Bridging NewcastleGateshead

Meeting:	BNG BOARD
Date:	11 July 2008
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Board Action:	For information
Sensitivity:	Public

Item 12: National Housing and Planning Advice Unit (NHPAU) update

Link to BNG Vision and Objectives: BNG aims to create great places to live, where there is a choice of good quality housing for people on different incomes and at different life stages. Whilst doing this we need to help to meet national and regional targets and ambitions for housing – the work of the NHPAU is therefore essential in terms of guidance for future levels of new housing provision.

Recommendation: That the BNG Board consider the recommendations of the NHPAU (Unit) and its implications for BNG forward strategy and planning.

Background

Last year's Green Paper on housing – Homes for the Future: More Affordable, More Sustainable, commissioned the NHPAU to provide government with advice about the supply ranges to be tested by Regional Planning Authorities (RPA).

The Unit's document, "Meeting the housing requirements of an aspiring and growing nation: taking the medium and long-term view" provides this advice to the Minister for Housing.

Ranges and assumptions

The supply ranges provided for each region are not targets; they provide flexibility for RPAs to have transparent debate locally and to test out for example, how fast local backlog of housing need and demand should be addressed and what contingencies should be provided for, including how to support regeneration areas.

Crucially, the paper highlights the importance of taking a medium to long-term view despite the current period of adjustment in the housing market; whilst there may be a short-term downturn, prices will not permanently stagnate and planning authorities should move quickly to identify up to 15 years of developable land for homes, ensuring realistic plans in terms of numbers, type and location.

The work is based on two models:

- Affordability Model – developed by Reading Business School for CLG, it relates data about the housing market, labour market and demographic trends. Its aim is to understand the level of supply required to achieve stabilisation of affordability, over the Regional Spatial Strategy (RSS) time horizon (2008-2016), in each region.
- Demographic Method – based on household projections. The traditional approach used by planning authorities, is expanded to take into account other factors such as planning to tackle constrained demand, for example overcrowding. An allowance is also made for factors such as vacancies and second homes.

The approach is therefore comparable with Professor Glen Bramley's future markets modelling work for BNG (and he sits on the North East and South West NHPAU Boards).

Central to the recommendations is the government's indicator for affordability – PSA 20 - which is measured as the ratio of lower quartile earnings to lower quartile house prices. The baseline measure for 2007 nationally was 7.25 and 5.34 for the North East; the BNG Business Plan confirms the rates for the pathfinder area - 5.5 for Newcastle and 5.2 for Gateshead.

A market-led approach is taken to determining the distribution of housing growth ie. that increased supply should be focussed in those regions where affordability is worst. It is believed that this approach responds to price signals and not only addresses the problem in the south, but because of 'the widely acknowledged ripple effect' also benefits other regions.

The table in appendix 1 sets out the various scenarios for the North East, and the ranges relating to each. The overall range for the North East is 6,600-7,500; in 2007, 7,170 net additions were built.

The assumptions which underpin the analysis, for example about earnings growth, interest rate prospects and levels of future household formation err on the side of caution. Key points to note about the different scenarios include:

- To stabilise affordability by 2026, the Model assumes that earnings will grow in nominal terms by 4% p.a., mortgage interest rates will average out at 6.25% and the revised 2004-based population projections are used. For the North East, this scenario forecasts annual net additions of 6,720 and an affordability ratio of 5.01 in 2026.
- These compare with 5% earnings growth and mortgage interest rates of 5.75% in the baseline scenario.

The importance of building the right type of homes to meet demand is highlighted. An undersupply of larger homes means higher prices at this level and increased competition for properties at lower levels in the chain from those unable to move up. The Model finds that the higher the quality of housing services delivered, measured by proxy through location, size, type and age, the better the pay-off in terms of an improvement to affordability. The impact of 'bigger and better' homes on housing supply requirements for the North East is an affordability ratio of 4.93 by 2026; annual net additions remain at 6,700.

The Demographic Method then factors vacancies and second homes (3% vacancy assumption for the North East); average annual net additions increase to 7,600, the upper end of the supply range.

Regional dynamics

Although ultimately the Unit's work aims to help the government meet national targets, national totals have not been referred to in this report because they mask regional dynamics. In the North East, under the Demographic Method net additions are estimated to be 7,600 p.a., but an unconstrained Affordability Model analysis would suggest that only 4,300 homes are required to stabilise affordability. The backlog of housing demand and the prospect of housing becoming less affordable in the future are linked and need to be considered in the reviews of the RSSs. The North East will therefore need to test a level of housing supply up to 7,600 in order to meet the backlog of demand, and allow for vacancies and second homes. This would ensure that the affordability outlook is safeguarded.

Next steps

Following the Minister's consideration of the advice and decision about how it should be incorporated into CLG's Guidance to the RPAs about RSS reviews, the Unit will be available to discuss its work with regional partners and help to develop their affordability analysis further. It will formally engage in the RSS reviews including providing evidence to Examinations in Public.

The research by the Northern Way and One North East referred to in the Director's report will be complementary to this, informing the RSS and Integrated Regional Strategy in time.

Conclusions

The recommended supply range for the North East is similar to the emerging RSS plans of 7,585 net additions to stock p.a. and compares favourably with the 2007 figure of 7,170. The key area of concern for BNG therefore remains housing allocations <u>within</u> the region and the need to focus on regeneration areas in the core of the conurbation rather than encourage further commuting.

Improving the choice of good quality housing remains our core business, alongside improvements to public spaces and perceptions of anti-social behaviour so our places can compete with others in the housing market area.

BNG officers continue to work closely with regional and local bodies, including the research being undertaken on Residential Futures, which will influence the 'mini-review' of the RSS and development of the IRS.

Further updates will be provided to the Board as appropriate.

Implications	
Financial:	There are no direct implications as a result of this report.
Equality:	
Sustainability:	
Freedom of Information:	This report is a public document.

Risk:	Brief description of any material risks, including of not proceeding.	Impact	Probability
Strategic and Development:	As the actual housing supply range for the North East is similar to the latest draft of the RSS, the main strategic risk remains the allocation of supply within the region. This is being managed through our close working relationship with the regional organisations.	High	Low
Operational:	The BNG Future Markets Model will be updated in 2007/8 to reflect the 'credit crunch' and New Growth Points. In the short-term, discussions are underway with lenders and developers to help us to understand how best to deliver new homes in the current market. To assist in longer-term delivery, Local Authorities are working on their 15-year housing land supply plans.	Medium	Low

The NHPAU document

Appendix 1

MINIMUM PROPOSED OF HOUSING SUPPLY RANGE			UPPER END OF PROPOSED HOUSING SUPPLY RANGE					
2008-2026 trajectory to meet HMG Green Paper targets			**2008-2026 Revised 2004-based Household Projections plus backlog**			**Stabilising affordability at PSA 20 baseline by 2026**		
Avge annual net additions to 2026	**Minimum delivery point by 2016**	**Total net add's by 2020**	**Avge annual net add's to 2026**	**Projected delivery point by 2016**	**Total net add's to 2020**	**Avge annual net add's to 2026**	**Projected delivery point by 2016**	**Total net add's to 2020**
North East								
6,700	6,600	87,600	7,500	7,600	97,300	6,700	6,600	87,600
England								
231,500	240,100	2,957,000	260,700	277,300	3,292,100	257,000	272,500	3,292,100

BOTTOM OF PROPOSED HOUSING SUPPLY RANGE				UPPER END OF PROPOSED HOUSING SUPPLY RANGE			
Avge annual net add's to 2026	**Minimum delivery point by 2016**	**Total net add's by 2016**	**Total add's by 2020**	**Avge annual net add's to 2026**	**Projected delivery point by 2016**	**Total net add's by 2016**	**Total net add's by 2020**
North East							
6,700	6,600	61,500	87,800	7,500	7,600	66,800	97,300
England							
231,500	240,100	1,996,900	2,957,000	276,900	297,700	2,285,200	3,457,900