

### 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 differs 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 HPDD housing market.
- 3.02 Notable points emerging from this section, to be considered in the following sections of this SHMA are made in the box below.

#### Key Points

- The increase in the number of households per thousand of population is associated with declining average household size, rather than population growth – so a relatively slow growing and ageing population can have a considerably higher household formation rate
- The availability and affordability of housing can influence the rate of household formation, through delaying young people leaving the parental home, or increasing the number of households comprised of unrelated individuals sharing accommodation in order to share accommodation and housing costs
- The influence of the surrounding conurbations on different parts of the HPDD sub area, especially in-migrants with significantly greater financial resources (due to higher salaries and / or housing equity) is significant. For example, in Derbyshire Dales 35% of all transactions in 2005 were “cash sales”, compared to the regional and national benchmark of 21%.
- Recommendations made in this SHMA, concerning the supply of stock required to met housing need, may differ from those made in the earlier Housing Needs Study (HNS), as the HNS relates to the housing need of those unable to access market housing, whilst the SHMA focuses on the size and type of dwelling required across all sectors to achieve social and economic balance.

#### Market Demand and Housing Need

- 3.03 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 cannot 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.
  - **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 the Government or in local policies.

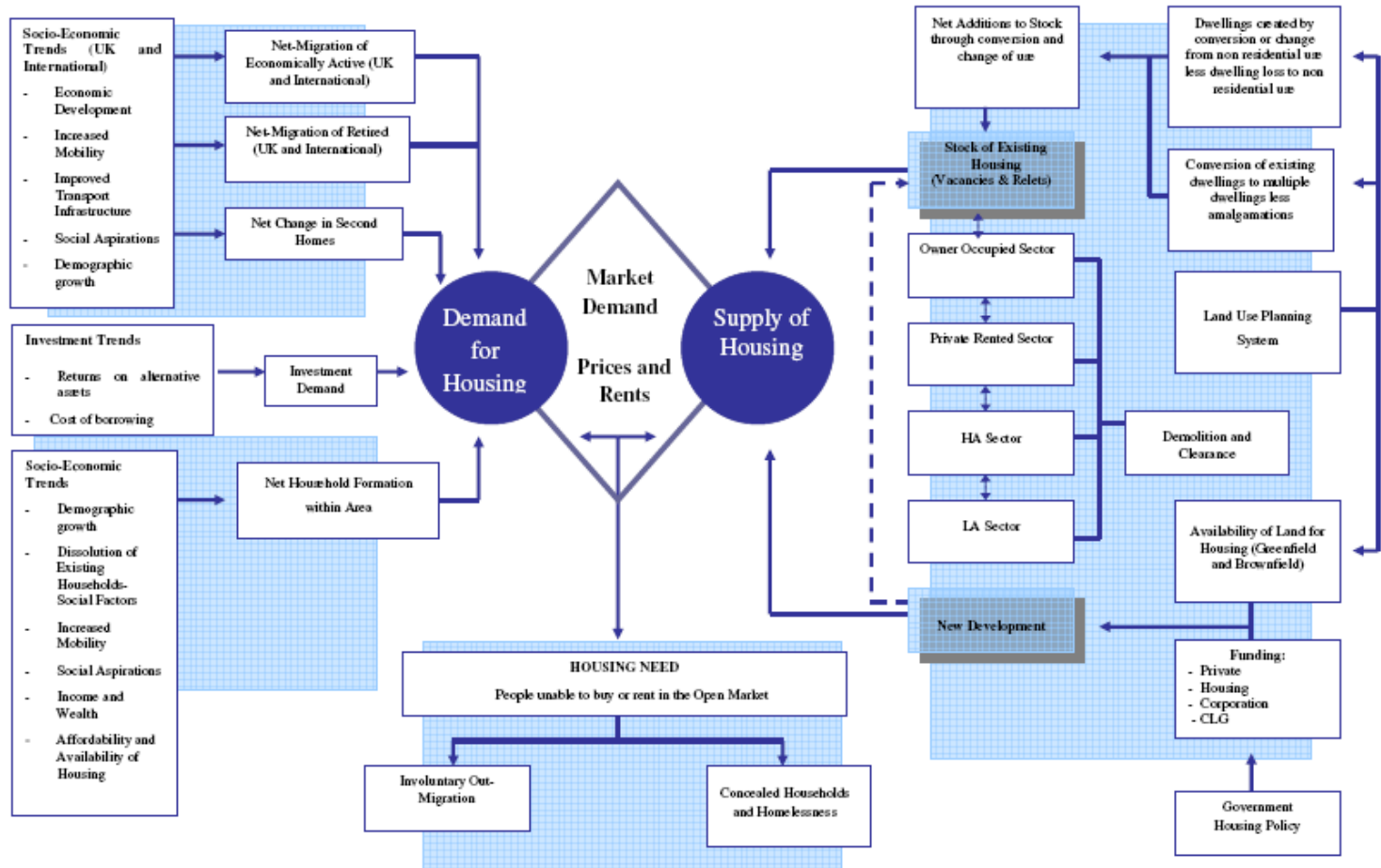
- 3.04 Historically, some confusion arises in housing policy around the use of the term ‘affordable housing’ since the term has, in the past, been used to embrace entry-level market housing as well as shared ownership and social rented housing. However, PPS 3 makes it clear that affordable housing should be defined as “*non-market housing, provided to those whose needs are not met by the market for example homeless persons and key workers. It can include social-rented housing and intermediate housing.*”
- 3.05 PPS3 therefore provides a clear definition of affordable housing (social rented plus intermediate products) that excludes low cost market housing. PPS3 states that ‘*intermediate housing differs from low cost market housing (which the Government does not consider to be affordable housing)*’.<sup>1</sup> However, it should be appreciated that PPS3 does not set out what thresholds for rent/costs should be set for housing to be classified as intermediate affordable housing. Instead it explains that as part of the definition of affordable housing it should ‘meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices’ Clearly as local incomes and house prices will vary from area to area and of course over time, whether or not housing meets these criteria (alongside other criteria listed in PPS3) is a matter for interpretation by each local authority on a case by case basis.
- 3.06 Thus it is sensible to categorise housing provision into the following 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.
  - **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 cannot 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, 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. CLG defines intermediate housing as “*housing at prices or rents above those of social rent but below market prices or rents, including sub-market renting, low cost home ownership and shared ownership.*” In terms of identifying the need for intermediate affordable housing, PPS3 confirms that as part of determining those unable to buy or rent in the market, partnerships should identify the ‘minimum household income required to access entry level (lower quartile) market housing.’ It will however be for partnerships to

<sup>1</sup> Para 23 in Annex A: Definitions, Consultation on Planning Policy Statement 3: Housing

make judgements as to what appropriate rents and house prices to use in providing their assumptions in a robust and transparent way.

- 3.07 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.

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



### The Demand for Housing

3.08 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.

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

### Internal Drivers of Demand

3.10 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 choose 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. Detailed analysis of population growth and household formation is presented in section 4 of this report.

3.11 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.

3.12 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**

- 3.13 A feature of the East Midlands region is the relationship with the surrounding conurbations – Birmingham, Manchester and Sheffield, which exert a considerable influence over different parts of the region. We have not analysed the pattern of migration as part of this study, but there is a well documented<sup>2</sup> process that the cities experience in-migration of young people such as students, young single people and childless couples 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 East Midlands. Therefore, the cities act as a form of conduit through which migrants from around the country enter the East Midlands.
- 3.14 These in-migrants may continue to work in the cities – so the pattern of in-migration is linked to the observed pattern of commuting into the cities, though there will also be those who move into the East Midlands from cities who also change their place of work. Those moving into rural areas of the region from the cities will often have greater financial resources due to higher salaries and possibly greater housing equity than local residents. This has an impact on sub-regional markets in the East Midlands, particularly rural areas.
- 3.15 For example, in Derbyshire Dales, 35% of all house purchases in 2005 were cash sales (i.e. the houses were bought without a mortgage). This is significantly above the average rate in High Peak, East Midlands and nationally, which is around 21%. The research undertaken by the Commission for Rural Communities (CRC) found that in villages, hamlets and isolated dwellings in sparse areas, an average of 43% of purchases were made with cash.
- 3.16 CRC also found that high rates of cash purchases are associated with districts where there are high levels of second homes, households on low incomes, high rates of net internal migration and high rates of population growth. The CRC report concludes that although there is not enough evidence about households that are buying with cash, a proportion are being made by more affluent households from outside rural communities, creating greater demand in the local market and putting lower income and first time buyers at a disadvantage.<sup>3</sup>
- 3.17 In the United Kingdom, more generally, 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**

- 3.18 There are two key dimensions of housing supply that it is important to understand. First the overall stock of housing changes only 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**

- 3.19 In general, the overall stock of housing changes slowly. The lack of responsiveness of housing supply to increases in house prices is examined in the Barker Review. The Final Report noted that over the last 30 years, real house prices in the UK have increased by

<sup>2</sup> See for example, the JRF study on “*The Impact of Migration on Housing Requirements*” (2000) (<http://www.jrf.org.uk/knowledge/findings/housing/820.asp>)

<sup>3</sup> See State of the Countryside Update 3: “Cash purchases of housing stock” May 2007

around 2.4% per annum, while in Europe as a whole they have increased by only 1.1%. The Review concluded that a key factor in the inflation of house prices is persistent inadequate supply of new housing.

3.20 The Review<sup>4</sup> identified the constraints on housing supply in the UK and indicated that the underlying constraint on housing is the supply of land. The Review suggested 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 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 land 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.

3.21 Within the HPDD Sub Area context, the area has the added implication of the National Park. It is the role of EMRA and the Peak District National Park Authority to balance the demand for additional housing within the planning constraints of the National Park, whilst the local authorities along with EMRA must allocate within these constraints

#### **Changes to the Tenure Balance of the Stock**

3.22 Nationally, 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 nationally.** 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 housing association or local authority owned dwellings.
- **Nationally, 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. In 1994, for example, there were a total of five million social rented dwellings in England (rented from an RSL or local authority) compared with four million dwellings by 2004.<sup>5</sup> Nationally, there has been a trend towards local authorities transferring stock to management by Housing Associations (RSLs), whilst the stock of local authority dwellings has also continued to dwindle as people exercise the Right to Buy (RTB). The RTB position is likely to slow in future years

<sup>4</sup> The Government published its response to the Barker Review in December 2005. The key commitment made by the Government is to increase the rate of housebuilding from the current level of around 150,000 dwellings pa to 200,000 dwellings pa by 2016 (recently increased to 240,000 pa by the Prime Minister). The government also stated its intent to increase the output of affordable housing to a rate of 70,000 pa by 2010, of which around 50,000 would be social rented homes (Housing Green Paper)

<sup>5</sup> Source: DCLG housing statistics.

as new tenancies are created which remove the old RTB regulations. In High Peak the Council has retained ownership of its stock and is subject to the ongoing RTB rules. As values have risen in line with national trends, overall stock losses through RTB have diminished.

- **The stock of housing association properties has increased as a consequence of new development and the stock transfer trend.** . The local trend has mirrored the national position, with Derbyshire Dales having transferred its stock to Dales Housing Association. Whilst having not transferred its stock to an RSL, High Peak has set up High Peak Community Housing, an Arms Length Management Organisation.
- **Nationally, 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-Let<sup>6</sup> arrangements or more commercial investors and through some of the existing owner occupied stock moving into the private rented sector.

3.23 It is also important to understand the way in which demand for different tenures impacts upon other tenure sectors. 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 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.

3.24 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 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.

3.25 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 created by higher prices.

3.26 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 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.

3.27 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

<sup>6</sup> 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.



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. It is apparent, therefore, that house price inflation has a direct knock on effect that ultimately can lead to increased homelessness and overcrowding

- 3.28 Rising costs in the owner occupied sector therefore impact on the social housing sector, largely by providing fewer opportunities for people to enter the owner occupied market place. It is increasingly possible to think of the local authority and housing association sectors as a single sector, albeit that 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.
- 3.29 These processes in turn are likely to influence migration patterns. In an area such as the HPDD Sub-Area, newly forming households are likely to be displaced into adjacent urban areas where owner occupied housing is cheaper, because of a much greater supply of both old and new properties. Although less apparent, the same process can occur amongst low income households who move to adjacent urban areas because rents are generally lower, reflecting a greater supply of cheaper properties, and social housing is more plentiful. Such migration may not all be driven by housing costs, since sections of society may prefer to live for a time in larger urban settlements, but enforced migration associated with high costs of housing and limited availability of social rented housing is an undoubted factor in out-migration from rural areas.
- 3.30 Figure 3.1 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 HPDD Sub Area housing market and the identified sub-regions operating within it.

#### **Distinction Between Housing Market Assessment (SHMA) and Housing Needs Survey (SHNS)**

- 3.31 Housing Needs Surveys are primarily undertaken to justify and support affordable housing policies in Local Plans and now in the emerging Local Development Frameworks. In contrast, Housing Market Assessments take a different approach. SHMAs are more strategic in focus and ask deeper questions about housing, economic and social strategy than HNSs.<sup>7</sup>
- 3.32 The recommendations made in the HNS and SHMA on size and type of dwelling therefore relate to different sectors of the housing market. The SHMA focuses on the size and type of dwelling required in the market sector and across tenures to achieve economic and social balance, whereas the HNS relates to housing need for those unable to access market housing and who require subsidy, in terms of either social rented or intermediate housing. Therefore, findings of the two studies should be complimentary, but the conclusions may vary due to the differing focus.

#### **Gypsies and Traveller Sites**

- 3.33 The Housing Act 2004 introduced requirements for local housing authorities to take the needs of Gypsies and Travellers into account when producing local housing assessments and to include the accommodation needs of Gypsies and Travellers as part of their wider

<sup>7</sup> [http://www.communities.gov.uk/pub/538/HousingMarketAssessmentManualPDF1495Kb\\_id1140538.pdf](http://www.communities.gov.uk/pub/538/HousingMarketAssessmentManualPDF1495Kb_id1140538.pdf)

housing strategies. The draft guidance<sup>8</sup> says that consideration should be given to the need for private and public site provision, including transit sites and emergency stopping places where Gypsies and Travellers may legally stop in the course of travelling. A Gypsy and Traveller Study, commissioned by Derbyshire County Council, for the whole of Derbyshire has been completed.

<sup>8</sup> Gypsy and Traveller Accommodation Assessments: Draft Practice Guidance, February 2006