

Appendix 4 – Affordable Housing Needs Methodology

This note summarises the method used to calculate affordable housing needs for each of the four Housing Market Areas (HMAs) in the West Midlands Region and presents the results of this work. Further details have been provided in papers prepared by CURS for the Stage 2 report and in a draft paper produced for the WMRA entitled 'Comparison of household change forecasts' dated 16 March 2005.

The steps in methodology have been as follows:

- Determine the net household change figures – we have settled on WMRSS figures to avoid creating an unintended planning problem
- Re-aggregate these for the 4 HMAs referred to in the RHS
- Establish the number of net households unable to access the market by applying an affordability calculation. This is based on earlier proposals to the Region from CURS and involves establishing the relationship between:
 - *Median gross household income*ⁱ
 - *Average house prices excluding detached dwellings*ⁱⁱ
- This has been expressed as a ratio of the proportion of households unable to afford to buy if they borrow 3.5 times or 4.25 times their income
- Take account of the flow of social lettings to new households; this reduces the net affordable requirement and is based on a three year average of social lets with the proportion of lets to new households estimated from CORE dataⁱⁱⁱ
- Calculate the gross affordable requirement by adding in demolitions^{iv} and concealed households^v;
- Determine the level of intermediate housing requirements as part of the overall affordable housing element^{vi} which is deducted to give an overall social housing requirement^{vii}

The formal model is shown in Figure 1. There are two elements: i) stages in the development of the model that factor in social relets to new households, demolitions and concealed households which contribute to the gross housing requirement and ii) affordability ratios is based on a separate piece of research that looked at stocks and flows of affordable housing and considered the incomes of new households entering the market.

- i Reference to median income avoids skewness arising from a small number of high earners but we have also sought to better reflect the incomes of new households by adjusting income figures in the light of the Survey of English Housing to represent the incomes of newly forming households. This is the method previously agreed following the earlier CURS report on affordability and discussions in the region. The income data used is Paycheck data from CACI.
- ii *Average house prices excluding detached dwellings* have been based on the HM Land Registry data referred to above. The exclusion of detached dwellings is designed to exclude the most expensive dwellings that, in any case, would not normally be sought by first time buyers. Again this is the method agreed following the earlier CURS report on affordability and discussions in the region.
- iii In low demand areas, where, theoretically, the supply of social housing will absorb household growth, a negative affordable housing target is produced; however, these are set to zero as it cannot be expected that low demand in one area (for example Sandwell) will address problems of high demand (for example Solihull) in another part of the HMA.
- iv We have used demolitions estimates to estimate the gross housing requirements in the RPG.
- v Concealed households identified in the West Midlands Homelessness Strategy have also been used; these approximate to 21,500 households and are derived from the 2001 census.
- vi We have been able to use the Bramley data to inform the split within the 'affordable housing need' figure between social housing need and other affordable housing. This provides a more robust and externally verified approach than was anticipated for this part of the work.
- vii The totals of newly forming households are then revised to take into account the 'intermediate' sector. Ratios of the Low Cost Home Ownership (LCHO)/Shared Ownership split of affordable housing at local authority level are applied (Bramley). Remaining unmet need is apportioned to social housing to give an estimate of affordable housing need both in the social and 'intermediate' sector.