

## 9 Future Housing Requirements

9.01 This section of the report focuses upon the likely scale and composition of future housing demand in the South Hampshire housing market and the resulting implications this has for the supply of housing development. The analysis draws upon the demand and supply examination presented in the previous report sections, as well as a wider body of evidence taken on the historic and forecast pattern of change within the overall housing market.

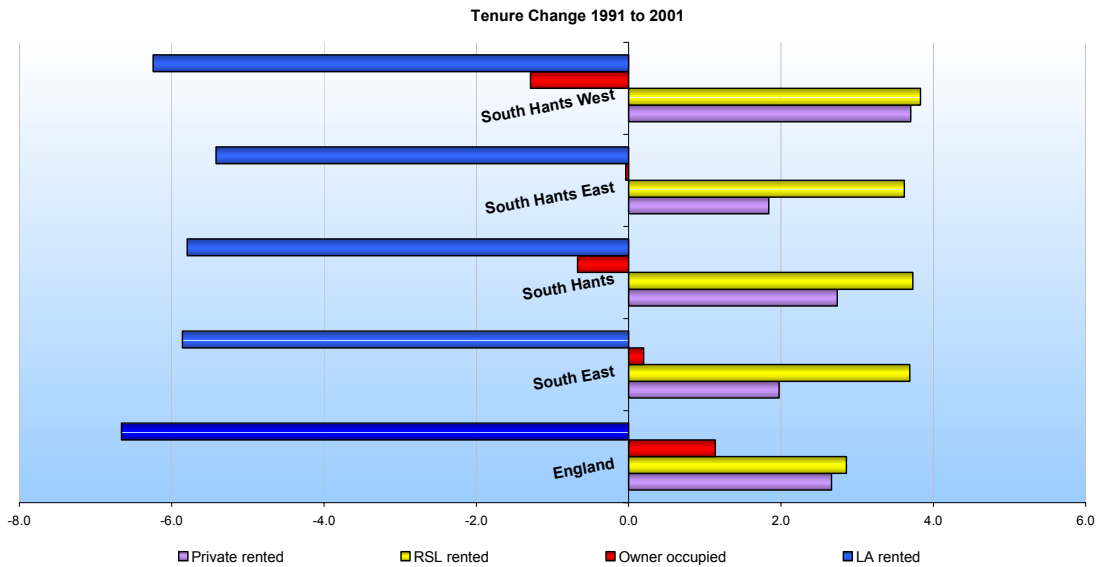
### Key Points

- Patterns of tenure change in South Hampshire have generally followed an alternative path to those exhibited in the South East and the country as a whole. Between 1991 and 2001, the proportion of the Sub-Region's households classed as owner-occupiers fell from 72.4% to 71.7%. This fall was in marked contrast to the pattern observed nationally and, to a lesser extent, regionally,
- Analysis suggests that a period of sustained economic growth in the Sub-Region is not only unlikely to reduce the demand for affordable housing, but that due to the polarised nature of household income distribution during times of economic expansion, higher economic growth may actually generate an enhanced need for affordable housing provision in South Hampshire.
- Within South Hampshire there appears to be a much greater reliance upon the provision of social housing from the poorest households in the sub-region than exhibited in the region as a whole.
- The overall consensus on the future pattern of house price increases is that they are likely to remain broadly stable, and that a significant fall is unlikely due to strong underlying economic dynamics. For South Hampshire, this suggests that the recent above average inflation in house prices and the catalytic effect this has had on affordability levels should begin to ease, particularly once wages have had an opportunity to draw nearer with house prices.

### Tenure Change

9.02 Patterns of tenure change in South Hampshire have generally followed an alternative path to those exhibited in the South East and the country as a whole. Between 1991 and 2001, the proportion of the Sub-Region's households classed as owner-occupiers fell from 72.4% to 71.7%. This fall was in marked contrast to the pattern observed nationally and, to a lesser extent, regionally, as highlighted in Figure 9.1 below. Over the same period within the South East and England owner occupation grew as a proportion of total household tenure by 0.2% and 1.1% respectively.

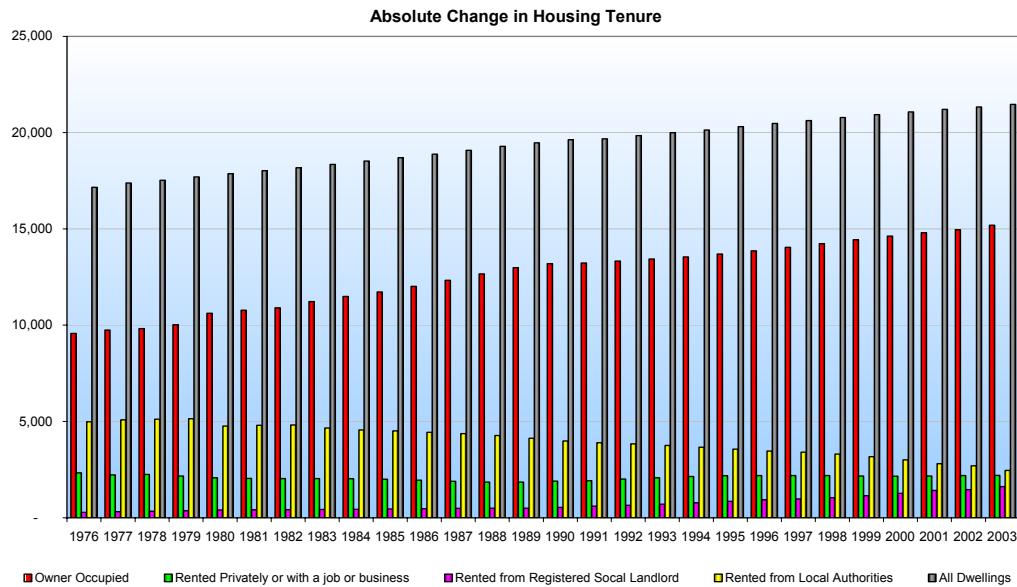
Figure 9.1: Change in Tenure Proportion 1991 to 2001 (Ward)



9.03 Owner occupation tends to be viewed as the tenure of choice for those in society with the means to access it and the aspiration of those that do not. Owner occupation has grown nationally as a result of factors such as the removal of mortgage rationing (financial deregulation), uncertainties over the performance of other forms of long term investments (notably equities and pension funds) and, until recently, the existence of historical tax breaks through mortgage tax relief. Figure 9.2 below presents the national pattern of long-term change between tenures over the last thirty years.

9.04 Such phenomena are likely to have had an equally significant impact on the population of South Hampshire as on the rest of the country's population. However, low wage rates, restricted new housing supply and the consequent lack of affordability have precluded many households from accessing and purchasing property, which has forced them into privately and socially rented accommodation. As Figure 9.1 illustrates, growth in the private rented sector has been substantial in South Hampshire, and its proportionate increase has been notably greater than that observed in both the regional and national benchmarks.

Figure 9.2: Absolute Long Term Change in England's Housing Stock By Tenure



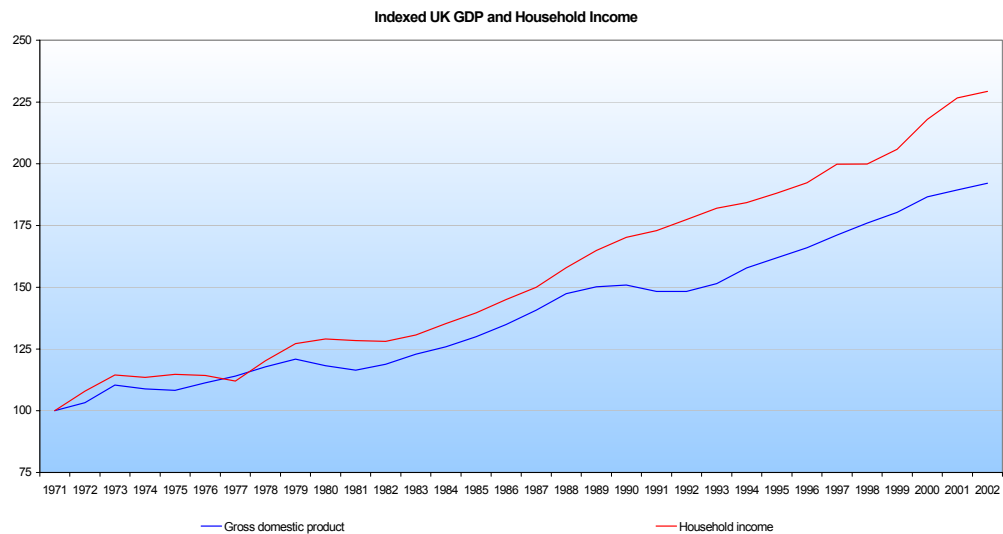
- 9.05 The current trends in tenure displayed in South Hampshire suggest that owner occupation will account for a progressively smaller share of total households in the sub-region, unless re-corrective measures are introduced to ease affordability constraints and enhance access to this tenure. However, the question of whether previous tenure patterns will continue is unclear. The rapid expansion in the private rented sector in South Hampshire has been principally driven by the growth in students and young professionals. Commentators generally agree, however, that the private rented sector, and the buy-to-let phenomenon that has underpinned it, is likely to slow in the future, unless institutional mechanisms (such as REITS) to invest in residential property are introduced.<sup>1</sup>
- 9.06 The question therefore arises that if household numbers continue to rise but the private rented sector slows, which tenure classification will grow to accommodate future household growth? Entry into owner occupied property will remain constrained unless prices fall substantially (which as the analysis later in this section suggests seems unlikely). Housing Need will continue to rise, as will the need for intervention and provision of new social rented accommodation.
- 9.07 However, resources for the provision of new social rented accommodation are limited and the provision of social housing is subsidy hungry. Therefore, expanding the development of intermediate market housing, which require less subsidy per unit (thereby allowing more units to be produced) and enables a greater quantum of housing need to be met with a given budget, is likely to prove an increasingly important vehicle for meeting future housing need. A more detailed analysis of intermediate housing products and their potential introduction into the South Hampshire housing market is presented in Chapter 10.

<sup>1</sup> Real Estate Investment Trusts (REITS) were cited in the Barker Review as offering the potential to open up new sources of private investment for housing.

## Household Income

- 9.08 People's income determines how much they are able to spend and save and therefore the access that they have to goods and services for which payment is required. The level and distribution of income within the economy therefore determines the level of access that individuals are able to gain to the housing market- normally the most expensive good for which payment is required. As a result, the level and distribution of household income within the economy underpins the structure of demand for housing.
- 9.09 Thus, although income is primarily an economic concept, it also has an important influence on social well-being. Shelter is a basic human requirement, which, if left to the free market mechanism, would be denied to those without sufficient income. Consequently, considerable resources are provided to ensure that those who cannot afford market housing are adequately housed either through direct provision of housing (council or housing association homes) or subsidy (Housing Benefit).
- 9.10 Figure 9.3 below charts the growth in total household incomes<sup>2</sup> in the UK against GDP<sup>3</sup> since 1971. Between 1971 and 2003 total household income growth in the UK has been markedly greater than the growth in GDP. This is likely to be attributable to the increasing numbers of earners within a given household.

**Figure 9.3: UK Real Household Disposable Income per Head and GDP per Head-1970 to 2003 (Indexed)**



Source: ONS

- 9.11 The growth in real household incomes would intuitively suggest that, as total income has increased and out-paced economic growth in real terms, more people in the UK would be able to gain access to the property market and that the pressure for affordable housing provision would ease as a result. Yet the rise in overall household income highlighted in Figure 9.3 above masks the way in which the growth in household income has been distributed across the different income groups.
- 9.12 Figure 9.4 presents the distribution of the growth in the UK in real household disposable income since 1971, as documented by the Institute of Fiscal Studies (IFS). As reflected in the graph, the 1980s were characterised by a large increase in household income inequality,

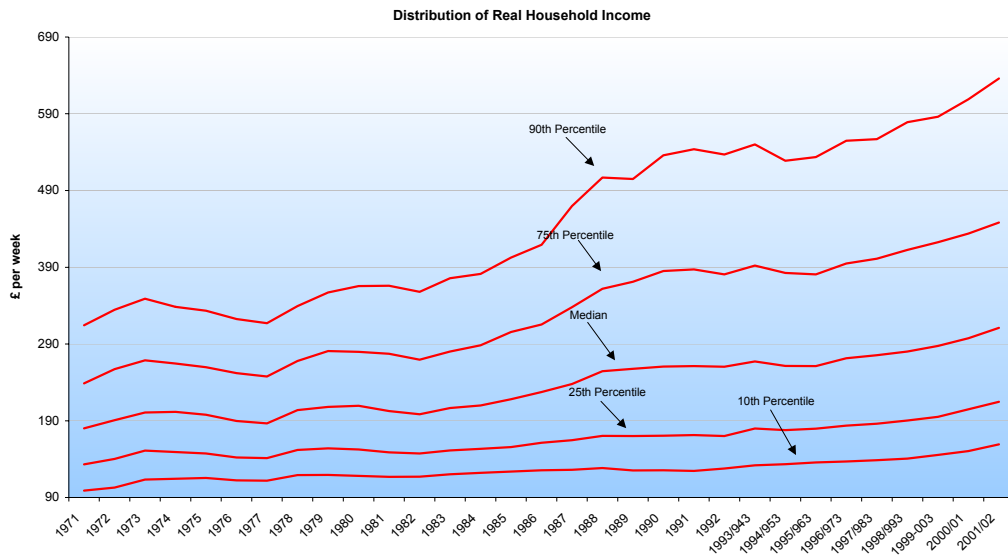
<sup>2</sup> Household income is derived not only from economic activity in the form of wages and salaries and self employment income but also through transfers such as social security benefit.

<sup>3</sup> Gross Domestic Product (GDP) is the most commonly used measure of overall economic activity

with the higher percentile income groups enjoying much of the quantum of income growth. Between 1981 and 1989 average (median) income rose by 27% when adjusted for inflation, whereas income at the ninetieth percentile rose by 38% and the tenth percentile rose by only 7%. In the late 1990s there was a further small increase in inequality even though incomes have continued to grow in real terms.

- 9.13 The overall message to emerge from figure 9.4 is that households occupying the higher percentile income groups have disproportionately captured the overall growth in household income. Conversely, those households occupying lower percentile income groups have witnessed only marginal increases in their income.
- 9.14 One of the key reasons behind the increase in inequality is wage growth. Inequality tends to rise during periods of rapid wage growth as the poorest households are the most likely to contain non working individuals. Other factors lie in the retrenchment of welfare in the 1980s and 1990s, which contributed partly to the increase in inequality (Anderson, 2004). The recent small increase in inequality has been caused by changes at the very top and very bottom of the income distribution.

**Figure 9.4: Distribution of Real UK Household Disposable Income 1971 to 2002**



Source: IFS

- 9.15 A similar trend can be observed in the South East of England, one of the most buoyant regional economies in Europe. Overall, the historic performance of the South East economy has consistently outstripped the national average. Over the last decade, for example, GVA per head in the South East has steadily been greater than the UK average in nominal terms and has risen more rapidly in proportionate terms.
- 9.16 However, the South East also currently has one of the most polarised household income structures in the UK. Table 9.1 presents weekly household distribution at the regional level and exposes the highly polarised household income distribution in the South East. For example, the South East contains 21% of the UK's households which earn more than £1000 per week and 10% of the households earning less than £100 per week. The South West, by contrast, contains just 7% of the UK's households which earn more than £1000 per week and 8% of the households earning less than £100 per week. Overall, the distribution of household income in the South East most closely resembles that of London.

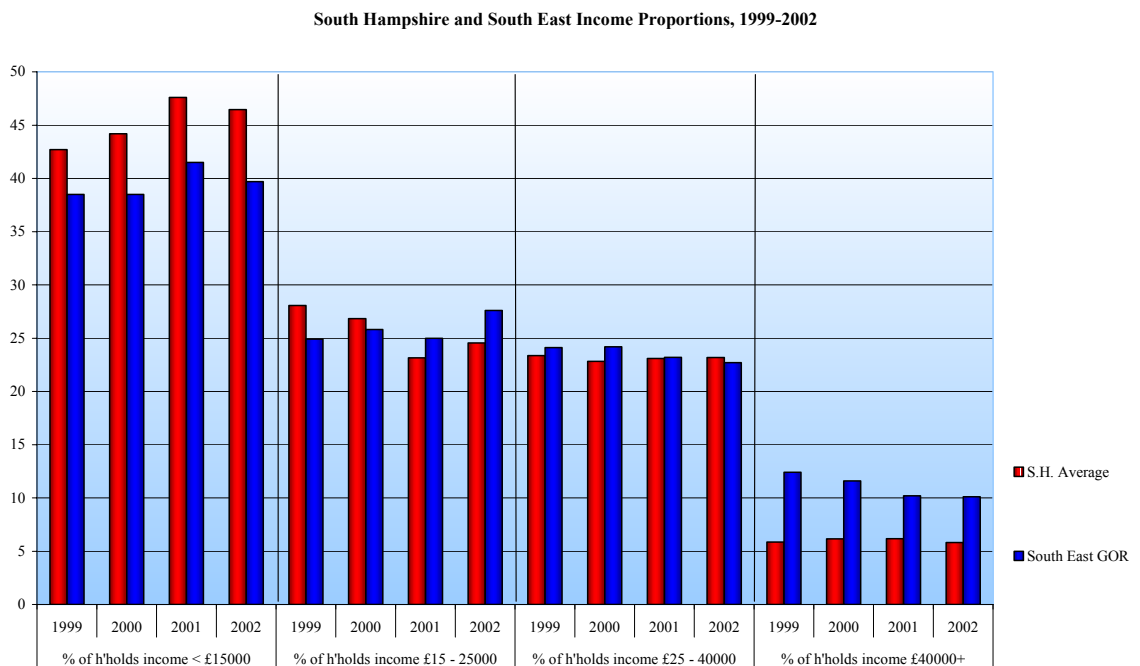
**Table 9.1: Regional Weekly Household Income Distributions 2002/03- Percentage of Households in Weekly Total Income Bracket**

£/REGION	<100	>100 but <200	≥ 200 but <300	≥ 300 but <400	≥ 400 but <500	≥ 500 but <600	≥ 600 but<700	≥ 700 but<800	≥ 800 but <900	≥ 900 but ≥ <1000	≥ 1,000	All hholds
UK	100	100	100	100	100	100	100	100	100	100	100	100
England	83	81	82	82	85	83	85	84	87	85	88	84
South East	10	10	10	12	13	13	15	17	16	15	21	13
London	13	10	12	12	12	11	12	15	16	17	20	13
South West	8	8	8	9	10	8	8	8	7	8	7	8
North East	5	6	6	5	4	5	3	3	5	4	2	5

Source: DWP Family Resources Survey

- 9.17 The corollary of the preceding analysis is that whilst economic expansion is associated with overall household income growth, the distribution of this income growth tends to disproportionately favour higher income households. This would suggest that as the economy expands over time and as the total number of households increase (through either inward migration or natural population expansion) a comparatively larger number of households may enter and occupy the income brackets associated with the need for affordable housing provision.
- 9.18 This has clear implications for the South Hampshire economy and its future development and expansion. It suggests that a period of sustained economic growth in the Sub-Region is not only unlikely to reduce the demand for affordable housing, but that due to the polarised nature of household income distribution during times of economic expansion, higher economic growth may actually generate an enhanced need for affordable housing provision in South Hampshire.
- 9.19 Figure 9.5 presents household income distribution in South Hampshire and how this has changed over time. One is able to observe that, according to the latest estimates, South Hampshire has a significantly higher proportion of households earning less than £15,000 pa than in the South East. Moreover, despite the rise in economic growth during the late 90s and early 00s, the proportion of households within the lowest household income bracket has actually risen. Thus, not only is there likely to be sustained need for additional affordable housing provision in South Hampshire in the future, but historic patterns of household income distribution suggest that this need is likely to be heightened by a period of managed economic growth, as is currently planned.

Figure 9.5: South Hampshire and SE Household Income Distribution 1999-2002<sup>4</sup>



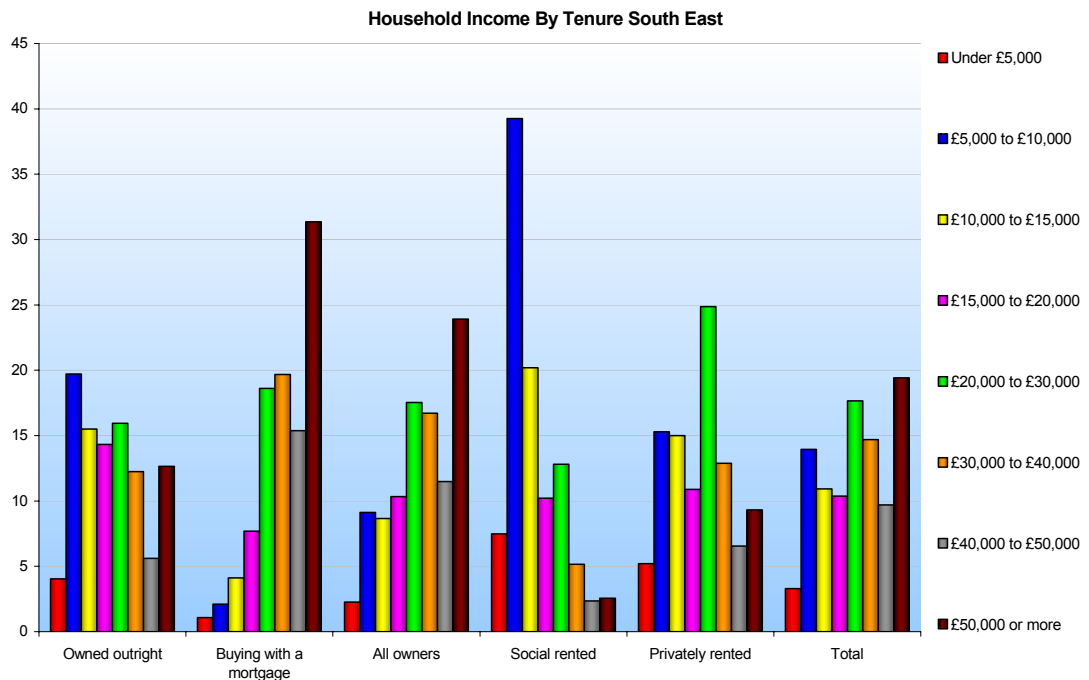
9.20 The need for increasing the supply of affordable housing resulting from growth in income inequality is increasingly recognised in national policy. The UK Housing Review 2002/03 highlights that the ODPM housing budget will not be sufficient to increase the supply of affordable housing to the required level. Current plans for 2002/03 show approvals of 22,000, against the recent estimates of affordable housing requirements at over 80,000 per annum (Holmans, 2001). However, account must also be taken of the other programmes that add to the supply of new affordable housing, including the local authority funding for new housing association schemes.<sup>5</sup> For example, in 2000/01 local authorities funded some 8,500 new housing association dwellings.

9.21 In order to examine the implications of rising household income on the structure of housing demand it is therefore necessary to establish the link between household income and household tenure. Household income by tenure for the South East is presented in figure 9.6 below, which illustrates the proportion of households within each tenure category that fall within each household income bracket.

<sup>4</sup> The analysis presents data for the 6 LAs wholly contained in the South Hampshire spatial area.

<sup>5</sup> Local Authority housing grant has, however, now been terminated.

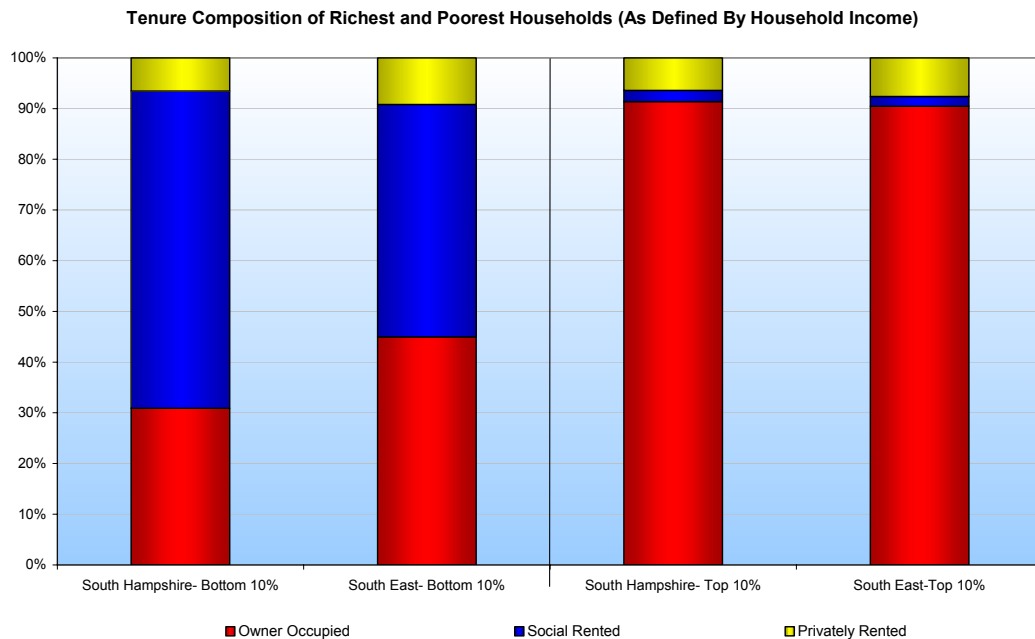
Figure 9.6: South East Weekly Household Income By Tenure 2002-2003



Source: ODPM Specially Commissioned Tables

- 9.22 Unsurprisingly, within the South East the social rented tenure has the highest proportion of households within the lowest income brackets, with around 45% of households earning between £0-10,000 per annum. Those owning outright, which will tend to comprise older and retired population groups, have the next lowest household income distribution. By contrast, those buying with a mortgage tend to have the highest household incomes of all tenures, with 32% of households within this tenure earning more than £50,000 per annum.
- 9.23 Within South Hampshire, not only is the clear link between household income and tenure apparent, but there appears to be a much greater reliance upon the provision of social housing from the poorest households in the sub-region than exhibited in the region as a whole, as reflected in Figure 9.7 below. Within South Hampshire, 60% of the poorest 10% of households (as defined by household income) reside in social rented accommodation, compared with just 44% in the South East. However, the tenure composition of the richest 10% of households is broadly similar.

**Figure 9.7: Tenure Composition of Poorest and Richest 10% of Households in South Hampshire and the South East (Ward)**



Source: CACI

9.24 The maximum average income of those within the poorest 10% of households is recorded by CACI as £19,560 for South Hampshire compared with £21,590 in the South East. This suggests that even a small growth in the household incomes of the poorest 10% of households in South Hampshire may have the potential to lift a considerable number of households from the social rented sector and into the private rented or owner occupied sector. Average weekly private rents, for example, are almost identical in South Hampshire and the South East (£104 in South Hampshire compared with £103 in the South East). Moreover, average house prices are considerably lower in South Hampshire than in the South East. The challenge for the Sub-Region will therefore be to distribute more equitably the likely future growth in household income (accruing from sustained economic growth) across the full spectrum of households within its vicinity.

### Changes in Size and Type of Dwelling Stock

9.25 Table 9.2 below presents the proportional changes in the size of dwellings in South Hampshire, the South East and England between 1991 and 2001. In 2001, the sub-region exhibited a higher proportion of smaller sized dwellings than that displayed regionally. For example, South Hampshire and the South East shared broadly similar concentrations of one, two and three to four room dwellings. However, South Hampshire recorded a higher proportion of 5 to 6 room dwellings (49.1%) compared with the South East (45.2%) and a lower proportion of dwellings with 7+ rooms (20.2% compared with 24.6% in the South East). South Hampshire has, however, followed similar overall trends to the South East and England, in terms of rises in the concentration of larger sized dwellings since 1991.

**Table 9.2: Proportional Change in Size of Dwellings 1991-2001 (Ward)**

	1 room		2 rooms		3-4 rooms		5-6 rooms		7+rooms	
	1991	2001	1991	2001	1991	2001	1991	2001	1991	2001
England	1.7	0.9	3.6	2.5	29.3	29.2	50.5	47.6	15.0	19.8
South East	1.8	0.8	3.6	2.4	26.2	27.0	49.2	45.2	19.2	24.6
South Hants	2.0	0.8	4.0	2.5	26.0	27.4	53.1	49.1	14.8	20.2
South Hants East	1.6	0.6	3.7	2.3	25.4	26.2	54.7	50.7	14.6	20.1
South Hants West	2.4	1.0	4.5	2.8	26.7	28.6	51.3	47.3	15.1	20.3

*Source: Census 1991-2001*

9.26 Given the recent and forecast decline in average household size in South Hampshire and the South East one could argue that the provision of future housing should be geared towards the provision of smaller dwellings that better match household size and which would enable a more efficient utilisation of existing residential space. However, recent research by Professor Dave King on householder preferences and the post 2001 boom in small dwelling completions in South Hampshire (plus those in the pipeline) indicates a contrary view might be that South Hampshire is in danger of moving too far towards small accommodation and should perhaps be planning to build larger properties. This may be especially important if the area is to meet the needs of in-migrants. Although most are expected to comprise one or two person households, their age structure (66% between the ages of 15 and 45) would suggest that many would aspire to form families before too long and be looking for something larger than a 1 or 2 bed property.

9.27 The notion that smaller households want to live in smaller dwellings, despite being a common perspective, is also not borne out by survey findings. The Hampshire Home Movers Survey 2002, for example, complements other research findings that smaller households seek the extra space provided by larger dwellings. Based on a representative sample survey of all home movers, the Home Mover Survey revealed that almost one-third of all one-person households who moved home during the survey year moved into a property with 3 or more bedrooms. Reasons for there being no shift towards smaller properties include:

- Many of the new one person households will be elderly living in larger, family type accommodation. This group is conservative by nature and do not welcome change. Although they could down-size they probably own their property and may be reluctant to move, especially if there is nothing suitable in their current neighbourhood.
- Many single people may not consider a three or even four bedroom property too large for their requirements (one bedroom for themselves, one used as a domestic office and one or two available as guest rooms).

- A lack of smaller (one to two bedroom properties) of sufficient quality in the right locations.
- There is a tendency for people to ‘buy to the limit’ that their financial resources will allow. The current slump in stocks and shares has made investment in ‘bricks and mortar’ a more attractive proposition and contributed to this trend.

9.28 Restricting development of larger properties may also limit the scope to retain local residents who wish to live locally but can afford to up-scale and move into a larger dwelling from their current accommodation. In addition it may act as a restraint on drawing in higher skilled and higher paid individuals who can afford a higher standard and size of accommodation, who might consider living in the Sub-Region.

9.29 In terms of the type of housing, South Hampshire has witnessed a marginal increase in the proportions of detached and semi-detached properties between 1991 and 2001, combined with a decrease in the proportion of terraced housing. The proportions of flats/maisonettes and caravan/other temporary accommodation have remained fairly static over the 10 year period. These trends are largely reflective of those experienced at regional and national levels, as reflected in Table 9.3.

**Table 9.3: Proportional Change in Type of Dwellings, 1991-2001 (Ward)**

	Detached		Semi-detached		Terraced		Flat/Maisonette		Caravan/other temporary		Shared dwelling	
	1991	2001	1991	2001	1991	2001	1991	2001	1991	2001	1991	2001
England	20.3	22.7	30.8	32.1	29.5	25.7	18.8	18.8	0.4	0.4	0.3	0.3
South East	28.4	29.4	28.0	28.8	25.5	23.2	17.0	17.5	0.8	0.7	0.3	0.3
South Hants	22.8	24.0	24.9	26.3	31.3	28.2	20.1	20.6	0.6	0.5	0.4	0.4
South Hants East	18.9	20.3	22.7	24.9	37.8	33.9	20.0	20.2	0.3	0.3	0.3	0.4
South Hants West	27.2	27.9	27.4	27.8	23.9	22.1	20.2	21.1	0.8	0.7	0.4	0.3

Source: Census 1991-2001

**Proportion of Income People are Willing to Spend on Housing**

- 9.30 Contrary to popular belief, an examination of the relationship between house prices and incomes does not indicate that people are spending more of their income on housing. This is because interest rates are historically low and stable and borrowing is relatively cheap.
- 9.31 According to the ONS Family Spending Survey, the percentage of income that households on average spent in 2002-03 on housing was 17%. This percentage has changed very little over the past 25 years, varying only between 15% and 18% over the period. According to the Bank of Scotland, people in London spend slightly less than the average on housing due to relatively higher incomes with the Capital.

**Table 9.4: Housing Costs as Percentage of Income 2002-03**

REGION	Average Gross Household Income £s	Cost of Housing as % of Gross Income
South West	£29,844	18.4%
South East	£37,188	17.6%
North West	£31,274	17.3%
Wales	£27,229	17.2%
East	£34,550	17.0%
Scotland	£34,077	16.8%
East Midlands	£32,861	16.7%
Northern Ireland	£28,142	16.7%
West Midlands	£30,458	16.6%
North East	£30,943	16.2%
London	£44,312	16.1%
Yorks & the Humber	£28,645	15.9%
UK	£33,376	17.0%

Source: ONS Family Spending Survey 2002 – 2003

- 9.32 However, due to their average low incomes, new entrants to the housing market pay a proportionately higher level of their income on housing. Research conducted by the Office of the Deputy Prime Minister, which analysed regular housing related payments as a percentage of income between 1969 and 2002, found that in 2002 repayments represented 20.4% of income for first time buyers in London and 18.3% in the UK as a whole. Compared to the 1970s and early 1980s, these appear high. However, these proportions are considerably smaller than those reached during the last property boom. For example, in 1990 first-time buyers in London had to pay 32% of income in repayments (27.7% for the UK as a whole).
- 9.33 The size of mortgage available to those wishing to buy a home has traditionally been regarded to be around 3x annual income. In recent years, due to the increase in house prices and the reduction in interest rates, lenders have been willing to lend higher multiples of income, particularly to those on higher incomes or those with potential high future earnings.
- 9.34 As property prices have risen people are increasingly finding that they need to borrow larger multiples of their income in order to buy the property they desire. In the past lenders have placed the limit at 3 times the first applicant's income plus 1 times the second, or 2.5 times the joint income. More recently, however, some lenders have increased the multiples of income they will lend to up to 4 + 1 or even 5 + 1. Access to these higher income multiples based mortgages is more restricted if the applicant is borrowing to higher loan to values (i.e. over 90% loan to value) or if their credit score is not perfect. In addition, many lenders limit the risk they are taking by making these loans available only to those who have a large deposit to put down - often at least 20 per cent or to those on high incomes. Table 9.5 shows examples of mortgages available to those on higher salaries.

9.35 Increasing sophistication in the financial products market attempts to enhance access to the housing market and to lessen the barriers to owner occupation created by current affordability constraints. These products have ensured that demand for housing has remained robust despite the widening gulf between house prices and household income. One can expect the level of sophistication of these products to remain commensurate with the level need expressed by those wishing to purchase new property.

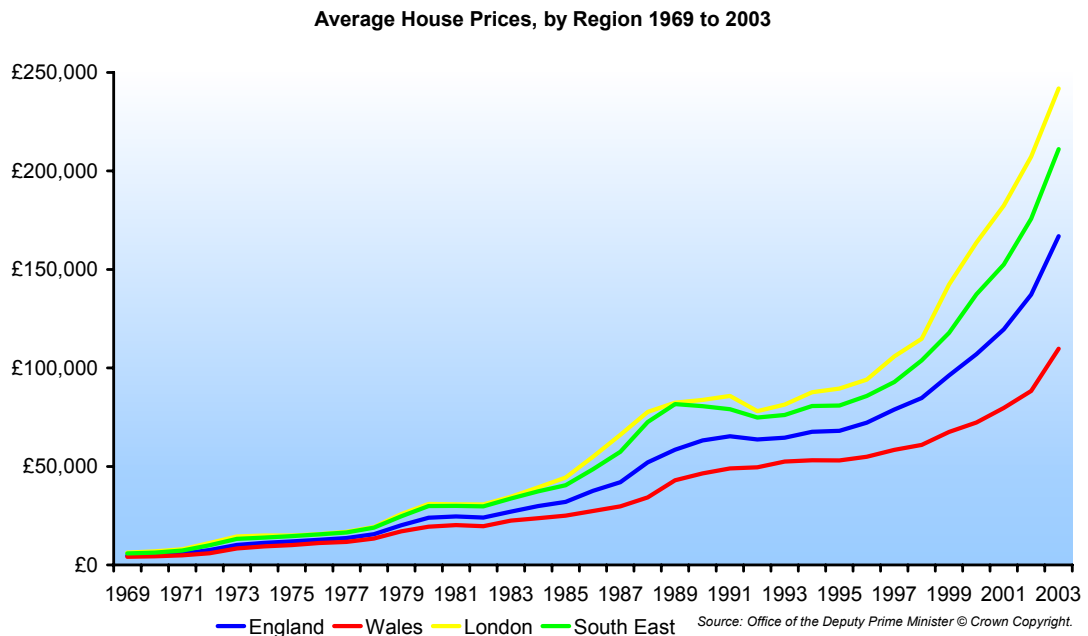
**Table 9.5: Examples of Mortgages Available Based on High Income Multiples**

Lender	Loan Multiples of Salary	Conditions
Mortgage Express	4.5x single income 3.5x joint income	£50,000 minimum salary £100,000 minimum loan
Halifax	4.25x salary	£100,000 minimum salary uses credit scoring
Woolwich	4x salary	Uses credit rating and discretion
Abbey National	4.2x salary	Uses credit rating and discretion

### Long Run Change in House Prices

9.36 Figure 9.8 presents average house prices in England, Wales, London and the South East from 1969 to 2003, the latest year for which figures are available. Predictably, average house prices in London are the highest, followed by the South East, England and Wales as a whole. As the chart shows, the difference between actual prices in these regions has only developed in the last twenty years or so.

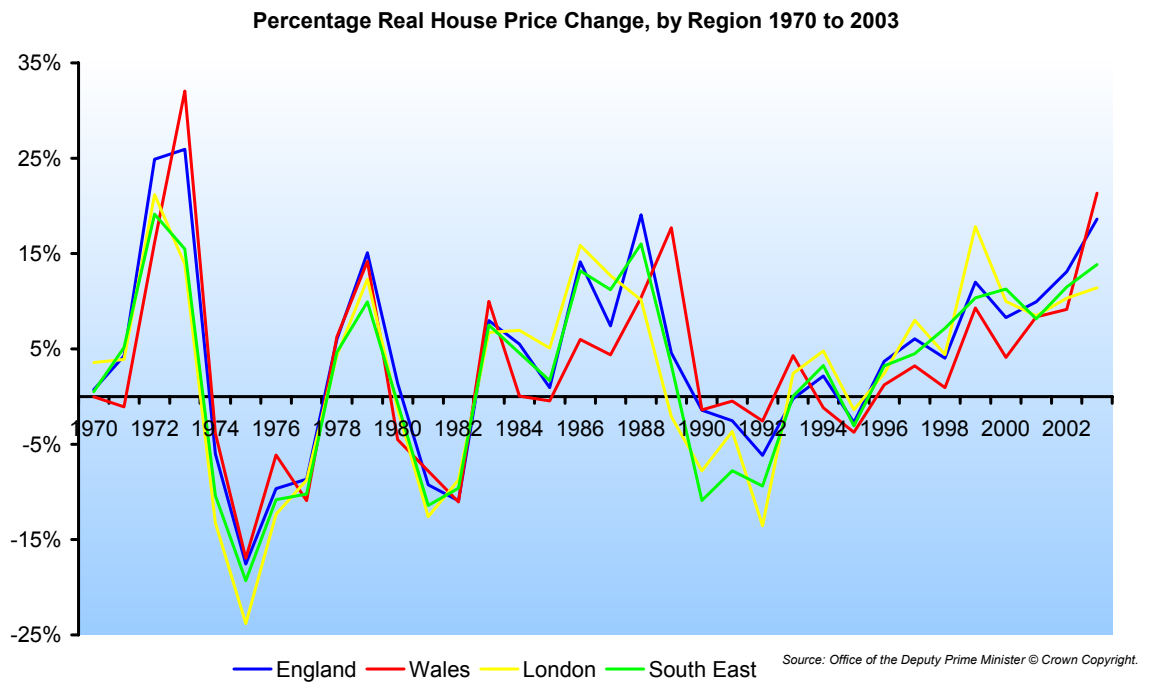
**Figure 9.8: Long Run Average Absolute House Prices By Region**



9.37 Real house price changes<sup>6</sup> are a more accurate measure of house price changes in an area over time as they take into account the potentially distortionary effect of inflation. Figure 9.9 presents annual real house price changes in England, Wales, London and the South East from 1969 to 2003. As one would expect, the chart shows real house prices to broadly follow the pattern of the U.K economic cycle.

<sup>6</sup> Actual house price changes adjusted for inflation using RPI inflation rates obtained from ONS

Figure 9.9: Long Run Real House Price Change



- 9.38 The current high house prices in England and Wales are the culmination of a protracted period of house price inflation that begun in the early 1990s. However, the overall pattern of real house price change highlighted in Figure 9.9 suggests that the peaks and troughs of the housing market are becoming further spaced apart as time goes on. The recent period of sustained growth in real house prices has been longer in duration than any recorded previously, suggesting that current prices are either likely to stabilise or fall rather than continue to rise.
- 9.39 There are different opinions about the short-term future of the housing market. Nationwide reports six months of price stability with a rise of 0.4% in January 2005. It predicts that this stability will increase people’s confidence in the market. Buyers will return, but with a greater consciousness of price, and there is unlikely to be a reigniting of rapid house price inflation.
- 9.40 In contrast to Nationwide, the January 2005 release of Hometrack’s housing market survey reports a drop in house prices for seven months in a row and no immediate signs of recovery. In addition, it says that the volume of sales is “markedly” down. It adds, however, that the -0.4% drop in January is a lower drop than in the previous three months, which it says could be an indication that house prices are stabilising. And, with interest rates forecast to remain stable and mortgage rates still relatively low, demand should improve.
- 9.41 For its part, HBOS predicts that house prices will fall in the UK by 2.5% in 2005. In the following period HBOS predicts that prices will go back up modestly and that affordability will improve (especially for first-time buyers). For the medium term, HBOS predicts that the market will be underpinned by better affordability and, in general, good economic conditions. It explains that the combination of economic recession, sharp increases in unemployment and rising interest rates (directed at controlling retail price inflation) are what caused big downturns in the housing market in the past and such economic phenomena are unlikely to occur again in the short term or the medium term.

- 9.42 Therefore, the overall consensus on the future pattern of house price increases is that they are likely to remain broadly stable, and that a significant fall is unlikely due to strong underlying economic dynamics. For South Hampshire, this suggests that the recent above average inflation in house prices and the catalytic effect this has had on affordability levels should begin to ease, particularly once wages have had an opportunity to draw nearer with house prices.