

## **HOUSING STOCK OPTIONS APPRAISAL**

**17<sup>TH</sup> JANUARY 2005**

### **Housing Needs Survey 2004 and the housing stock options appraisal.**

1. Background
  - 1.1 The Council commissioned its first comprehensive Housing Needs Survey in 2001. This Survey was undertaken by Fordham Research Ltd and was primarily a planning led piece of research to inform the development of Local Plan Policies on future housing provision.
  - 1.2 The Council also commissioned Fordham Research to update and refresh the survey in 2004. This was considered desirable to inform the new style Housing Strategy; assist in justifying Local Plan Policies at the Public Inquiry; and provide a robust negotiating position for delivering affordable housing in the New Community.
  - 1.3 Local housing authorities are expected to undertake housing need studies to underpin their Housing Strategies and provide a reliable basis to develop housing plans and priorities for their community. This is an area of housing work where good practice and guidance should be carefully followed in order to produce an accurate and robust assessment of housing need. Most consultants working in this field follow the ODPM publication Local Housing Needs Assessment: A Guide to Good Practice, July 2000.
  - 1.4 In April 2004 there were 3,917 households on the Council's Housing Register seeking housing in the district. There were:
    - 2,221 households requiring 1 bedroom accommodation;
    - 1,152 households requiring 2 bedroom accommodation;
    - 487 households requiring 3 bedroom accommodation;
    - 57 households requiring 4 bedroom accommodation.
  - 1.5 Of the applicants that were on the Housing Register the age profile was:
    - 552 applicants were under 25 years;
    - 927 applicants were 25-34;
    - 848 applicants were 35-44;
    - 740 applicants were 45-49;
    - 850 applicants were 60+.
  - 1.6 The Housing Register is currently being completely updated as part of the move to the new Anite Housing Needs and Rentals software. We expected the number of households on the Housing Register to reduce through this process and to date approximately 2,000 application forms have been returned.
  - 1.7 The remainder of this report considers the East Devon Housing Needs Survey methodology, results and implications for the housing stock options appraisal.

## 2. Housing Needs Survey Methodology and results

- 2.1 The 2001 survey employed a hybrid approach including both personal interviews and a postal survey. The survey achieved 500 completed personal interviews and 1,388 returned postal questionnaires, providing a total of 1888 responses. The work undertaken in 2004 re-weighted the responses taking account of more recently available information sources from the census, new build completions, homelessness etc. The report is still in draft format.
- 2.2 The 2004 update also took a fresh look at the housing costs in the district using data from the Land Registry and local estate and letting agents. This work would inform the affordability assessment and ultimately the need for various housing tenures such as rented, shared ownership, and discounted housing for sale.
- 2.3 The survey confirmed that there had been a significant increase in housing costs in the district and that East Devon experiences high costs when compared to other districts regionally and nationally.
- 2.4 A sample of the findings are set out in tables 1 and 2 below:

Property size	Minimum price	Average price
1 bedroom	£91,000	£105,000
2 bedrooms	£119,000	£156,000
3 bedrooms	£163,000	£198,000
4 bedrooms	£221,000	£263,000

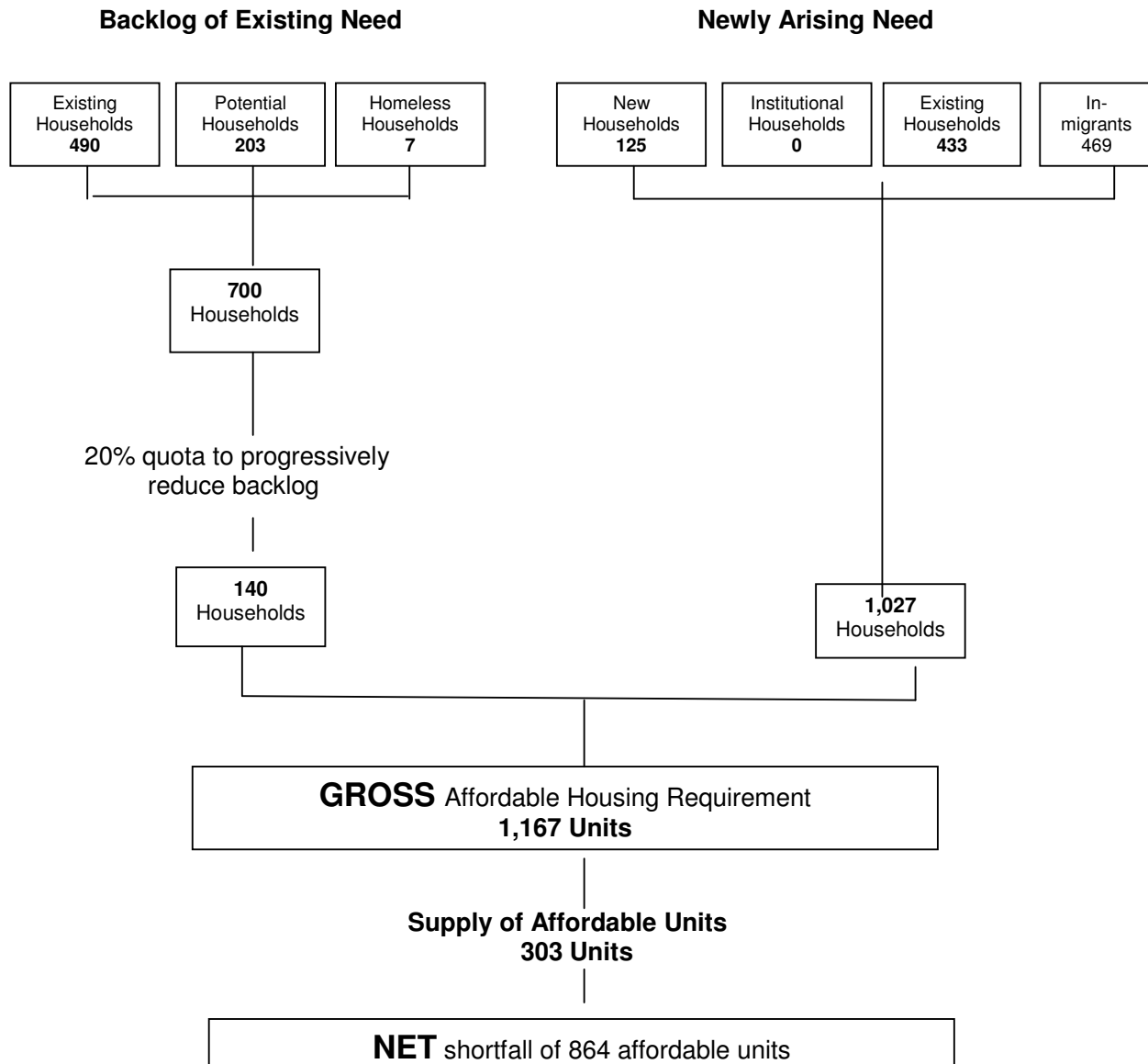
Property size	Minimum rent (weekly)	Average rent (weekly)
1 bedroom	£76	£88
2 bedrooms	£102	£119
3 bedrooms	£133	£149
4 bedrooms	£177	£196

- 2.5 An analysis of the local housing market is a crucial step in any housing needs study. The Housing Needs Survey report data was drawn from both the Land Registry and local estate/letting agents to provide the context for local property prices/rents. Some of the main findings of the analysis were:
- Average prices in East Devon rose by 123% in the period 1999 to 2004. This is above the rate of increase observed nationally and regionally.
  - The average property price in East Devon in 1<sup>st</sup> quarter 2004 was around 26% higher than the average for England and Wales.
  - Sales of properties in East Devon are predominantly houses with only 14% of sales in the 1<sup>st</sup> quarter 2004 being flats/maisonettes.

- The estate agent survey suggested that minimum prices range from £91,000 to £221,000 depending on the size of properties.
  - Minimum rents ranged from £76 to £177 per week depending on property size.
  - Property prices have increased significantly since the 2001 survey although rental prices have increased by a much lower amount.
- 2.6 The survey went on to assess household income using data from the New Earnings Survey (2001 to 2003). This research identified average annual gross household income to be £22,520 and average weekly net income £343.
- 2.7 Affordability thresholds were then devised such that a household earning up to £15,000 (net) per annum was assumed to be able to afford up to 25% spent on housing costs. A household earning £40,000 per annum or more were assumed to be able to afford 35% of their net income to be spent on housing. For those incomes between £15,000 and £40,000 the threshold for affordability increases by 2% for each additional £5,000. These thresholds were then used to assess households' ability to secure housing of the type they need.
- 2.8 The survey goes onto assess the backlog of housing need, that is those currently in unsuitable housing. An estimate of 5,583 was produced, representing 9.8% of households in the district. This figure was reduced by 4,430 who could be assisted by 'in-situ' solutions to meet their needs, and those who would move out of the district. This left 1071 households and some 72.7% were unable to afford to rent or buy in the housing market. Following further adjustments an annual backlog figure of 140 households was produced.
- 2.9 The survey then assessed newly arising need and considered new household formation, in-migration, and existing households falling into housing need.
- 2.10 There were considered to be 436 new households forming, 433 existing households falling into need, and 469 households migrating into the district.
- 2.11 Finally, the survey assessed the supply of affordable housing to meet the needs identified. Specifically the survey considered the new supply of Council and RSL lettings, the anticipated new build and shared ownership programmes, and the use of vacant dwellings.
- 2.12 The survey estimates 303 relets from the current stock of affordable housing.
- 2.13 All this information is then built into the basic needs assessment model which is set out in table 3 and summarised in table 4 below.

<b>Table 3</b>		
<b>Basic Needs Assessment Model</b>		
BACKLOG OF EXISTING NEED		
Element	Notes	Final Number
1. Backlog need of existing households.	Number of households currently living in unsuitable housing	5,583
2. <i>minus</i> cases where in-situ solution most appropriate.	In-situ (or outside the district) solution most appropriate for 4,512 households	Leaves 1,071
3. <i>times</i> proportion unable to afford to buy or rent in market.	72.7% = 779 – also remove 289 social renting tenants	490
4. <i>plus</i> Backlog (non-households).	Potential = 203 Homeless = 7	210
5. <i>equals</i> total Backlog need.		700
6. <i>times</i> quota to progressively reduce Backlog.	Suggest 20% as in ODPM report	20%
7. <i>equals</i> annual need to reduce Backlog.		140
NEWLY ARISING NEED		
8. New household formation (gross, p.a).		436
9. <i>times</i> proportion unable to buy or rent in market.	28.8% cannot afford market housing	Leaves 125
10. <i>plus</i> ex-institutional population moving into community.		0
11. <i>plus</i> existing households falling into need.		433
12. <i>plus</i> in-migrant households unable to afford market housing.		469
13. <i>equals</i> Newly arising need.	9+10+11+12	1,027
SUPPLY OF AFFORDABLE UNITS		
14. Supply of social relets p.a.	Excludes transfers within social rented stock and includes 'relets' of shared ownership	311
15. <i>minus</i> increased vacancies & units taken out of management.	Lettings opportunities lost	-8
16. <i>plus</i> committed units of new affordable supply p.a.	Lettings opportunities gained	
17. <i>equals</i> affordable supply	14-15+16	303
<b>18. Overall shortfall/surplus</b>	7+13-17 (per annum)	864

**Table 4**  
**Basic Needs Assessment Model – Summary**



2.14 The total shortfall of affordable housing is calculated at 864 units per year over a five-year period. This represents 1.5% of the total number of households in the district (56,980).

2.15 Fordham Research also looked at the need for affordable housing by bedroom size and produced the following estimate of need.

Size required	Need	Supply	Total
1 bedroom	521	51	470
2 bedroom	465	166	299
3 bedroom	130	86	44
4 +bedroom	51	0	51
<b>Total</b>	<b>1,167</b>	<b>303</b>	<b>864</b>

- 2.16 It was felt that the need for affordable housing justified a Local Plan Policy for affordable housing which seeks 40% on sites of 15 or more homes in larger settlements and 5 or more homes in rural areas with a population below 3,000.
- 2.17 The report also considered the nature of the affordable housing required by those in housing need having regard to housing costs and household income. It was estimated that about a third (33.1%) of households in need could afford 'intermediate' housing provided at a cost significantly below the market level.
- 2.18 Intermediate housing is regarded as "sub-market housing, which is above (Housing Corporation) target rents but is substantially below open market levels. This category can include shared ownership, sub-market rent provision and key worker housing". It may also include discounted housing for sale.
- 2.19 The table below shows the estimated breakdown of additional affordable housing requirements by size and type of housing per annum.

Dwelling size	Type of housing		
	Social rented	Intermediate Housing	Total
1 bedroom	307	214	521
2 bedroom	351	114	465
3 bedroom	72	58	130
4 +bedroom	51	0	51
<b>Total</b>	<b>781</b>	<b>386</b>	<b>1,167</b>

The table shows that in total 33.1% of the gross requirement could be intermediate housing; the remainder should be social rented housing.

- 2.20 Although a significant number of households are considered to be able to afford intermediate housing, many will only be able to afford the cheapest form of intermediate housing. The Housing Needs Survey looked at three different cost bands for intermediate housing. These are set out in the table below.

Approximate outgoings (£/week)			
Size requirement	Cheapest intermediate housing	2nd	Most expensive
1 bedroom	£45-£55	£56-£66	£67-£76
2 bedroom	£55-£71	£72-£86	£87-£102
3 bedroom	£67-£89	£90-£111	£112-£133
4 +bedroom	£80-£112	£113-£145	£146-£177

- 2.21 The research went on to estimate the number of households in need who fall into each of these categories. This is shown in the table below. The majority of those in the 'intermediate' category have income/affordability levels at the bottom of the scale; the data suggests that 69.2% of those who could theoretically afford intermediate housing could afford nothing costing more than two-thirds of the difference between market and social rented prices. However 30.8% of households could afford housing within the 'most expensive' intermediate category.

Approximate outgoings (£/week)					
Size requirement	Social rented housing	Cheapest intermediate housing	2 <sup>nd</sup>	Most expensive	TOTAL
1 bedroom	307	30	79	105	521
2 Bedroom	351	49	50	15	465
3 bedroom	72	32	26	0	130
4+ bedroom	51	0	0	0	51
TOTAL	781	112	155	120	1,167

### 3. Implications for the Housing Stock Options Appraisal

- 3.1 The Housing Needs Survey results reveal a huge level of housing need to be addressed over the next five years. This level of housing need is consistent with numbers on the Housing Register (pre Anite software implementation) and our local and anecdotal evidence of housing need.
- 3.2 The importance of providing more affordable housing has been recognised in the Council's corporate priorities – increasing housing choices, and more explicitly in the new Housing Strategy Statement.
- 3.3 The Council's housing strategy and enabling role has not been a priority until recently and therefore relatively under developed. As a consequence the supply of new affordable housing through the planning system and other opportunities has in the past been limited.

- 3.4 We have recently put forward proposals to enhance the housing strategy and enabling role to assist in delivering more affordable housing. The New Community proposed for East Devon presents a major opportunity to provide 40% (1,160) of the planned 2,900 homes as affordable, and meet a significant proportion of the housing needs identified. We need to make the most of this opportunity to meet some of the housing need identified.
- 3.5 Current Government advice is to separate the housing strategy and landlord functions of a housing authority and this approach is a key feature of Large Scale Voluntary Transfer (LSVT) and Arms Length Management Organisation (ALMO) options. At present within EDDC there is not anything to separate, as we have no staff or specific revenue budgets dedicated to housing strategy and enabling.
- 3.6 The ODPM guidance for local authorities – Delivering Decent Homes – Option Appraisal June 2003 suggests that in addition to information about the physical condition of the housing stock, both the authority's business plan and option appraisal work need to be informed by information on current and likely future demand for Council housing in the area. It is not sensible to invest in improving council homes for which there is no medium/long-term demand.
- 3.7 The assessment of demand must identify the extent to which there are any particular areas or types of property, which are difficult to let. The option appraisal work will need to look at alternative strategies for addressing this, e.g. demolition (with or without some replacement dwellings), actions to improve the attractiveness of a particular area, conversion of unpopular dwelling types, sale of existing dwellings.
- 3.8 This information will generally come from the wider analysis of the balance of the supply of, and demand for, housing that underpins the authority's housing strategy.
- 3.9 Tenants need to be involved in the study of demand for their housing. They need to be involved from an early stage and have an opportunity to offer suggestions on the information to be used to assess demand. Summary information on the reasons for the study, the methodology to be employed and the stages involved in the process needs to be provided to tenants.
- 3.10 The guidance suggests that the involvement of tenants and provision of regular information on the progress of needs assessment work is particularly important where the supply of council housing in some parts of the authority may exceed demand. Existing tenants in these areas will obviously be concerned about the future of their homes and neighbourhood – engagement of tenants must be sensitive to individuals' and communities' aspirations and fears to avoid paralysing the process and delaying the taking of important decisions.
- 3.11 When the future needs of specific areas are being considered it is essential that tenants in the area play a central part in decisions. Demolition is not the only option as there may be opportunities through positive action, such as choice based lettings, mixed tenure estates, furnished tenancies, additional intensive support for vulnerable groups, to increase demand.
- 3.12 Where there is an over-supply of social housing, authorities should consider involving neighbouring authorities and/or housing associations with significant holdings in the area in the consideration of options for addressing the problem.

This will help to ensure that the approach is consistent with and does not undermine the plans they have for their housing stock.

- 3.13 The scale of housing need experienced in the district can be viewed in different ways when considering the housing stock options appraisal – on the one hand the huge levels of need could suggest that there is a continuing and high level of need for Council homes for the foreseeable future and that all/most homes will continue to be in high demand. Conversely, it could be argued that the only way of solving the affordable housing crisis is to create a large capital receipt through LSVT or Private Finance Initiative (PFI), and reinvest that into the provision of affordable housing in the district.
- 3.14 Another approach would be to pay limited regard to housing needs information on the basis that the Housing Stock Options Appraisal is primarily about achieving Decent Homes in Council housing and providing demand is high, voids kept low, and rental income maintained, Decent Homes can be maintained.
- 3.15 The Council's obligation to meet future housing needs for its residents will continue regardless of the future option it adopts for the ownership and management of the housing stock. There are however slight variations under each option on how this would work in practice.
- 3.16 The Council does not have sufficient resources to finance the building of new Council homes for management as part of the Housing Revenue Account. Therefore, alternative funding mechanisms need to be considered to meet the growing demand for affordable housing. We make good use of Housing Corporation allocations provided to Registered Social Landlords. We can expect to receive approximately £1 million per annum, which will produce 10-12 new homes each year. In addition, we now have in place affordable housing policies in the Local Plan which is delivering affordable homes, and we are exploring development opportunities on Council owned housing and other land.
- 3.17 Recent developments in the delivery of PFI contracts have seen the introduction of Non-HRA PFI for new build affordable housing. This could apply to any of the options being considered, not just the HRA PFI option.
- 3.18 If an LSVT option was considered the new RSL and/or existing partner RSL's could provide new affordable housing. However, the new body will need capital funding to produce the new housing. The abolition of Local Authority Social Housing Grant in April 2003 removes one of the incentives for LSVT as prior to this debt-free authorities could use their capital receipts to fund affordable housing and have the expenditure reimbursed. Since April 2003 reimbursement does not occur so this funding mechanism now represents 'real' spend for authorities.
- 3.19 LSVT authorities do not receive the full open market value of their housing stock, they receive tenanted value, and have to pay a 20% levy on the capital receipt to the government. The authority may decide not to spend the capital receipt on providing affordable housing, as other financial pressures may dictate its use. So there can be no certainty that the proceeds from LSVT will address housing needs.

- 3.20 The ALMO option is primarily focused on making resources available to improve the existing housing stock and not new housing provision. This option will not generate significant capital for new build.
- 3.21 Even if a large capital receipt were generated there are significant obstacles to providing affordable housing in terms of land availability and cost restrictions. We have acknowledged that we will not be able to 'build our way out of the problem' so it is critical that we develop the enabling role and provide a range of opportunities to meet housing needs.
- 3.22 One area where I would suggest that we need to assess particularly carefully is the accommodation we have available for older people. We have a relatively high proportion of older person housing accounting for over 25% of the total housing stock. Of the 4,373 council homes in April 2004, 1,160 properties were designated sheltered housing. This situation has occurred partly because sheltered housing is excluded from the Right to Buy which has reduced our general needs housing stock over the past 25 years.
- 3.23 Some of our sheltered housing, particularly smaller bed-sitter accommodation, is less desirable and in the case of a few schemes hard to let. As part of the options appraisal we will need to look carefully at the options for these schemes and consider using the properties for different tenants; upgrading the schemes; demolition and rebuilding on the site; and transfer to a Registered Social Landlord.
- 3.24 The harder to let properties are typically those that are difficult to access due to topography, lack of a lift, remote from town or village centre etc.
- 3.25 I suggest that this area needs exploring in more detail and should be the subject of a further report, which identifies specific hard to let properties/schemes and the options for their future. We are in the process of reviewing sheltered housing and the Warden service in accordance with our Housing Strategy action plan and in preparation for the Supporting People review. This work can feed into the housing stock options appraisal.

#### 4. Conclusions

- 4.1 For the majority of the Council's housing stock we experience very strong demand and there is every indication that this will continue for the foreseeable future. This will help to ensure that we optimise rental income, keep voids to a minimum, and meet local housing need.
- 4.2 In fact demand for affordable housing is so high that regardless of the future option selected we do need to continue to develop our enabling role to deliver new build and acquisition schemes, and ensure that we are making good use of existing Council and private sector housing stock.
- 4.3 I would suggest that we need to put our energies into assessing the long-term sustainability/viability of our older persons housing. This will necessitate a scheme by scheme review to produce options for schemes/properties that are proving hard to let or less desirable to existing and potential new tenants. We could then prioritise schemes for attention and cost the works required within our Business Plan, if we plan to remodel and retain the scheme, or generate income through the disposal of schemes/sites where retention is considered undesirable.

- 4.4 This exercise is already underway and will be the subject of a further report as part of the housing stock options appraisal project.

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