement** encompasses both housing demand and housing need, and is therefore the quantity of housing necessary for all households to have access to suitable housing, irrespective of the ability to pay. Put simply, it is the amount of housing needed to accommodate the population at appropriate minimum standards as defined by government or in local policies.

3.03 Some confusion arises in housing policy around the use of the term ‘affordable housing’ since the term can be used to embrace entry-level market housing as well as extending to include shared ownership and social rented housing. Thus Circular 6/98 Planning and Affordable Housing states *‘the term affordable housing and affordable homes are used in this Circular to encompass both low cost market and subsidised housing (irrespective of tenure, ownership – whether exclusive or shared – or financial arrangements) that will be available to people who cannot afford to rent or buy houses generally available on the open market’*.

3.04 DTZ believe that it is preferable to categorise housing provision into the follow market segments:

- **Market Housing** where the purchaser, owner or tenant pays the full market cost or rent without subsidy. Since the abolition of Mortgage Interest Relief in 2001 there is no longer any subsidy for owner occupiers. It is relevant to note however that the Barker Review estimates that private tenants incur costs around 18% higher than an owner occupier occupying an identical property. Standard entry level housing that is delivered without any subsidy and without any protection that ensures that the housing remains ‘affordable’ would fall within our definition of market housing.
- **Social Rented Housing** where housing is allocated on the basis of need rather than ability to pay and rents are set below market levels. The development of new social rented housing is critically dependent on subsidy of development costs either from public funds or cross subsidy based on the capture of enhancements in land value associated with the award of planning permission. The social rented housing sector comprises both local authority and housing association housing for rent.

Figure 3.1: A Conceptual Framework for the Operation of Housing Markets



- **Intermediate Housing** is a relatively new phrase designed to describe the growing number of interventions that seek to assist those who are ineligible for social rented housing but can not afford market housing. This is what is referred to in the Barker Review as sub-market housing. Such interventions include the provision of shared ownership, discounted equity and fixed equity and cost rent schemes. Such schemes typically require an element of public subsidy or cross-subsidy from commercial development secured through capturing part of the enhancement in land value associated with the granting of planning permission.
- 3.05 It is relevant to note in this discussion that key worker housing could in theory fall into any of the above categories, though in practice most schemes fall into the intermediate housing category. Key worker housing is targeted at a particular group of occupiers and is not a particular form of tenure.

THE DEMAND FOR HOUSING

- 3.06 The overall demand for housing is a function of the number of households living in an area. Changes in the total number of households are brought about either by:
- net changes in the number of households living in the area attributable to change within the population already living in the area and average household size
 - net changes in the population, and hence households, brought about by migration into or out of the area.

The key drivers of these two components of demand are examined in brief below.

Internal Drivers of Demand

- 3.07 Internal drivers of demand can be thought of as those factors that influence the rate of household formation or dissolution among the resident population of an area. The key influences are as follows:
- **The natural rate of population growth.** This refers to the growth or decline of the population of an area excluding the effect of migration into or out of the area. Broadly speaking the faster the growth of population in an area, the more rapidly one would expect the number of households to increase and the greater the demand for housing. The converse is true if the population of the area is declining. In the UK the natural rate of population growth is low since birth rates have fallen dramatically over the past century. This has been partly offset by people living longer and the associated fall in death rates.
 - **The rate of household formation.** A major driver of housing demand in recent years has been the increase in the number of households per thousand of population associated with declining average household size. This has been brought about by a number of influences – the growing proportion of adults in the population as birth rates have fallen; the increasing number of adults who chose to live alone as people form stable relationships at a later age; and the increasing number of older people couples or singles who live alone since children have grown up and left the family home.
- 3.08 Social change underpins the changes in the rate of household formation and natural population growth described above. These include changing attitudes to marriage, to the role of women in the workplace, and changes in the number of children couples choose to have. Social change is brought about in part by economic and technological change. The decline in the average number of children per family has been associated worldwide with

rising incomes and the availability of birth control. Generally, however, such changes occur relatively slowly and their impact on the housing market is fairly predictable.

- 3.09 Of more direct relevance to this study is the impact that a variety of other changes can have on the composition of demand. Rising incomes and wealth have been and will continue to be associated with demand for higher standards of housing. At the same time the availability and affordability of housing can itself influence the rate of household formation or average household size. Where housing becomes less affordable young people may delay leaving the parental home, or there may be an increase in households comprised of unrelated individuals who share accommodation and housing costs.

External Drivers of Demand

- 3.10 The other major component of demand, the effect of migration, is much less predictable than factors that change the underlying rate of household formation or dissolution. In the South of England as a whole there is increasing requirement for housing development which reflects the strength of the economy and a growing population. However in many areas there are significant tensions between this demand and the supply of development land.
- 3.11 Another key feature of the South East region is the relationship with London, which exerts a considerable influence over the whole of the South East. London is the largest source of in-migrants to the South East region. In 2003, 96,000 people entered the South East to live from London, compared to 49,000 people leaving the South East to live in London. Overall, therefore, net inward migration from London to the South East is around 50,000 people per annum, according to latest estimates.
- 3.12 We have not analysed the pattern of migration as part of this study, but there is a well documented process that London experiences in-migration of young people as students, young single people and childless couples (as well as significant levels of international in-migration) from around the country. As these people get older and start to purchase property or consider starting families they often move to more suburban areas, such as those found in the South East. Therefore, London acts as a form of conduit through which migrants from around the country enter into the South East.
- 3.13 These in-migrants may continue to work in London – so the pattern of in-migration is linked to the observed pattern of commuting into London, though there will also be those who move into the South East from London who also change their place of work. Those moving into the region from London will tend to have greater financial resources due to higher salaries obtained in the capital and possibly greater housing equity has an impact on sub-regional markets in the South East.
- 3.14 This situation has led to the designation of the Thames Gateway, Milton Keynes and Ashford as priority growth areas to help accommodate the excess demand from elsewhere in the region, arising from net in-migration, natural population growth and declining household size.
- 3.15 In Great Britain internal migration patterns are influenced by the relative performance of regional economies and employment opportunities and then by regional and sub-regional house price differentials.

THE SUPPLY OF HOUSING

- 3.16 There are two key dimensions of housing supply that it is important to understand. First the overall stock of housing changes only very slowly, though it is important to assess the extent to which housing supply responds to price signals that indicate rising demand.

Second it is important to understand the inter-relationship between the stock of housing in different tenures and how tenure shifts occur in response to demand and other factors.

Changes to the Overall Stock of Housing

- 3.17 In general the overall stock of housing only changes very slowly. The lack of responsiveness of housing supply to increases in house prices is examined in the Independent Review of Housing Supply conducted by Kate Barker on behalf of HM Treasury. The Final Report published in March 2004, notes that over the last 30 years real house prices in the UK have increased by around 2.4% per annum, while in Europe as a whole they have increased by only 1.1%. The Review concludes that a key factor in the inflation of house prices is persistent inadequate supply of new housing supply.
- 3.18 The Review identifies the constraints on housing supply in the UK. The Review indicates that the underlying constraint of housing is the supply of land. The Review suggests that land supply is constrained by a number of factors:
- The housebuilding industry, its response to risk and the speculative nature of land leading to a reluctance to build out large sites quickly
 - The increasingly complex nature of sites (especially brownfield sites) where significant remediation may be required
 - Land ownership and the incentives to bring forward for development along with the difficulties of site assembly where ownership is fragmented
 - The planning system and its influence over the amount of land which is made available and whether development is viable through the delivery of necessary infrastructure
 - Land use is politically contentious.
- 3.19 The government is developing its response to the Barker Review. Within the South Hampshire context, however, it is the role of organisations such as SEEDA and Local Authorities to overcome such constraints through site assembly, reclamation of brownfield sites, and forward planning. The approved RPG and development of the Regional Spatial Strategy should provide an agreed framework for land use planning in the South Hampshire sub-region.

Changes to the Tenure Balance of the Stock

- 3.20 The stock of dwellings in different tenures has changed significantly over the past decade as a result of differential rates of development of housing of different tenure and shifts in tenure within the existing stock.
- **The overall stock of owner occupied property has increased.** The majority of new housing development has been for sale, though the emergence of the Buy-to-Let phenomenon has meant that some new development has resulted in the expansion of the private rented sector. The stock of owner occupied dwellings has also expanded as a result of people exercising the Right to Buy on local authority owned dwellings.
 - **The stock of local authority owned dwellings has shrunk significantly in the last decade.** For all practical purposes there has been no development of new local authority dwellings. Nationally there has been a trend towards local authorities transferring stock to the management of Housing Associations (RSLs), whilst the stock of local authority dwellings has also continued to dwindle as people exercise the Right to Buy. Within South Hampshire, Eastleigh, Test Valley, Havant and East

Hampshire have all transferred the entirety of their stock to RSLs, whilst Gosport has undertaken partial LSVT.

- **The stock of housing association properties has increased as a consequence of new development and stock transfer.**
 - **The stock of private rented housing has expanded considerably over the last decade.** This growth has been achieved at the expense of the owner occupied sector. By implication growth must have been achieved both through a significant proportion of new dwellings being bought under Buy-to-Let¹ arrangements or more commercial investors; and through some of the existing owner occupied stock of housing moving into the private rented sector. Over the decade these national trends are true of South Hampshire, although recent fluctuations in the housing market has in the short term reduced the stock of private rental accommodation.
- 3.21 It is also important to understand the way in which demand for different tenures impacts other tenure sectors.
- 3.22 The owner occupied sector is the dominant form of tenure and the tenure of preference of the vast majority of residents. The sector is so dominant in terms of the housing market (since social rented and intermediate housing can be thought of outside the market mechanism) that what happens in the owner occupied sector has major implications for all the other forms of tenure. Put simply, if people cannot access owner occupied housing, this will increase demand in both the private rented sector and the social rented housing sector.
- 3.23 The converse is also true as is evident in areas of the country with systemic low demand. If the owner occupied sector is easily accessed, then typically one sees the impact in terms of low demand for social rented housing and private rented housing, and abandonment of the worst privately owned properties. Understanding the dynamics of the owner occupied sector is therefore critical to social and private sector landlords.
- 3.24 Where declining affordability in the owner occupied sector leads to increased demand in the private rented sector, this can be expected to have a number of effects. Increasing demand can generally be expected to lead to increased rents. Little is known about how the supply of rented properties responds to increasing rents, but in the context of a general shortage of housing it seems unlikely that a significant new supply of private rented properties will be called forth by higher prices.
- 3.25 Increased private sector rents are likely to have two important implications. First it is probable that those on the margins of owner occupation can outbid those already in the sector in the competition for the best properties. So over time, one can expect to see a process by which those on slightly higher incomes displace those on lower incomes into less good properties, and at all levels in the market people end up paying higher rents. This is likely to lead to higher Housing Benefit costs, with a consequent diversion of public sector resources from other priorities.
- 3.26 At the bottom end of the market, typically where the most vulnerable people live, tenants may find themselves unable to access rented properties. They are likely to look to social rented housing providers to assist them, putting already stretched social rented housing resources under further pressure. In many cases these tenants may not be accorded priority by social housing landlords, so they may end up sharing or on the streets. What appears

¹ The growth of the Buy-to-Let market has been a key characteristic of the housing market in the UK during the early 00s. According to Datamonitor, the number of buy-to-let mortgages rose by 50% in 2001 as people looked to profit from soaring house prices and growing demand for rented property.

therefore as house price inflation has direct knock on effects that ultimately can lead to increased street homelessness.

- 3.27 Rising costs in the owner occupied sector therefore impact on the social housing sector, largely by displacing people from the private rented sector. It is increasingly possible to think of the local authority and housing association sectors as a single sector, albeit it is comprised of two different types of landlord, with different governance structures. Local authorities have nomination rights over a large proportion of new housing association tenancies, and increasingly housing association development priorities are agreed in conjunction with local authority partners.
- 3.28 Figure 3.1 above, shows the key underlying factors which contribute to the working of a housing market and it is this framework which underpins the subsequent analysis of the South Hampshire housing market.