

More homes for more people: advice to Ministers on housing levels to be considered in regional plans

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July 2009



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The Rt Hon John Healey MP
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Dear Mr. Healey,

30 July 2009

MORE HOMES FOR MORE PEOPLE: UPDATING OUR ADVICE ON HOUSING LEVELS TO BE CONSIDERED IN REGIONAL PLANS

The June 2007 Green Paper, *Homes for the Future: More affordable, more sustainable*, commissioned the NHPAU to provide the Government with advice about the level of housing provision that should be tested by regional planning bodies in producing regional spatial strategies. The NHPAU accordingly produced its first advice on housing numbers last June. The period since then has been a challenging one for housing markets. Unsurprisingly, many are asking whether our advice remains relevant and appropriate. We have therefore updated our advice, taking account of all the latest evidence. I enclose this advice.

The central message is simple: the recession will have little impact on the number of homes that we need to build over the next 20 years.

Recessions do not have a big impact on household growth but they do cause a dip in house building. Homes 'lost' in that dip will need to be made good later in the period, so the Government's initiatives to stimulate recovery in house building will have a crucial role to play if we are not to find that housing conditions are worse in 20 years time than they are today.

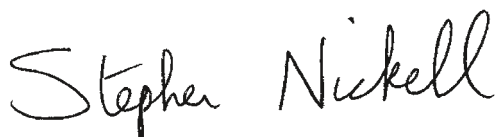
Our work during the last year has brought out even more clearly that declining affordability is having increasingly severe impacts. Worsening overcrowding; lengthening social housing waiting lists; first time buyers finding it harder to get on to the housing ladder and adult children living with parents for longer are the direct effects. But there are also likely to be increasingly serious wider economic and social consequences if we do not manage to bring the supply and demand for housing back towards balance and start tackling the backlog of unmet need.

We risk even greater volatility in house prices with the potential for even more extreme boom and bust cycles – with knock-on effects for the wider economy. There will be damage done to our competitiveness as growing housing costs make those parts of the country that drive our economy less attractive places in which to establish businesses. And people will travel further from their place of work to find homes that meet their needs that they can afford – with the attendant environmental consequences. In short, worsening affordability will affect us all, even those of us who are fortunate enough to own our own homes.

In preparing its updated advice the Unit was conscious of the need for stability, particularly given all of the other uncertainties which communities and businesses are having to contend with. We have therefore advised that changes to the housing supply ranges that regional planners should be asked to consider should be 'damped', with the new numbers set half-way between our old figures and the numbers suggested by the latest evidence. Following this approach in this and future updates will help avoid violent swings in the numbers planners are asked to consider.

The net result is that we are advising that the bottom of the range figures should increase by an average of 3% to an annual average requirement of 237,800 extra homes a year from 2008 to 2031 for England as a whole and that top of the range figures should increase by 5% to a national average requirement of 290,500 extra homes. There are somewhat larger increases proposed for some regions, most of which are due to updated trend data and improved modelling by the Office for National Statistics.

As you made clear at our recent annual conference, we all need to do more to spread the message about the scale of the housing challenges we face; the steps that are being taken; and the action that all concerned need to take in response. The NHPAU will do its part, explaining the latest advice to regional and local partners and working with them to develop plans at regional, sub-regional and local levels that reflect the need to deliver more homes for more people. We will also endeavour to ensure that our advice is accessible to a wider audience to help inform the broader debate about need for more housing and how it can best be delivered.



Stephen Nickell
Chairman of the Board
National Housing and Planning Advice Unit

Contents

Key Points	9
Advice to Ministers	11
The demographic method	13
Affordability Model	16
Advice on range to be tested in regional plans	19
Conclusions	21
NHPAU Board Members	22

Key Points

1. A great deal has happened since the NHPAU produced its June 2008 advice to Ministers on the housing numbers that should be considered in preparing regional plans. It is now clear that the recession and credit crunch have had substantial impacts on economic output, mortgage lending and house building and that these have the potential to last for some time. This report therefore updates that advice.
2. The main conclusion is that the recession and the fall in house prices have not solved the problem of housing affordability. In fact, the requirement for house building has increased slightly, although the impact is not uniform across the country: there are somewhat larger changes for some regions.
3. In preparing this update a similar approach has been used to that followed in preparing the 2008 advice. Both a demographic method and the CLG/Reading Affordability Model have been used to arrive at housing supply ranges to be considered in each region.
4. The main factors that have changed since the previous advice are:
 - a. The latest official population projections reflect the latest evidence that people are living longer and that birth rates have increased. They also give us a better understanding of migration patterns both to this country and from region to region. As a result we now expect a faster rate of household growth in the period 2006 to 2026, even after making an allowance for the effect that the recession may have on net migration to the UK. This will tend to increase the housing requirement in most regions by varying amounts.
 - b. The recession is likely to have an impact on earnings growth that will stretch over a number of years. This will tend to reduce the demand for owner occupation.
 - c. The much tighter mortgage market, with higher deposit requirements and premia being charged for loans that are a high proportion of the value of the property being bought, will also reduce demand. Our modelling suggests that, as and when this ends, prices and affordability ratios will revert to where they would have been had there been no mortgage 'rationing'.
 - d. We do not know how long the current dip in house building will last. However, our modelling suggests that, within limits, the dip will not have a major impact on the total number of homes that need to be built in the next 20 years but any homes that are 'lost' in the early years will need to be made good later in the period.
5. In order to smooth changes the NHPAU advises that the new range maxima and minima should be set half way between the previous advice and the numbers suggested by the latest evidence. This minimises the risk of large swings each time our advice is updated. On this basis, the new figures are shown in Table 1.

Table 1: Comparison of new and old housing supply ranges						
	June 08 minima- average 2008 – 26	New minima- average 2008 – 31	% change	June 08 maxima- average 2008 – 26	New maxima- average 2008 – 31	% change
North East	6,700	7,200	7%	7,500	8,200	9%
North West	26,600	26,400	-1%	29,500	29,900	1%
Yorkshire & Humber	23,800	26,400	11%	26,400	29,400	11%
East Midlands	23,400	25,100	7%	24,600	26,800	9%
West Midlands	19,000	19,600	3%	22,600	23,200	3%
East of England	30,600	31,600	3%	39,200	40,000	2%
London	33,800	33,100	-2%	42,600	44,700	5%
South East	37,800	38,000	1%	49,700	53,800	8%
South West	29,800	30,400	2%	34,800	34,500	-1%
England	231,500	237,800	3%	276,900	290,500	5%

Advice to Ministers

6. This report updates the National Housing and Planning Advice Unit's advice to Ministers on the levels of provision for housing that should be tested in preparing regional plans. The original advice was set out in the June 2008 report *Meeting the housing requirements of an aspiring and growing nation: taking the medium and long term view*.¹

Context for the advice

7. The main goal of the Government's housing policy is that everyone should have the opportunity to rent or buy a decent home at a price they can afford in a place where they want to live or work.
8. The planning system is designed to support this policy goal by ensuring that sufficient land is made available for housing. Regional spatial strategies (which are soon to be subsumed within single integrated regional strategies) should identify how many homes need to be provided for in each region over a 15-20 year period and allocate these between the region's local planning authorities. Those planning authorities should then provide for those homes in their local plans and ensure that they maintain at least five years worth of deliverable land, as well as identifying developable sites for at least 10 years and, ideally, for 15 years.²
9. A key part of the NHPAU role is to support this process by providing independent, evidence-based, expert advice. In the July 2007 Housing Green Paper, *Homes for the Future: More affordable, more sustainable*³, the Government said that it would set the overall housing ambition for the country and the regions and that it would do this acting on the advice of the NHPAU and considering the national interest in the round. It announced its intention to issue formal guidance to regional planning bodies on the ranges of housing provision required and would expect regional planning bodies to test these options. The Secretary of State could therefore be fully informed when taking final decisions about appropriate levels of housing provision when approving regional spatial strategies.
10. In line with the Green Paper, in July 2008 the then Minister for Housing, Caroline Flint, wrote to the Chairs of the Regional Assemblies formally requiring them to consider and test the housing supply range advised by the NHPAU in preparing regional plans.
11. In this context it is important to stress that the NHPAU's housing supply range is not a target. The Unit fully appreciates that there are a wide range of considerations that need to be balanced in preparing regional spatial strategies and that the level of housing provision is but one of these, albeit an important one. The housing supply range is therefore simply a range of provision that the NHPAU believes should be tested: regional planners need to balance the costs and benefits of meeting housing need alongside other priorities. The NHPAU is happy to support this process by providing expert objective advice on the consequences of provision at these and other levels.

Why we are updating our advice

12. A great deal has happened since the NHPAU produced its June 2008 advice to Ministers. Although the downturn in the housing market was then evident, it was not possible to assess and take into account its full implications. It is now clear that the recession and credit crunch have had substantial impacts on economic output, mortgage lending and house building and that these have the potential to last for some time.
13. Moreover, we now have the benefit of CLG's latest household projections,⁴ which were published in March 2009, building on the Office for National Statistics' 2006-based sub-national population projections.⁵

¹ This can be accessed via <http://www.communities.gov.uk/nhpau/keypublications/reports/meetinghousingrequirements/>

² Communities and Local Government (2006) Planning Policy Statement 3 (PPS3): Housing Para 9 accessed via web address: <http://www.communities.gov.uk/documents/planningandbuilding/pdf/planningpolicystatement3.pdf>

³ Communities and Local Government (2007), *Homes for the future: More affordable, more sustainable* accessed via web address: <http://www.communities.gov.uk/documents/housing/pdf/439986.pdf>

⁴ Communities and Local Government (2009) *Household Projections to 2031, England*, accessed via <http://www.communities.gov.uk/documents/statistics/pdf/1172133.pdf>

⁵ ONS (2008) *Sub National Population Projections (SNPP) for England* accessed via <http://www.statistics.gov.uk/statbase/product.asp?vink=997>

14. Given the level of change indicated by this new evidence it is natural that people are asking whether the NHPAU's June 2008 advice remains relevant and appropriate.
15. The short answer is that the combined impact of recent events on housing requirements over the next 20 years is relatively small. The recession and the fall in house prices have certainly not solved the problem of housing affordability.⁶ The requirement for house building has increased slightly, although the impact is not uniform across the country: there are somewhat larger changes for some regions.
16. The rest of this document sets out the analysis that has led the NHPAU to these conclusions together with the NHPAU's updated advice on the ranges of housing provision that we believe the regions should now test in preparing their plans.

Approach to updating our advice

17. The approach followed in updating the advice is fundamentally the same as that used in preparing the June 2008 advice.
18. The starting point for any assessment of housing requirements has to be a view on the improvement in housing conditions we should seek to achieve – or the deterioration we should be prepared to tolerate. As in the June 2008 advice, the basis of this update is that by 2026 affordability should be at the level recorded in the first quarter of 2007, as measured by the ratio between lower quartile house prices and lower quartile earnings. For this advice we have been able to use the actual ratios for 2007 rather than the modelled figures used in the previous advice. That ratio was 7.25 for England as a whole and varied between 5.34 in the North East and 8.90 in London. That is hardly an attractive position, the ratio for England having been as low as 4.00 as recently as 2000 while over the three years 2005-2007 it averaged 7.06. However, even the relatively modest ambition of affordability at 2007 levels requires high levels of house building.
19. The June 2008 advice covered the period 2008 to 2026. As many regions are now moving to a plan period that extends to 2031 we are using this update to extend our advice so that it covers the period 2008 – 2031. The benchmark remains achieving stability at 2007 affordability levels by 2026, the assumption being that those same levels are maintained in 2031.
20. We anticipate that the NHPAU will normally update its advice every two years, following the publication of CLG's household projections, and will use the "moving average" approach outlined below to smooth changes that might arise as a result of refinements to methodologies or new evidence.

Estimating the housing requirement

21. As in the June 2008 advice, two approaches have been used to estimate the housing requirement – i.e. the number of net additions that need to be made to the existing housing stock – in order to stabilise affordability at 2007 levels by 2026 and cover need and demand:
 - a **demographic method** which considers growth in household numbers and makes allowances for existing unmet need, second homes and vacancies in new supply; and,
 - use of the **CLG/Reading Affordability Model**, an econometric model that looks at the relationship between house prices and features of the housing market, where key variables include population levels and numbers of households, earnings, house building rates, interest rates and the user cost of housing. Those relationships are informed by how the housing market has behaved over the last 30 years.
22. There is considerable uncertainty as to how quickly house building rates will recover following the recession. In view of this our updated advice is being presented simply as an average annual number of net additions to the stock over the plan period. The NHPAU is not expressing a formal view on how this might be phased over the period.

⁶ A fuller discussion of these issues is set out in the NHPAU publication *Housing requirements and the impact of recent economic and demographic change*, published in May 2009. This can be accessed via www.communities.gov.uk/nhpau/keypublications/reports/housingrequirements/

The demographic method

23. The demographic method is in line with the traditional approach used by housing authorities in preparing housing plans. It uses a simple formula:

$$\begin{aligned} &\text{growth in number of households} \\ &+ \\ &\text{unmet need/demand} \\ &+ \\ &\text{demand for second homes} \\ &+ \\ &\text{vacancies in new supply} \\ &= \\ &\text{required housing supply} \end{aligned}$$

24. In estimating household growth we have taken the latest official CLG 2006-based household projections as our starting point. These suggest that household growth over the whole period 2006 to 2026 will be around 16 per cent higher than was anticipated in the 2004-based projection used in our June 2008 advice.

25. As the latest official projections are 2006-based they pre-date the current recession, which some argue will lead to constrained household formation. It is important to note that the household projections are informed by over three decades of trend data on household formation rates which includes the effects from several recessions and booms. As such, they provide a stable long-term view of future household growth. And, while house prices and household incomes do have some influence on household formation they are not the dominant factors.⁷ The main drivers of household formation are demographic factors such as age, relationships and children.⁸

26. If household formation is constrained in the short term, through economic conditions or restricted supply the backlog of unmet housing need will grow. This will eventually show itself as increased pressure on the housing market when better economic conditions are re-established.

27. The economic downturn and the subsequent ongoing recession are likely to have led to lower levels of net migration to the UK and England than would have otherwise been expected. As such, future demand and need for housing are also likely to be lower. The most recent data shows net migration dropping off in the year to September 2008.⁹

28. The NHPAU has considered this evidence alongside recent analysis of the drivers of migration. This includes a recent National Institute of Economic and Social Research (NIESR) report for CLG¹⁰ which suggests that net migration to the UK will be lower than previously thought and points towards levels of migration assumed in the ONS 2006-based low migration variant population projection.¹¹ On the other hand the Migration Policy Institute (MPI), supported by the Migration Research Unit at University College London, suggest that the underlying drivers of migration to the UK – including labour demand in high- and low-skilled jobs, existing migrant networks and demographic change – will remain strong.¹²

⁷ Peterson, W., Pratten, C. and Tatch, J. (1997) *An economic model of the demand and need for social housing: Technical report of a feasibility study*, Report to the DETR

⁸ Bramley, G., Karley, N.K. and Watkins, D. (2006) *Local housing need and affordability model for Scotland – Update (2005 based)*, a report to the Scottish Executive and Communities Scotland

⁹ Provisional International Passenger Survey data, ONS

¹⁰ National Institute of Economic and Social Research (2009) *Projections of migration inflows under alternative scenarios for the UK and world economies: Economics Paper 3* a report for CLG <http://www.communities.gov.uk/publications/communities/projectionsmigration>

¹¹ CLG, *EXAM24 Household Projections: Presentation to WM EIP, Sub-Matter 3A 6th May, 24 April 2009*

¹² Migration Policy Institute (2009) *Immigration in the United Kingdom: The recession and beyond*, a report for the Equality and Human Rights Commission <http://www.migrationpolicy.org/pubs/Immigration-in-the-UK-The-Recession-and-Beyond.pdf>

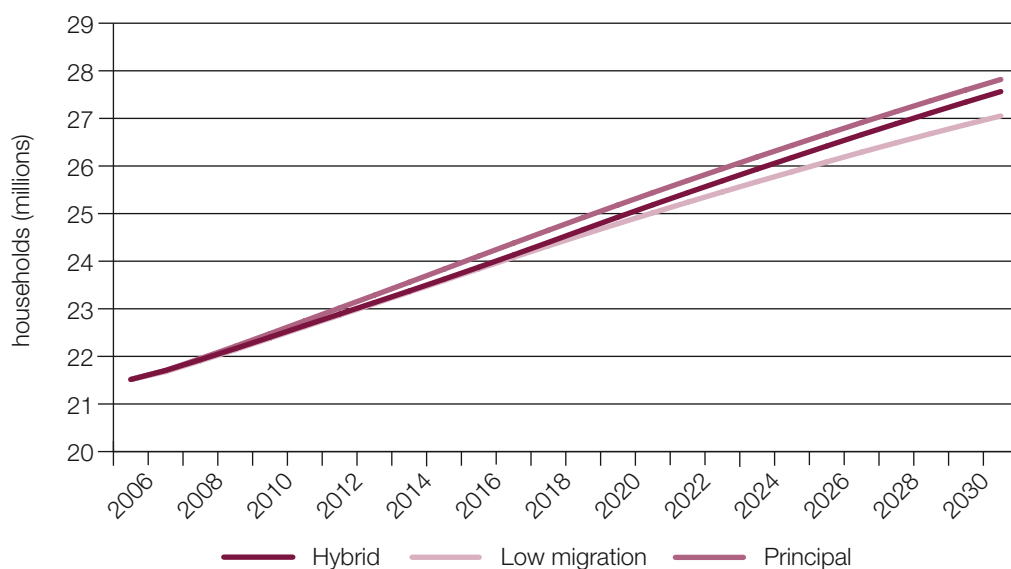
29. The NHPAU Board are of the view that the relative economic performance of the UK will more than likely return to trend over the medium term and, as such, so will levels of net migration to the UK.
30. For the purposes of updating our advice the NHPAU has assumed that net migration will follow the 2006-based low migration variant to 2014 before gradually returning to the long-run trend over the following five years.¹³ The net effect of this assumption is to place the NHPAU projection between the 2006-based principal and low migration household projections (figure 1).
31. Household growth implied by the NHPAU projection over the period 2006 to 2026 would be 5 per cent lower than the 2006-based principal projection but 10 per cent higher than the 2004-based projection we used in our 2008 advice.
32. It should also be noted that the 2006-based population projections use more up to date trend information. This suggests that people are living longer and birth rates are higher than was previously assumed.¹⁴ The impact this has on household growth varies from region to region as the regions have different age structures. The new projections are also based on a better understanding of the patterns of migration both to this country and between regions. The combined effect is to increase population and household growth in some regions – most notably Yorkshire and the Humber, the North East and the East Midlands – while the scale of change is not as great in others – particularly London and the South East compared to previous versions of the projections. These changes are reflected in our updated advice.
33. The only other change to note in the demographic methodology compared with our earlier advice, is a relatively technical change to the method used to estimate an aspect of unmet need and demand. This change was adopted in response to stakeholder feedback to maximise the accessibility and transparency of the method used.¹⁵
34. As in the June 2008 advice, we have used the demographic method to derive a housing supply range. The bottom of the range is the expected household growth over the plan period (ignoring unmet need and demand, second homes and vacancies in the new stock). The top of the range is household growth plus unmet need and demand and an allowance for second homes and for vacancies in the new stock, the assumption being that the backlog is eliminated over the plan period. On this basis the updated demographic method gives the following figures for the supply range expressed as the average annual number of net additions to the housing stock required over the period 2008 – 2026 for the June 2008 advice and 2008 – 2031 for the updated advice, as shown in Table 2.

¹³ A region level low migration variant projection was derived by NHPAU using the official England level principal and low migration projections disaggregated by age and sex groups.

¹⁴ Detailed discussion here: '4. Comparison with 2004-based projections' of ONS (2008) National Population Projections, 2006-based, Series PP2 No 26. access here: http://www.statistics.gov.uk/downloads/theme_population/pp2no26.pdf

¹⁵ Further details on the demographic methodology will be published in a separate Technical Annex in September 2009, and will be available via www.communities.gov.uk/nhpau

Figure 1: NHPAU hybrid household projection and official CLG projections, 2006-based, total households, 2008-2031, England



Source: NHPAU analysis, CLG

Table 2: Comparison of new and old demographic method (DM) housing supply ranges

	June 08 DM minima-average 2008 – 26	New DM minima-average 2008 – 31	% change	June 08 DM maxima-average 2008 – 26	New DM maxima-average 2008 – 31	% change
North East	6,720	7,744	15%	7,509	8,860	18%
North West	26,579	26,298	-1%	29,500	30,371	3%
Yorkshire & Humber	23,849	28,974	21%	26,376	32,434	23%
East Midlands	23,357	26,766	15%	24,620	28,942	18%
West Midlands	19,063	20,139	6%	22,616	23,743	5%
East of England	30,563	32,714	7%	33,958	36,267	7%
London	33,772	32,390	-4%	42,614	41,229	-3%
South East	37,829	38,189	1%	41,223	43,133	5%
South West	29,768	30,944	4%	32,453	34,253	6%
England	231,500	244,158	5%	260,869	279,232	7%

Affordability Model

35. As already noted, the CLG/Reading Affordability Model is an econometric model that looks at the relationship between house prices and features of the housing market. Key variables include population levels and numbers of households, earnings, house building rates, interest rates and the user cost of housing. It takes into account the way in which, as people become wealthier they tend to consume more housing in the shape of bigger, better and more homes. It also takes into account the way in which prices in one region affect prices in other regions. This includes the 'ripple effect' whereby changes in house prices in the South East in particular can have a big impact on prices in other regions and London earnings can have an impact on prices in the South East and the East of England as a result of commuting. These effects are not picked up in the demographic method.
36. The technical features of the affordability model used for the update are basically the same as those used for the June 2008 advice, although the model has been improved in a number of respects.¹⁶
37. As with any modelling, the output depends critically on the assumptions fed into the model. As in the June 2008 advice, the NHPAU has been careful to err on the side of caution so as to minimise any risk of over-estimating the housing requirement. The key assumptions are as follows:
- a. **Household and population projections.** The same assumptions used for the demographic method have been applied.
 - b. **Growth in earnings.** The assumption made on the growth in earnings has a critical impact on the number of homes needed to achieve a given affordability position: the higher the earnings growth assumed, the more homes will be required. The big unknown is how long and deep the impact of the recession will be on earnings growth. In the June 2008 advice we assumed real earnings grew at 1.5 per cent over the plan period, a deliberately cautious assumption at the time but one that now needs to be revisited. To reflect the recession and remain cautious, we have assumed zero real earnings growth until 2010-11, then 0.5 per cent until 2012-13 followed by 1.5 per cent for the remainder of the period to 2031.
 - c. **FTSE.** The relationship between London house prices and earnings is rather different from other regions, so much so that the latest version of the model uses changes in the FTSE as well as earnings in modelling London house prices. We have assumed that the FTSE broadly grows in line with trend from its current level.
 - d. **Mortgages.** Interest rates and the terms on which mortgages are offered are other critical factors. We are now in what is, in effect, a period of 'mortgage rationing'. Total mortgage funding has fallen to less than a third of its 2007 peak, with typical loan to value ratios for first-time buyers at around 75 per cent, compared with 90 per cent or higher in 2007. Having used the affordability model to explore a range of scenarios for how long and severe the period of mortgage rationing is, the key conclusion is that prices and affordability ratios are likely to bounce back to previous trend levels relatively quickly if mortgage rationing is lifted. It therefore makes relatively little difference to the overall housing requirement over the period to 2031 what assumptions are made about the duration of rationing, if you assume that at some point in the period rationing will be lifted. However, for modelling purposes we have assumed that there is no increase in net lending until 2010, then mortgage supply meets two-thirds of demand until 2015 before fully meeting demand for the rest of the period.

¹⁶ Further details on the Affordability Model methodology will be published in a separate Technical Annex in September 2009, and will be available via www.communities.gov.uk/nhpau

This contrasts with our previous assumption of no rationing throughout the period. We have retained the (cautious) interest rate assumptions in our previous advice i.e. mortgage rates build back to 6.25 per cent over the next two years and then stay at that level for the remainder of the period.

Some commentators have suggested that it is unrealistic to expect the mortgage market to return to the relatively liberal conditions experienced in 2007 and argue that some form of mortgage rationing will be a continuing feature. We have used the affordability model to explore the potential consequences of this. For example, assuming that from 2016 onwards only 90 per cent of mortgage demand is met has a dampening effect on demand and prices to the extent that the number of homes that need to be built over the period to 2031 falls by about 6 per cent. Similarly, we have explored the possibility that interest rates settle at higher levels to reflect a more cautious assessment of risk. The model suggests that assuming a rate of 6.75 per cent instead of 6.25 per cent would also reduce the number of homes required by around 6 per cent. However, given the cautious interest rate and other assumptions already included in our modelling, the NHPAU has decided not to add a further element of caution against this possibility. Moreover, this effect is due to reduced demand in terms of what households are able to pay, rather than less households needing housing. To produce estimates for housing requirements based on continuing mortgage rationing would ignore

those who are excluded from the housing market by rationing but still need to be adequately housed.

e. **House building rates.** The recession and the fall in house prices have had a dramatic impact on house building. The precedents from previous recessions suggest that it could be some years before completion rates recover. We have therefore modelled different scenarios for the speed with which house building recovers. The basic conclusion is that, within limits, the profile assumed makes little difference to the total number of homes that need to be built by 2031 if a given level of affordability is to be achieved. However, for the purposes of our advice we have assumed that house building recovers from a low level in 2009 and 2010 on a straight line basis to 2021, after which it is held at whatever constant rate is necessary to stabilise affordability at 2007 levels by 2026.

38. On the basis of these assumptions,¹⁷ the affordability model suggests that the following average annual housing numbers need to be achieved, as shown in Table 3. The equivalent results from the 2008 advice are included for comparative purposes.
39. The increases in the North East, Yorkshire and the Humber and the East Midlands reflect updated trend data on births and deaths and a better understanding of migration patterns. The changes in London, the South East and the South West are the result of improvements in the modelling which we believe now better reflects how demand is likely to grow in those regions.

¹⁷ Further details on the Affordability Model methodology will be published in a separate Technical Annex in September 2009, and will be available via www.communities.gov.uk/nhpau

Table 3: Comparison of new and old affordability model results								
	June 08 average annual net additions 2008-26	New average annual net additions 2008-26	% change	Projected net additions 2021-26	New average annual net additions 2008-31	Affordability ratio in		
						2007	2026	2031
North East	6,720	7,222	7%	10,554	7,222	5.62	4.93	4.79
North West	26,579	26,449	0%	39,468	26,449	5.97	5.92	5.95
Yorkshire & Humber	23,849	26,387	11%	39,654	26,387	6.19	5.82	5.84
East Midlands	23,357	25,083	7%	36,908	25,083	6.90	6.52	6.56
West Midlands	19,063	19,570	3%	28,143	20,104	6.77	6.70	6.77
East of England	39,181	40,878	4%	59,661	40,754	8.18	8.18	8.18
London	33,772	48,957	45%	72,406	46,779	9.62	9.62	9.62
South East	49,751	55,905	12%	80,663	57,899	8.70	8.70	8.70
South West	34,782	31,745	-9%	43,607	32,833	8.97	8.97	8.97
England	257,053	282,194	10%	411,065	283,509	7.30	7.20	7.20

Advice on range to be tested in regional plans

40. As in the June 2008 advice, we propose to use the demographic method, without provision for tackling existing unmet need and demand as the basis of our bottom of the range figure. In terms of the demographic method, this allows for no improvement in housing conditions and takes no account of the impact of increasing wealth and the consequences that will have for demand for housing. We appreciate that the affordability model suggests that affordability could be brought back to 2007 levels with lower net additions in some regions. However, those figures are dependent on the southern regions (particularly London and the South East) achieving very high build rates. Whilst there is a strong case for those rates, it would be unwise for other regions to base their planning on the assumption they will be delivered in full.
41. Again as in the June 2008 advice, we propose to set the top end of the range at a level that will both tackle the backlog demand and bring affordability back to 2007 levels by 2026. This means that the top of the range figure should be the higher of the demographic maxima and the figure suggested by the affordability modelling.
42. Whilst the NHPAU is confident that the figures arrived at in this way are cautious, it is also conscious that they would mean some significant increases for some regions, mainly due to updated trend data used in the ONS population projections. It is always possible that new trend data cause fluctuations in the other direction in the future. In view of this and so as to avoid a situation in which we suggest that the model ranges go up substantially in this update only for them possibly to be brought back down in some regions in the next update, the NHPAU proposes to 'damp' the changes and move the ends of the ranges by only half of the amount indicated by the latest evidence. We envisage using the same approach in subsequent updates so that the maxima and minima figures become 'moving averages'. This will help to avoid what might otherwise have been a large swing in planning assumptions.
43. Applying this damping approach, the NHPAU advises the following updated supply ranges, as shown in Table 4.

Table 4: Comparison of new and old housing supply ranges						
	June 08 minima- average 2008-26	New minima- average 2008-31	% change	June 08 maxima- average 2008-26	New maxima- average 2008-31	% change
North East	6,700	7,200	7%	7,500	8,200	9%
North West	26,600	26,500	-1%	29,500	29,900	1%
Yorkshire & Humber	23,800	26,400	11%	26,400	29,400	11%
East Midlands	23,400	25,100	7%	24,600	26,800	9%
West Midlands	19,000	19,600	3%	22,600	23,200	3%
East of England	30,600	31,600	4%	39,200	40,000	2%
London	33,800	33,100	-2%	42,600	44,700	5%
South East	37,800	38,000	1%	49,700	53,800	8%
South West	29,800	30,400	2%	34,800	34,500	-1%
England	231,500	237,800	3%	276,900	290,500	5%

Conclusions

44. The clear message that emerges unequivocally from this analysis is that the credit crunch and recession have not “solved the problem of housing affordability for us”. House price falls have not made it easier for struggling households to obtain the accommodation they need. Indeed, tighter lending criteria, including much larger deposit requirements, have made it far harder for first-time buyers to enter the housing market.
45. Having weighed all of the factors and taken a deliberately cautious approach, the NHPAU has concluded that there should be some modest upward movements in the ranges that most regions should test in preparing their plans.
46. In the case of Yorkshire and the Humber, the East Midlands and the North East, these are largely attributable to updated trend data on births and deaths and a better understanding of migration patterns, which indicate that the 2008 advice was too low.
47. In the case of the South East, the increase in the top end of the range reflects the pivotal role of the region in the national housing market, which has been brought out more clearly by recent improvements in the modelling. The NHPAU acknowledges that this will be seen as extremely challenging. However, the analysis that underpins that recommendation has made cautious assumptions at each step with the result that the Unit can be confident that the chances that the actual requirement to stabilise market prices in the long term will prove to be lower, is small. This will not be welcome news in the South East, but what the modelling is telling us is something those who have studied the English housing market in any depth have known for some time: there is a substantial and continuing mis-match between supply and demand in the southern part of the country.
48. High levels of house building may not be palatable or easily achievable but unless they are delivered, or some other means is found to narrow the gap between supply and demand, the consequence will be increasingly severe, including increasing susceptibility to market shocks and more violent boom and bust cycles.
49. It should also be emphasised that the affordability benefits of the levels of housing provision suggested, will be better realised if the extra housing is of the right type and size and in the right place within each region. The NHPAU is seeking to develop tools to enable it to advise further on this key aspect of improving affordability.

Next Steps

50. The Minister for Housing will consider our advice against the back drop of the Government’s broader objectives and decide how it should be reflected in formal guidance on the preparation of regional plans.
51. The NHPAU intends to discuss its advice with regional partners and other stakeholders with the view of developing a common understanding of the likely consequences of different levels and distributions of housing development.

NHPAU Board Members



Stephen Nickell (Chair)

Currently Warden of Nuffield College, Oxford, and a Board Member of the UK Statistics Authority. Previously he has held Economics Professorships at both LSE (London School of Economics) and Oxford and was President of the Royal Economic Society from 2000 to 2003. He was a member of the Bank of England Monetary Policy Committee from 2000 to 2006, and during this time he made a number of speeches on the housing market. He is a fellow of both the Econometric Society and the British Academy as well as being a foreign honorary member of the American Economic Association and the American Academy of Arts and Sciences.



Prof Glen Bramley

Professor of Housing and Planning/Urban Studies at Heriot – Watt University in Edinburgh since 1994 leading research on planning, housing and urban policy. Prior to this he lectured in Urban Studies at the University of Bristol specialising in local government finance, housing and economic aspects of public policy. He has published papers and extensive research analysing the economics around housing affordability and its relationship with planning and house building.

Glen is the linked Board member for the South West and North East regions.



Prof Paul Cheshire

Has been Professor of Economic Geography at the London School of Economics and Political Science since 1995. Prior to this he was Professor of Urban and Regional Economics at the University of Reading and has spent time at Washington University in the USA. He has written extensively and conducted research on applied urban and regional economics, particularly the economics of housing, land markets and land use regulation.

Paul is the linked Board member for London and the East Midlands region.



Max Steinberg

Has been Chief Executive of Elevate East Lancashire, a housing market renewal pathfinder since 2003, following 25 years at the Housing Corporation where his roles included, Director of Investment & Regeneration for the North and Regional Director of the North West and Merseyside. He is a leading UK practitioner in Urban Regeneration and Housing. Max is Chair of the Board of Liverpool John Moores University European Institute for Urban Affairs and the Chair of Governors at King David High School in Liverpool.

Max is the linked Board member for the Yorkshire and Humber region.



Bob Lane

Bob is currently Chair of the London Thames Gateway Urban Development Corporation and a Board member of the Homes and Communities Agency. Until April 2008 he was Chief Executive for North Northants Development Company responsible for housing growth and regeneration in the area. His previous roles include Chief Executive of Speke Garston Development Company, Liverpool, Assistant Chief Executive of the Merseyside Development Corporation and roles at Oldham and Lambeth Councils managing urban programmes. He is a specialist in the delivery of complex urban regeneration projects, with more than twenty five years experience as a regeneration practitioner/manager.

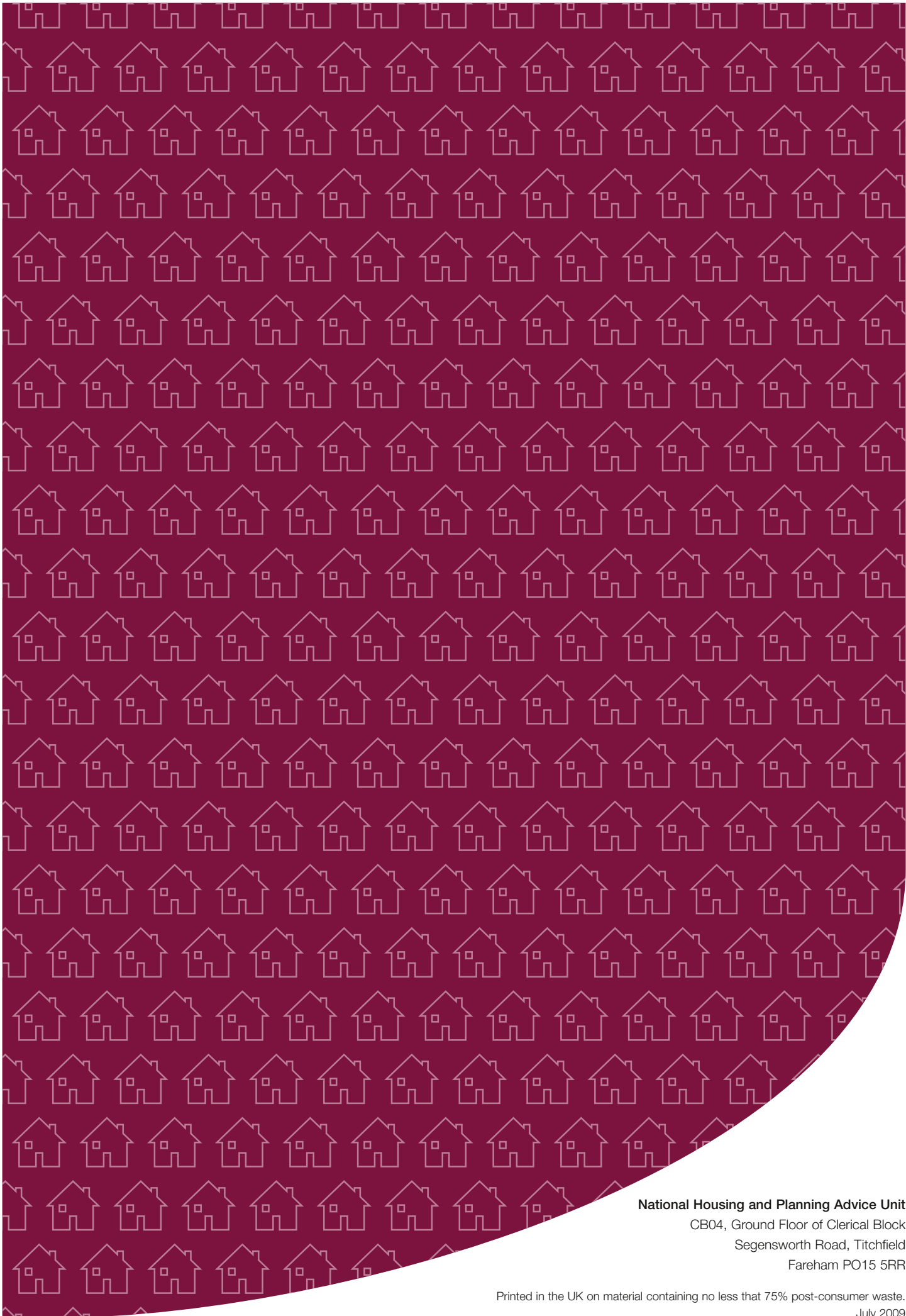
Bob is the linked Board member for the East of England and the North West regions.



Dr Peter Williams

Is now an independent consultant on housing and mortgage markets. His clients include the Intermediary Mortgage Lenders Association and Acadametrics. He was previously Deputy Director General of the Council of Mortgage Lenders. Prior to that, he was Professor of Housing Management at Cardiff University, Deputy Director at the Chartered Institute of Housing and as an academic at the Australian National University and the University of Birmingham. He previously served on the Board of the Housing Corporation (1995 – 2002) and Housing for Wales (1989 to 1993). He is a Visiting Professor at the Centre for Housing Policy at the University of York.

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