

Discussion of
West Midlands Spatial Options
(preliminary analysis presented
to Joint RSS Task Group/RAG meeting)

National Housing & Planning Advice Unit
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National Housing & Planning Advice Unit: Policy Context

Planning Policy Statement 3 identifies one of the Government's four Strategic Housing Policy Objectives as:

To improve affordability across the housing market, including by increasing the supply of housing.

RSS should take into account advice from the NHPAU on the impact of the proposals for affordability on the region (Para. 33)

Housing Green Paper

the Government is now setting a new housing target for 2016 of 240,000 additional homes a year to meet the growing demand and address affordability issues.

Formal Government guidance to be issued on a range of housing provision options, based on the independent advice of the NHPAU, which are to be tested as part of the RSS process. (P31)

Affordability

Urban
Regeneration

**RSS Housing
Provision**

Political
Considerations

Sustainability

Housing Supply

Migration

Demand for
housing

Affordability

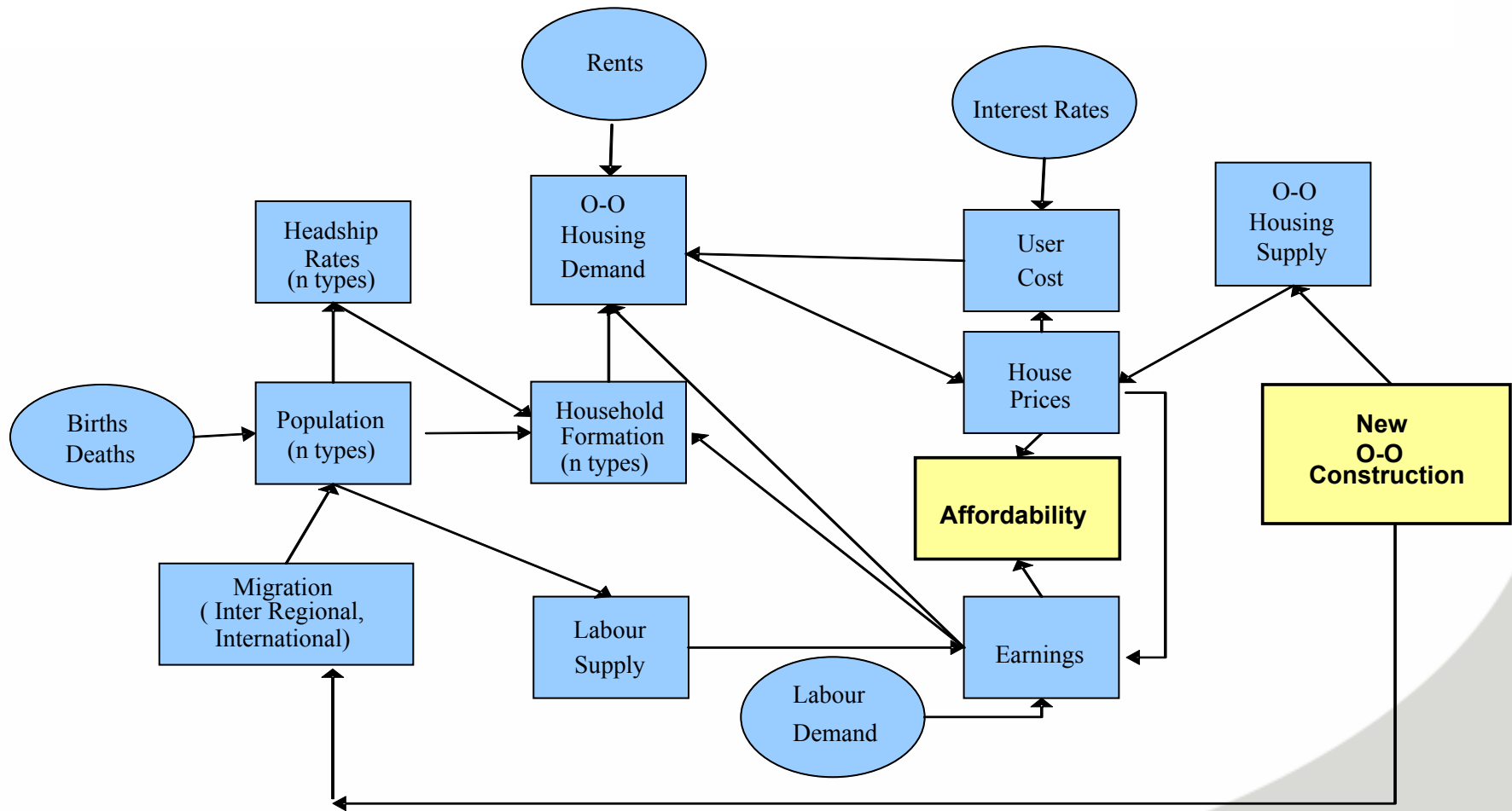
Private
Rents

Social and
Intermediate
housing

Mortgage
interest rates

Economic
Climate

The Reading Model of Affordability



Reading University Affordability Model - 2005

What is the LQ Affordability ratio?

- *The lower quartile affordability ratio is a measure of how the relationship between the cost of housing and earnings is changing – based on less expensive houses and lower earnings*
- It compares the lower 25% point on the house price distribution with the lower 25% point on the earnings distribution
- This was the measure preferred by Barker and is particularly relevant as those entering the housing market tend to purchase cheaper housing and earn less.
- For various reasons, it should not be confused with the mortgage income multiplier required by first time buyers to buy a home

The Reading Model of Affordability: Interpreting the results

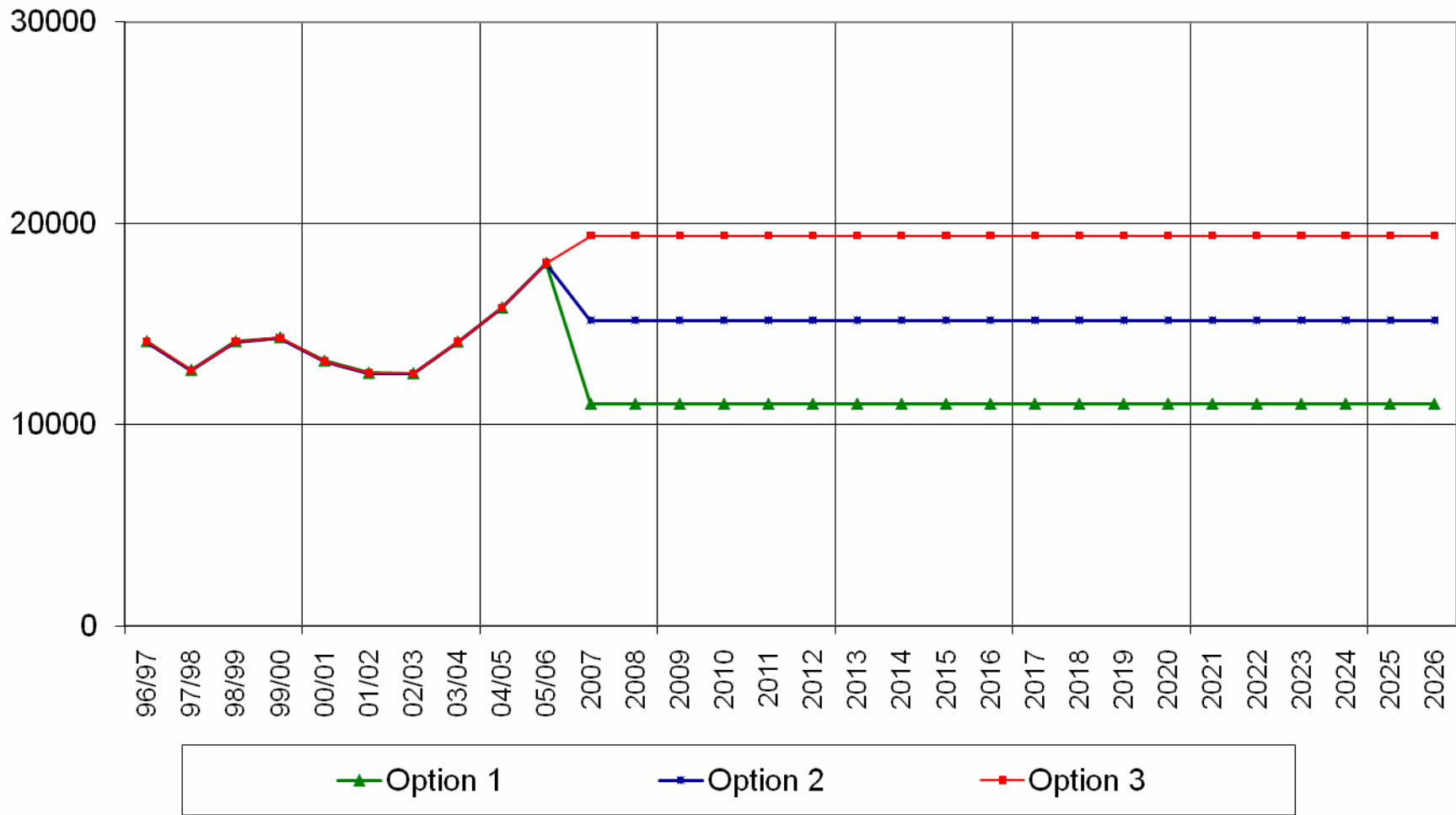
- This model is a major step forward in exploring the relationship between housing supply and affordability. Appropriate econometric techniques have been used and the resulting parameters are consistent with the literature. The relationships between the variables are based on historical data of 20-30 years, where these are available.
- The results are also consistent with emerging analysis from other models of affordability such as the Bramley-Leishman model.

But care should be taken.....

- As the model is projecting future trends that are subject to a fair degree of uncertainty, the strength of the model is in *comparing* the outcomes for various scenarios rather than predicting what will happen if a particular course of action is taken
- The modelling is based on *long term trends*. It should not be used to forecast short-term trends as these can vary quite a lot from the long-term trend.
- As the model is continually developing the results should be considered to be guidelines rather than absolute figures, i.e. '*this is what is likely to happen if nothing else changes*' ... ' rather than '*this is what will happen*...'

The Analysis

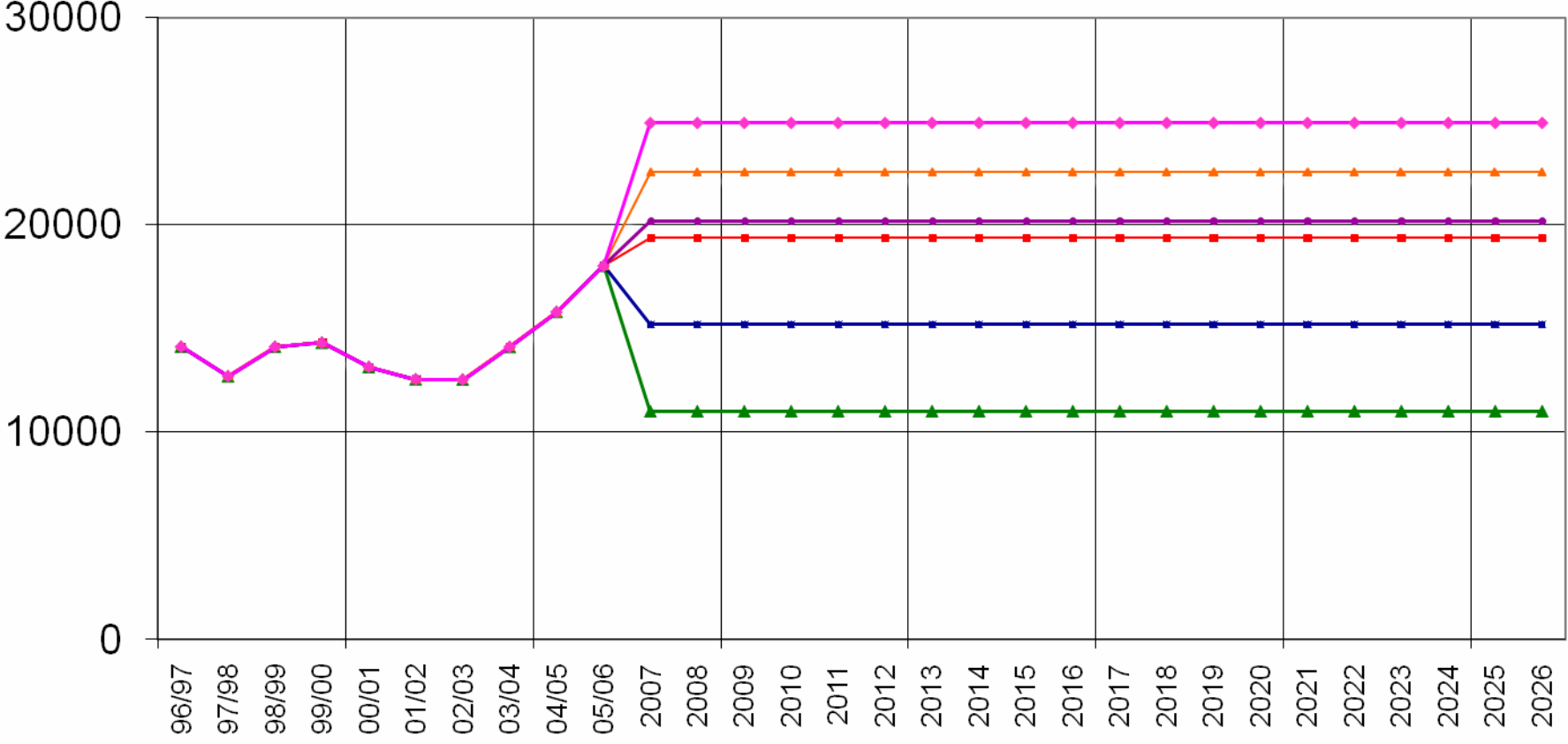
Net Additions



Source of historic data: CLG, Regional Housing Land Availability Survey, 2004, 2005, 2006

Building awareness for the future

Net Additions

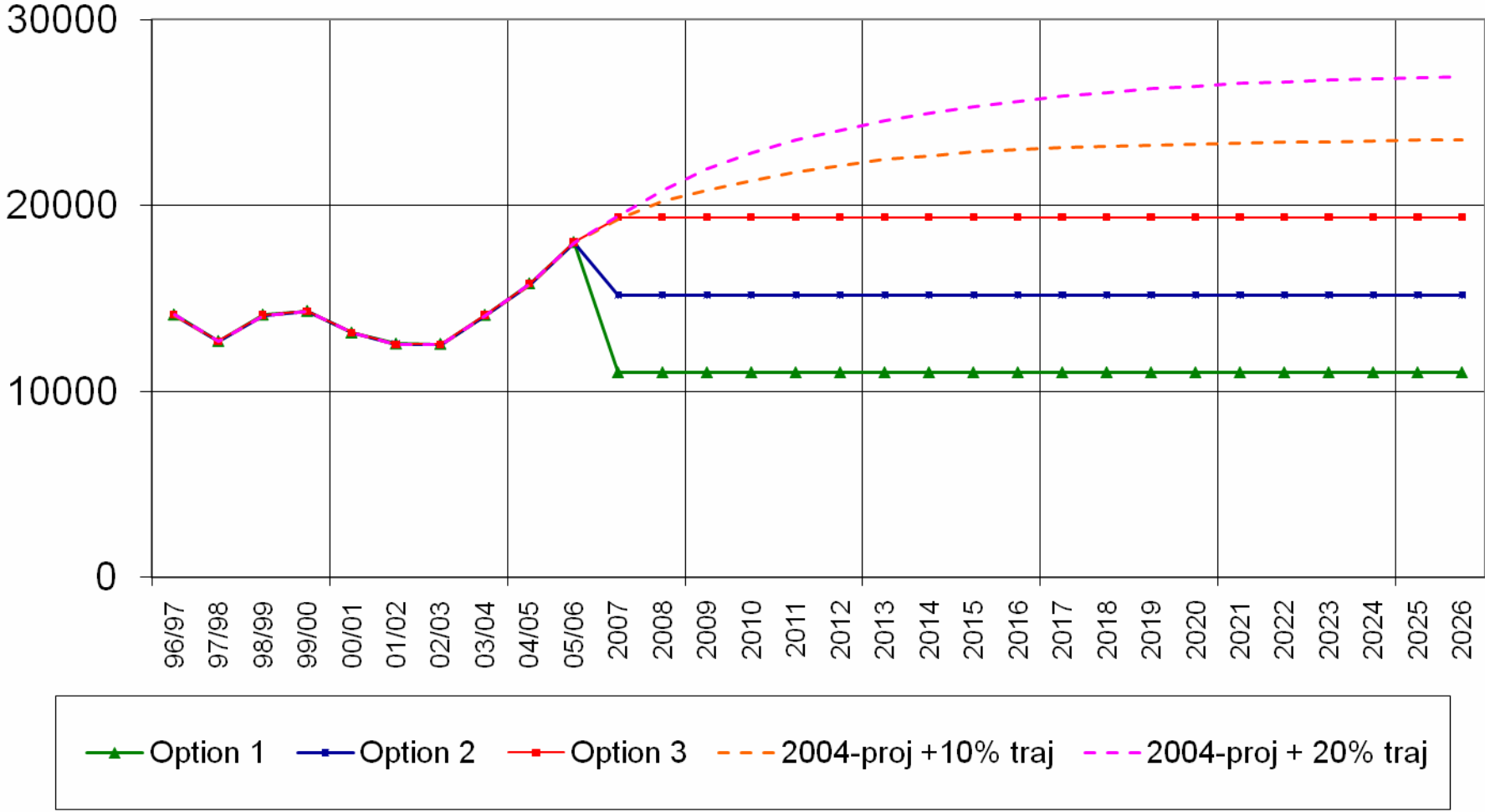


Source of historic data: CLG, Regional Housing Land Availability Survey, 2004, 2005, 2006

Building awareness for the future



Net Additions



Source of historic data: CLG, Regional Housing Land Availability Survey, 2004, 2005, 2006

Building awareness for the future



Discussion of the additional scenarios

2004 proj

- this scenario uses the same methodology as Spatial Option 3 replacing the 2003 projections with 2004 projections
- including an allowance for vacancies (3%)

2004 proj + 10%

- this scenario realises that the household formation rates in the 2004 household projections refer to the current climate
- and also includes some allowance for demand from existing households (in temporary accommodation, overcrowded conditions, sharing with friends and family etc.)

2004 proj + 20%

- this option considers a higher level of net additions
- It includes a greater allowance for demand from existing households e.g. second homes.

	Gross Build, 2001-2026	Net Additions, 2001-2026	Already built, 2001-2006	Already demolished 2001-2006	Already added, 2001-2006	Remaining Net additions, 2006-2026	Annual Net Additions, 2006-2026
Option 1	381,000	293,400	89,923	16,882	73,041	220,359	11,018
Option 2	491,200	376,700	89,923	16,882	73,041	303,659	15,183
Option 3	575,000	460,500	89,923	16,882	73,041	387,459	19,373
2004 proj	590,542	476,085	89,923	16,882	73,041	403,044	20,152
2004 proj + 10%	638,151	523,693	89,923	16,882	73,041	450,652	22,533
2004 proj + 20%	571,301	571,301	89,923	16,882	73,041	498,260	24,913

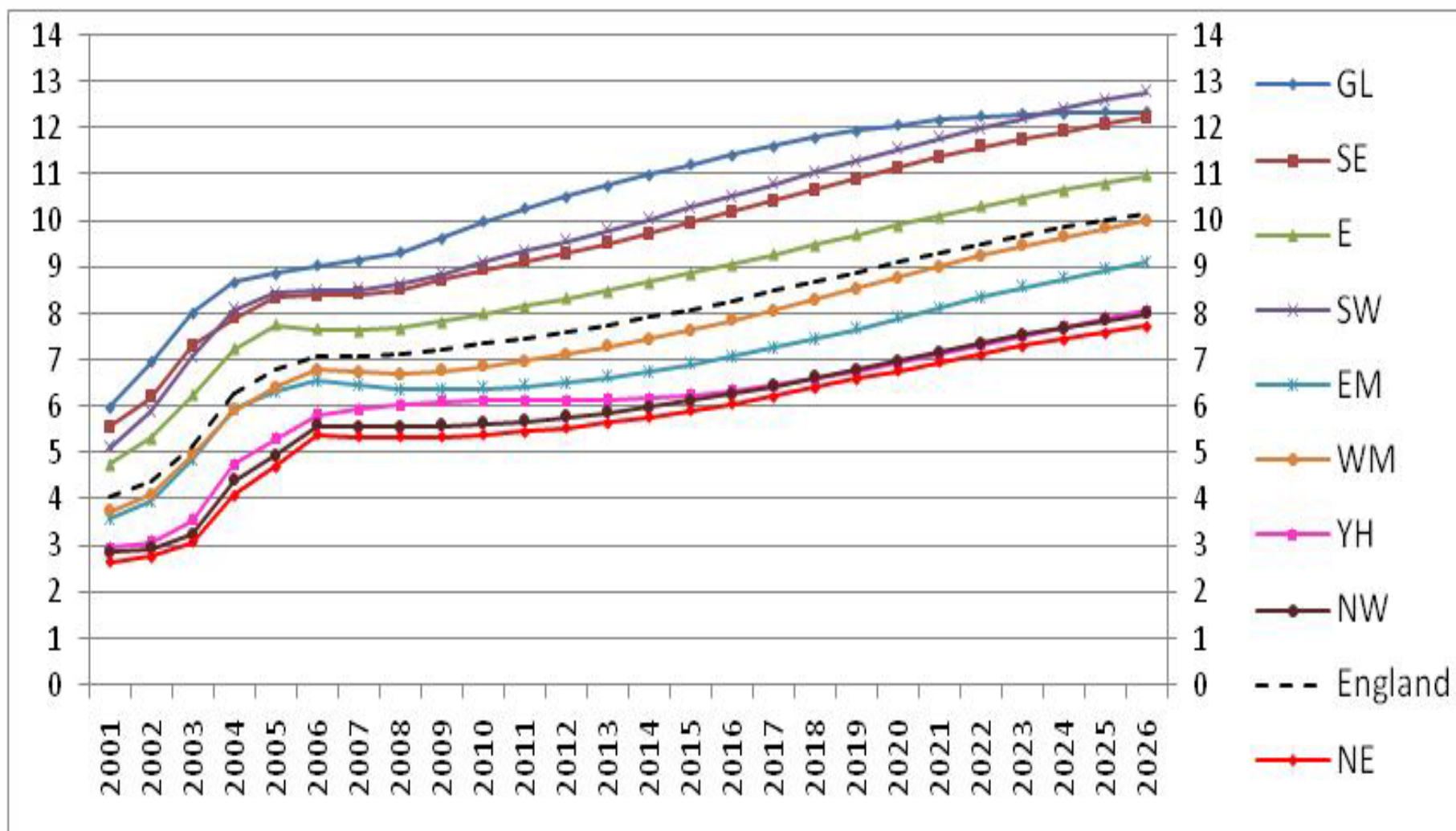
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Data for the other regions

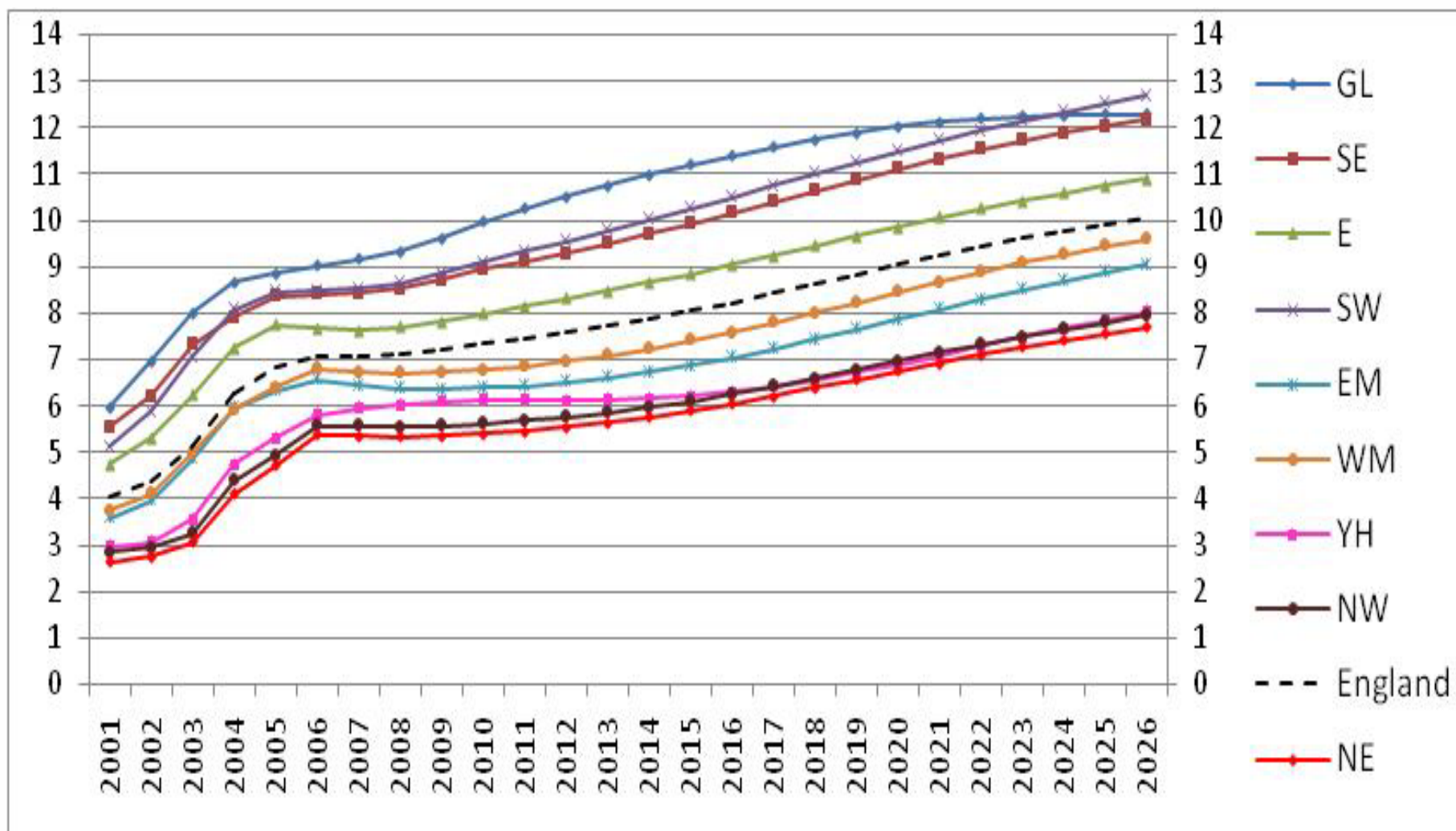
The best approximation for the levels of house building in the other regions is the RSS data (including any proposed changes)

	2007 to 2010	2011 to 2015	2016 onwards
North East	7635	6915	4765
North West	23111	23111	23111
Yorkshire & Humber	15160	22140	22140
East Midlands	20418	20418	20418
East	26830	26830	26830
London	27596	27596	27596
South East	32000	32000	32000
South West	23770	23770	22185

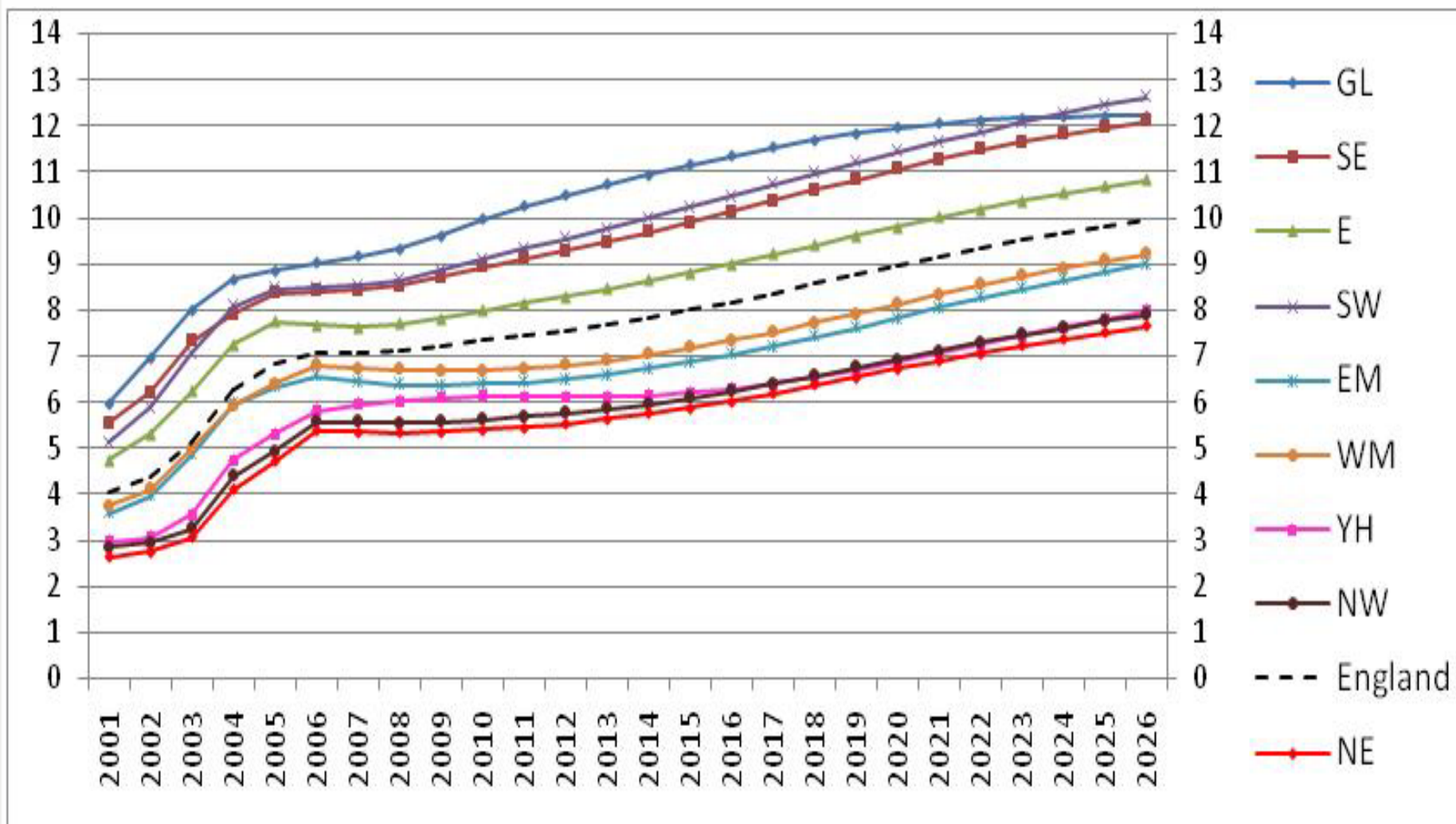
LQ Affordability ratio – Option 1



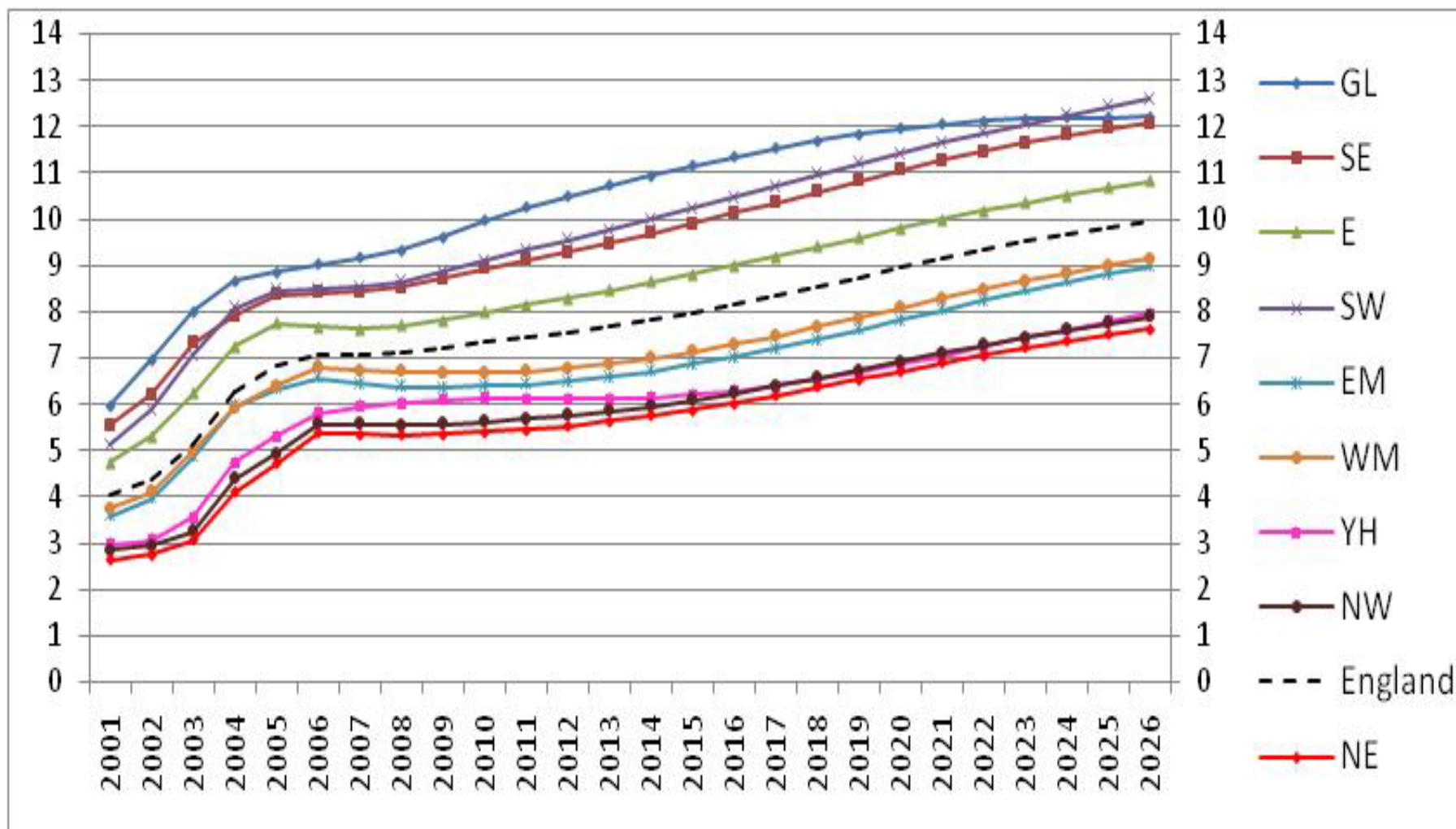
LQ Affordability ratio – Option 2



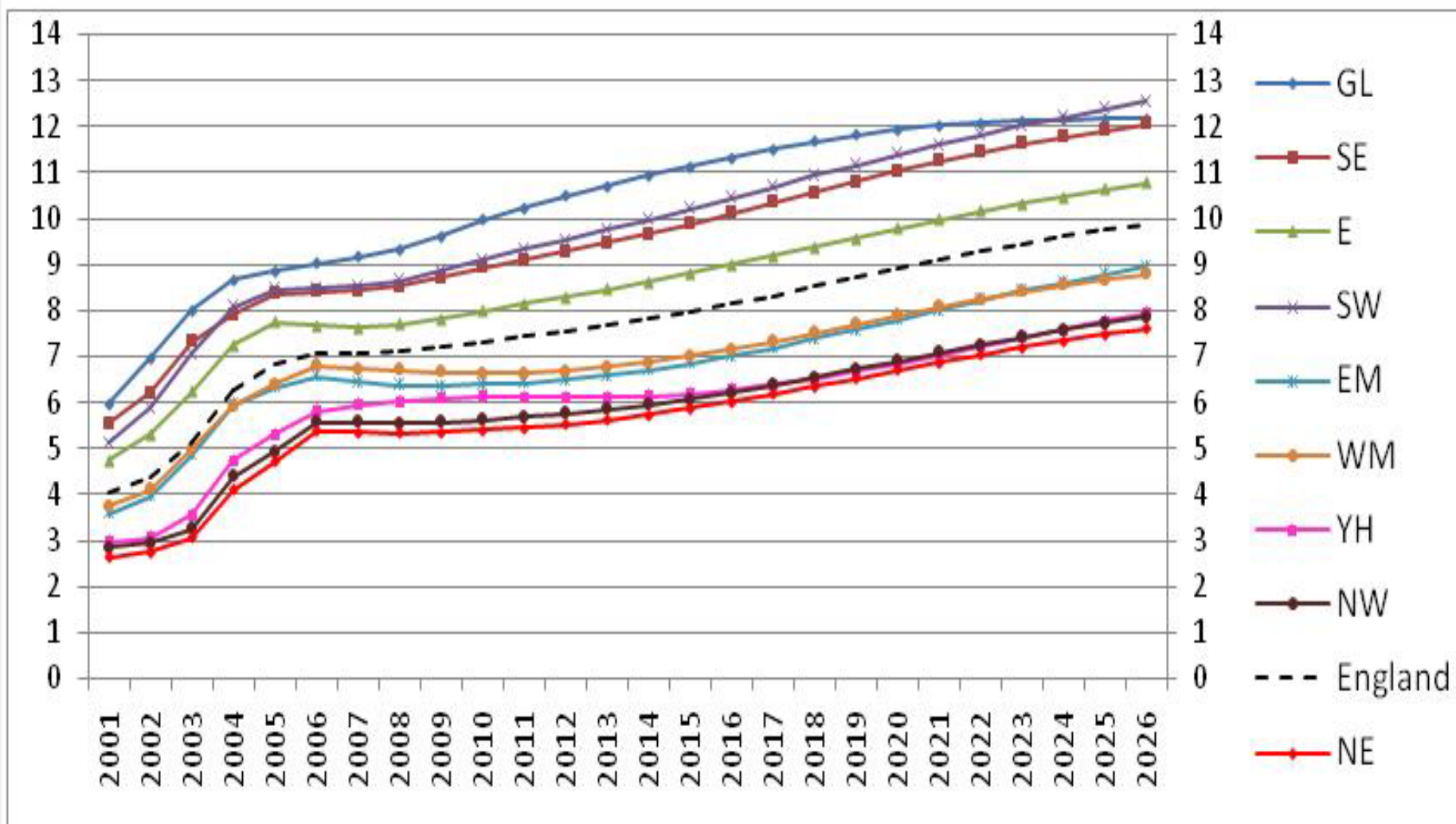
LQ Affordability ratio – Option 3



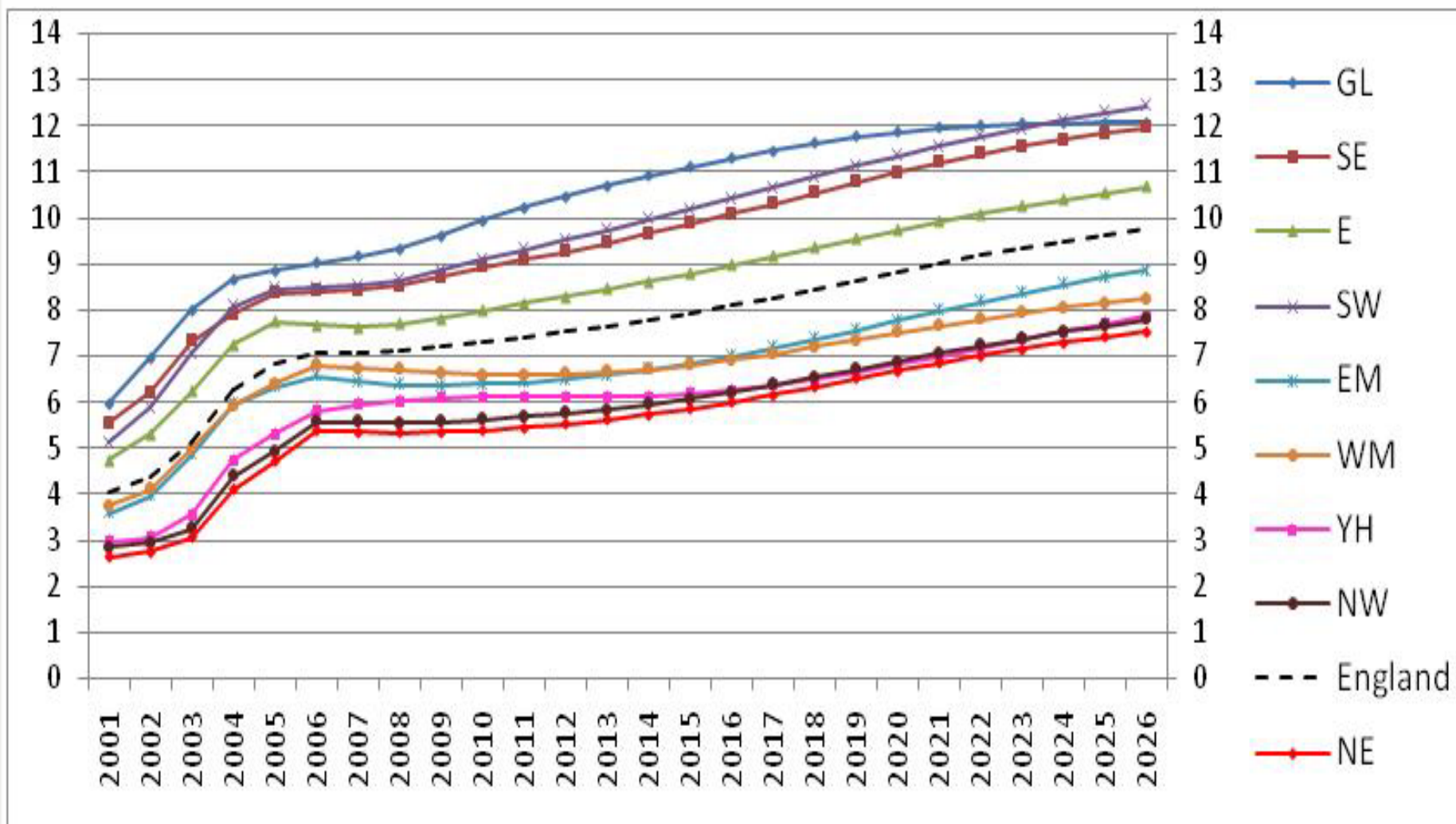
LQ Affordability ratio – 04 projections



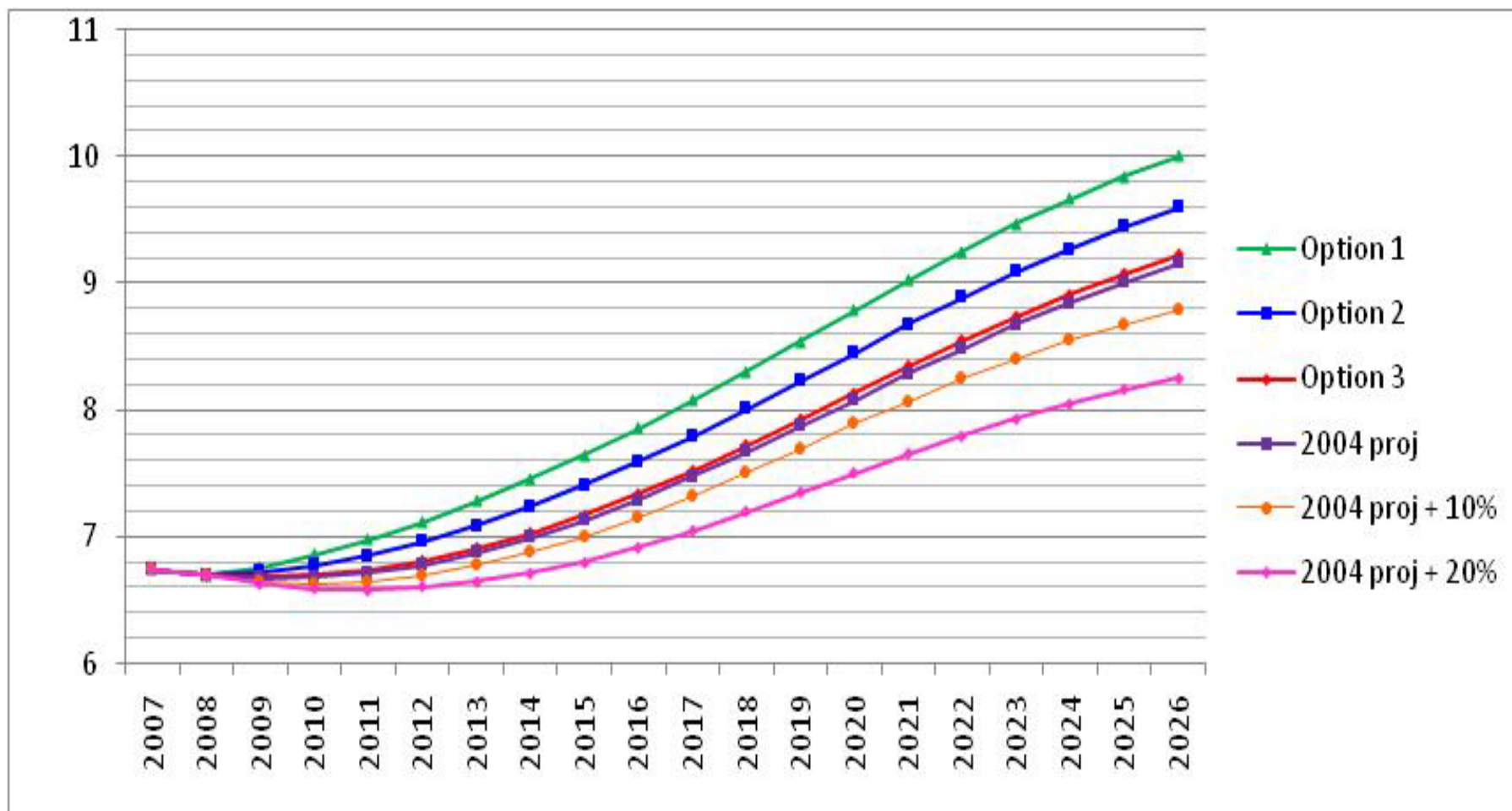
LQ Affordability ratio – 04 proj + 10%



LQ Affordability ratio – 04 proj + 20%



LQ Affordability ratio – West Midlands



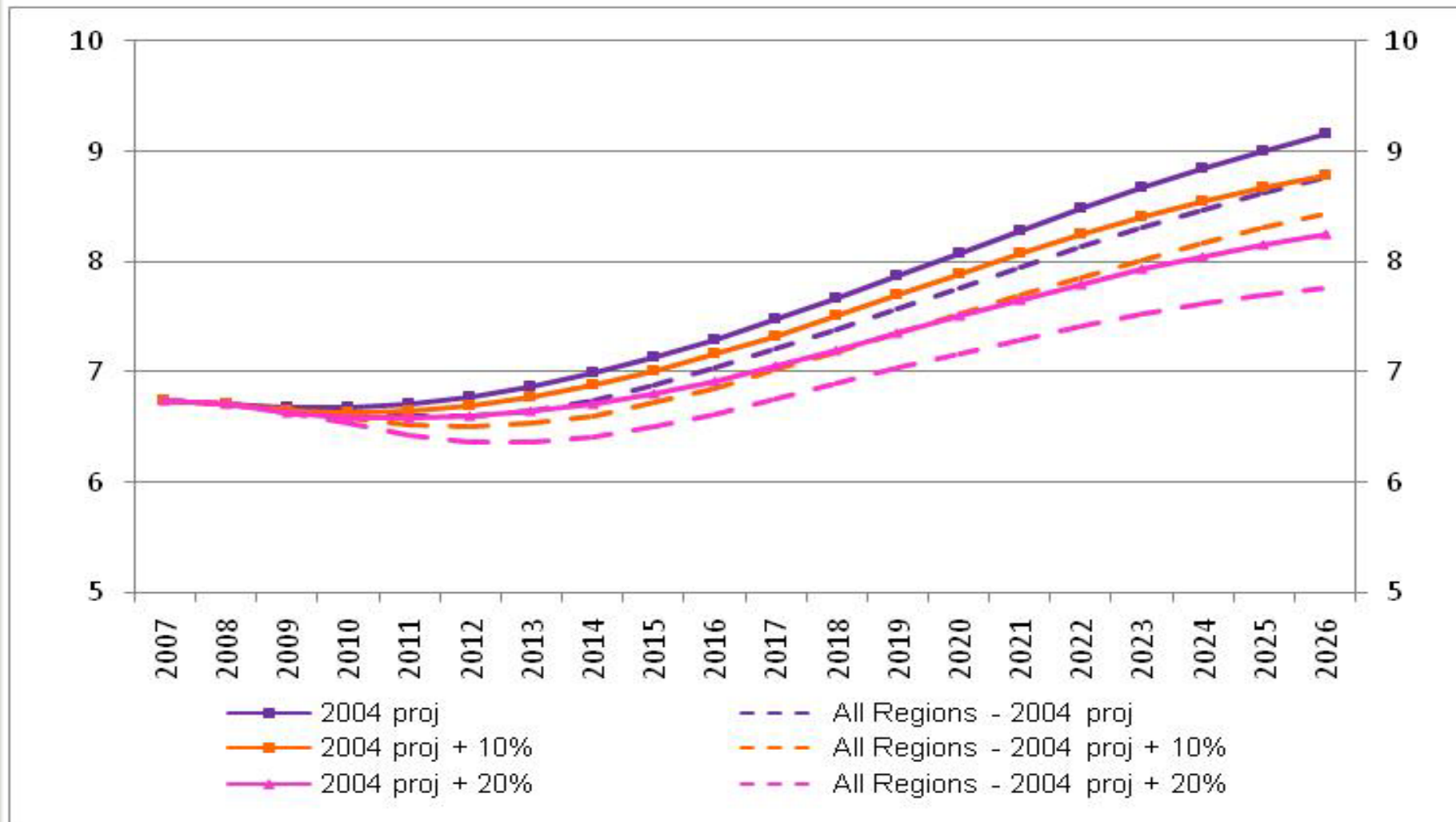
LQ Affordability ratio – West Midlands

LQ Affordability ratio	2006	2011	2016	2021	2026	% increase 2006 to 2026
Option 1	6.80	6.98	7.86	9.02	10.00	47.1%
Option 2	6.80	6.85	7.59	8.67	9.60	41.1%
Option 3	6.80	6.73	7.34	8.34	9.22	35.6%
2004 proj	6.80	6.71	7.29	8.29	9.16	34.7%
2004 proj + 10%	6.80	6.65	7.16	8.07	8.78	29.2%
2004 proj + 20%	6.80	6.58	6.92	7.66	8.25	21.4%

What about the other regions?

- Affordability in the West Midlands is not only affected by the level of house building within the region, but also by the choices made by other regions
- If the level of house-building increases (or decreases) in another region there will be a knock-on impact on affordability in the West Midlands

LQ Affordability ratio – other regions

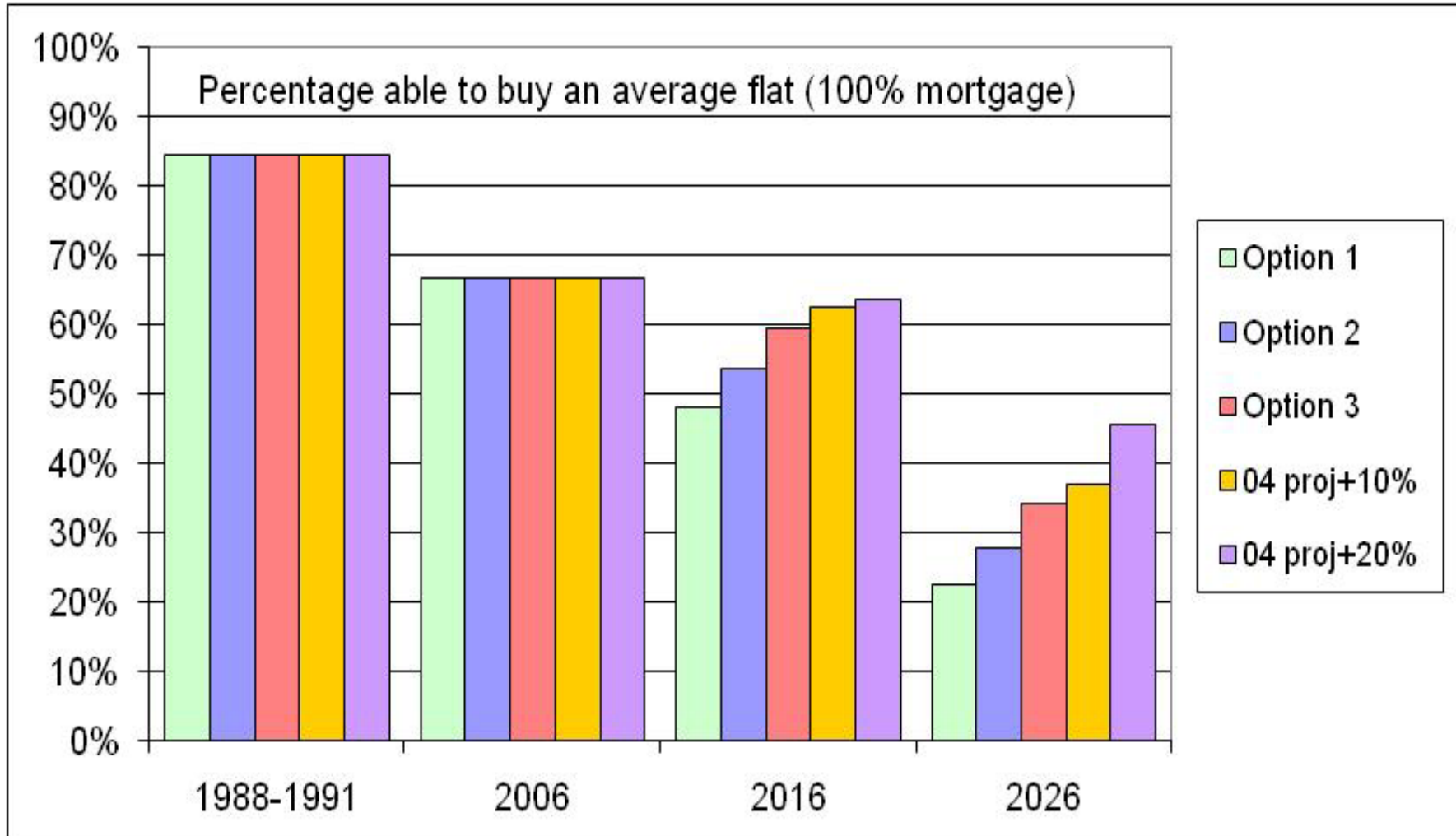


But there are other measures

Another measure considers how many 30-34 year old couples could afford to buy an average flat. In this measure,

- an average flat is defined as a purpose built flat or maisonette
- a 30-34 year old couple is defined as a household where the household representative person (aged 30-34) and partner (any age) are both working at least part-time
- a 100% repayment mortgage over a 25 year term is assumed
- the mortgage income multiple is restricted so that mortgage repayments are no more than 25% of gross income
- Price and earnings distributions remain constant over time
- Affordability projections are based on price and earnings growth under the various levels of house building as predicted by the Reading affordability model

30-34 year old couples – Scenarios



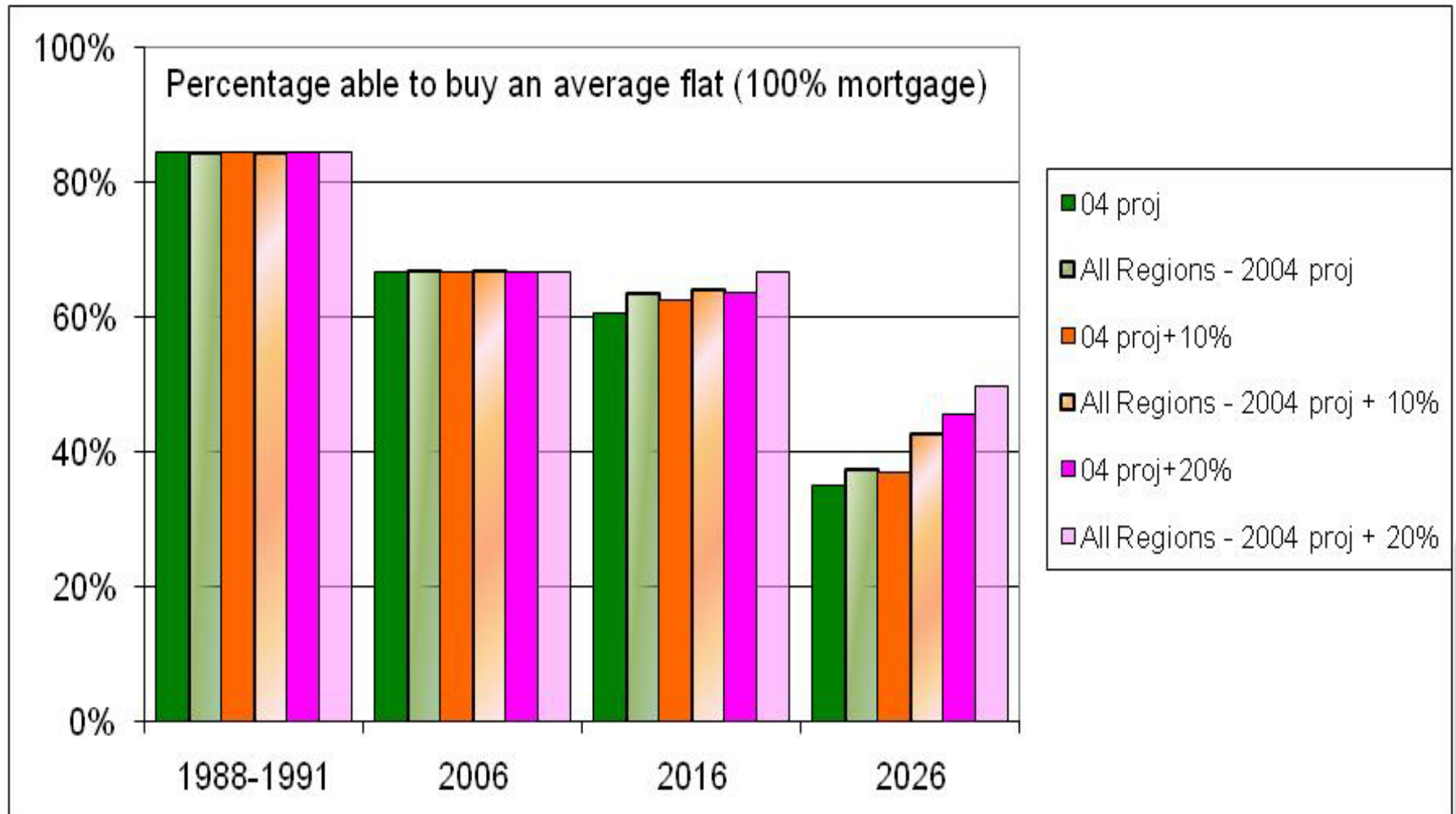
West Midlands

Building awareness for the future

% able to buy (30-34 yr old couples)

	1988-1991	2006	2016	2026
Option 1	84%	67%	48%	23%
Option 2	84%	67%	54%	28%
Option 3	84%	67%	60%	34%
04 proj	84%	67%	61%	35%
04 proj+10%	84%	67%	63%	37%
04 proj+20%	84%	67%	64%	46%

30-34 yr old couples – Impact of other regions



30-34 yr old couples – Impact of other regions

	1988-1991	2006	2016	2026
04 proj	84%	67%	61%	35%
all 04 proj	84%	67%	63%	37%
04 proj+10%	84%	67%	63%	37%
all 04 proj+10%	84%	67%	64%	43%
04 proj+20%	84%	67%	64%	46%
all 04 proj+20%	84%	67%	67%	50%

Why does housing market affordability matter?

- Rising house prices can lead to macro economic instability
- Results in a higher levels of out-migration and lower levels of in-migration
- Can erode regional economic growth potential
- Young people and families are unable to access quality housing
- Increases demand in the private rented sector
- Puts pressure on social housing stock
- Housing affordability affects people's lives and the economic and social well-being of the region

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