



London Borough of Sutton

Housing Needs Assessment Final Report

October 2011

A report initiated by Fordham Research and completed by Simon Drummond-Hay

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Executive Summary

Introduction

- S1 In April 2011 Sutton Council commissioned Fordham Research to undertake an update to the 2008 Housing Needs Assessment. Before the work was completed Fordham Research ceased trading. Sutton Council then commissioned Simon Drummond-Hay MRICS ACIH (who previously worked for Fordham Research) to complete the report.
- S2 This report is an update to the 2008 Housing Needs Assessment (HNA). Due to the change in market conditions and the introduction of reforms to housing policy since the publication of the 2008 report it is advisable to re-assess its findings. This update report uses the most recent secondary data to assess the local impact and the appropriate policy response within the altered market conditions. This is done by updating the primary dataset using appropriate factors for inflation and by re-doing such secondary data inputs as the market survey.
- S3 Like the original HNA the update is based on the Government Guidance: Planning Policy Statement 3: Housing (November 2006) and the detailed Practice Guidance (Strategic Housing Market Assessments Practice Guidance) published in March 2007 (revised slightly in August 2007).
- S4 Not all of the topics required by the Practice Guidance, and presented in the original HNA are updated in this report because for some topics no further data has been published since the original publication. The aim is to update the data where possible and consider the changes since 2008 within the context of the changed housing market conditions and new policy environment.

Methodology

- S5 As part of the HNA process a household survey was completed in 2007. The data has been updated using two measures: re-weighting the data to take account of the latest information on the structure of households in Sutton and updating the financial profile of households to reflect the changes recorded since the original HNA. This provides an accurate profile of all households in Sutton in 2011 and provides a robust base for this update.
- S6 Table S1 shows an estimate of the current tenure split in Sutton along with the tenure distribution recorded in the original report. The data shows that around 70% of households are now owner-occupiers with 13.5% in the social rented sector and about 16% resident in private rented accommodation.

Table S1 Number of households in each tenure group 2008 and 2011

Tenure	2008		2011	
	Total number of households	% of households	Total number of households	% of households
Owner-occupied	55,430	72.6%	56,802	70.7%
<i>No mortgage</i>	20,723	27.1%	25,522	31.8%
<i>With mortgage</i>	34,707	45.5%	31,280	39.0%
Social rented	11,682	15.3%	10,821	13.5%
Private rented	9,247	12.1%	12,676	15.8%
Total	76,359	100.0%	80,299	100.0%

Source: Sutton Housing Needs Assessment Update 2011

Socio-economic changes in Sutton

- S7 Two main drivers of the housing market are the resident population and the local labour market. They affect the nature of housing demand including household formation rates and households' investment in housing.
- S8 NOMIS data on 'job density' shows that there were 0.62 jobs per working age person in Sutton in 2009, lower than the national and regional average. However, since 2007 the growth in this indicator has been higher in Sutton than for London. Whilst Sutton continues to have the capacity to undergo continued economic growth, the level of unemployment amongst residents in the borough increased by 7.4% between January 2011 and April 2011. Overall the level of unemployment is low when compared with regional and national figures.
- S9 Income has a crucial effect on the level of choice a household has when determining their future accommodation. The mean earned income for employees resident in Sutton in 2008 is £36,495, according to the ONS Annual Survey of Hours and Earnings – markedly lower than London (at £44,118) but higher than England as a whole (at £33,001). Between 2009 and 2010 mean income in Sutton fell by 0.8%; however both London and England as a whole experienced a slight rise in mean income during this time. It is important to note that these figures assess individual incomes rather than household incomes.

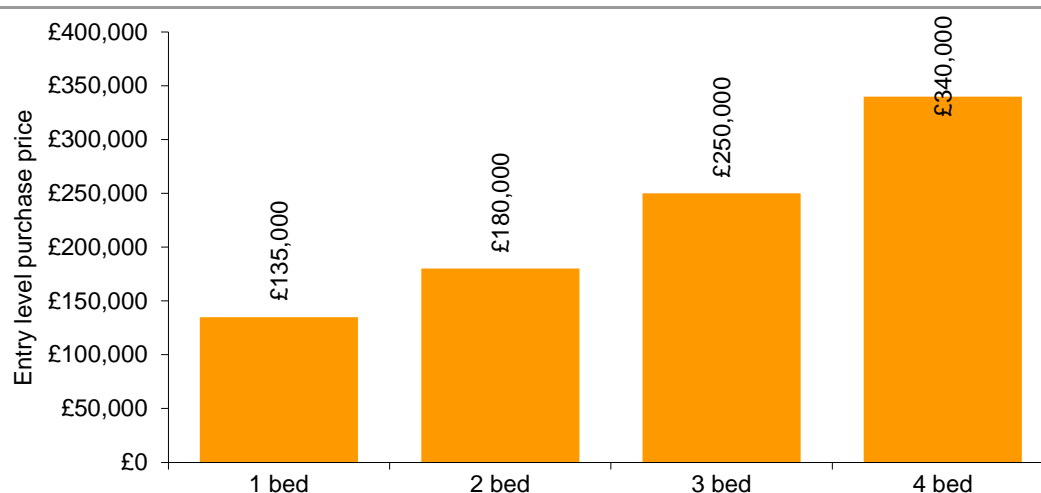
The current housing market

- S10 The market crash of 2008 caused banks to be much more cautious toward lending. This has meant that the multiples of income that a mortgage was offered on were reduced and a greater proportion of the value of the home was required as a deposit. This particularly affected first-time buyers and has implications for the overall buoyancy of the market.
- S11 According to data from the Land Registry, the median house price in Sutton in the first quarter of 2011 was £226,000, higher than the national average but lower than the regional figure. Mean and median

house prices in Sutton have decreased between quarter two 2007 and quarter one 2011 by 0.9% and 1.3% respectively. Meanwhile prices in London as a whole experienced strong growth. Across the country the number of sales has fallen by over 40% in the last four years. The change in mean prices between the second quarter of 2007 and the first quarter of 2011 for each of England and Wales, London and Sutton. Over this four year period average prices in Sutton have remained largely unchanged, compared to an increase of 8.5% across England and Wales and a considerable increase of 24.7% in London.

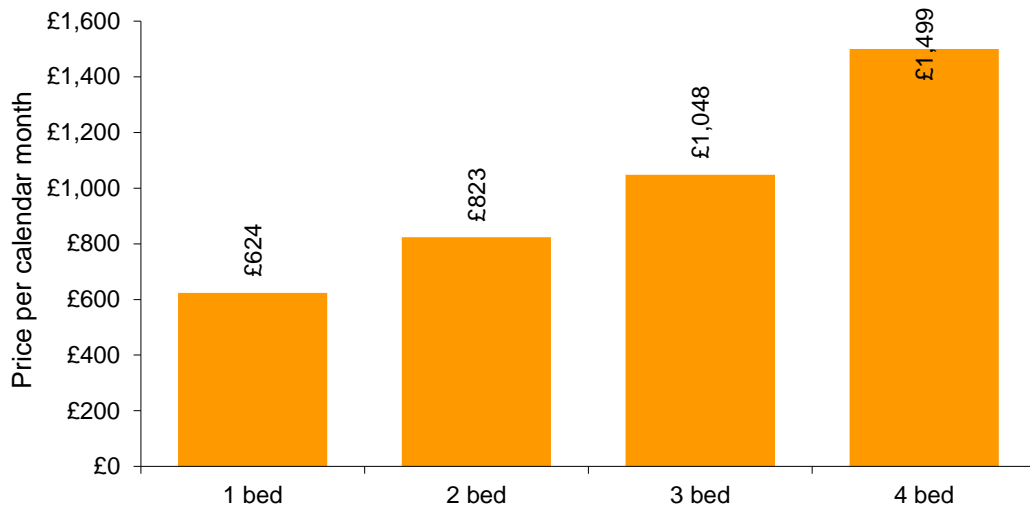
- S12 All dwelling types in Sutton experienced a marked decline in sales between the last quarter in 2007 and first quarter of 2009. While there was some recovery during 2009 and 2010, sales in 2011 are still considerably lower than the levels experienced at the end of 2007.
- S13 As part of this study an updated price survey was undertaken to assess the current cost of housing in the borough. The entry-level prices for owner-occupied and privately rented property across Sutton are presented in Figures S1 and S2. Entry-level prices are based on lower quartile prices.

Figure S1 Entry level purchase price in Sutton



Source: Online estate agents survey May 2011

- S14 Since the 2008 HNA, entry level cost for buying properties has fallen by around 10% whilst entry-level rents have increased.

Figure S2 Entry level private rents in Sutton

Source: Online estate agents survey May 2011

Analysis of housing market 'gaps'

S15 Housing market gaps analysis has been developed to allow easy comparisons of the costs of the tenure range, in order to facilitate the testing of different new build proposals, and to show generally the nature of the housing ladder in a particular locality. Table S2 illustrates the housing ladder in Sutton. The price to purchase a home is converted into a monthly cost to permit comparison with rental costs.

Table S2 Monthly costs by tenure					
Bedrooms	Social rent	Affordable Rent (80%)	Shared ownership (50%)	Entry-level private rent	Entry-level purchase
1 bed	£370	£520	£540	£624	£663
2 bed	£422	£680	£722	£823	£879
3 bed	£450	£901	£1,047	£1,048	£1,235
4 bed	£450	£1,321	£1,573	£1,499	£1,677

Source: Survey of entry-level house prices, Fordham Research February 2011; CORE 2009/2010

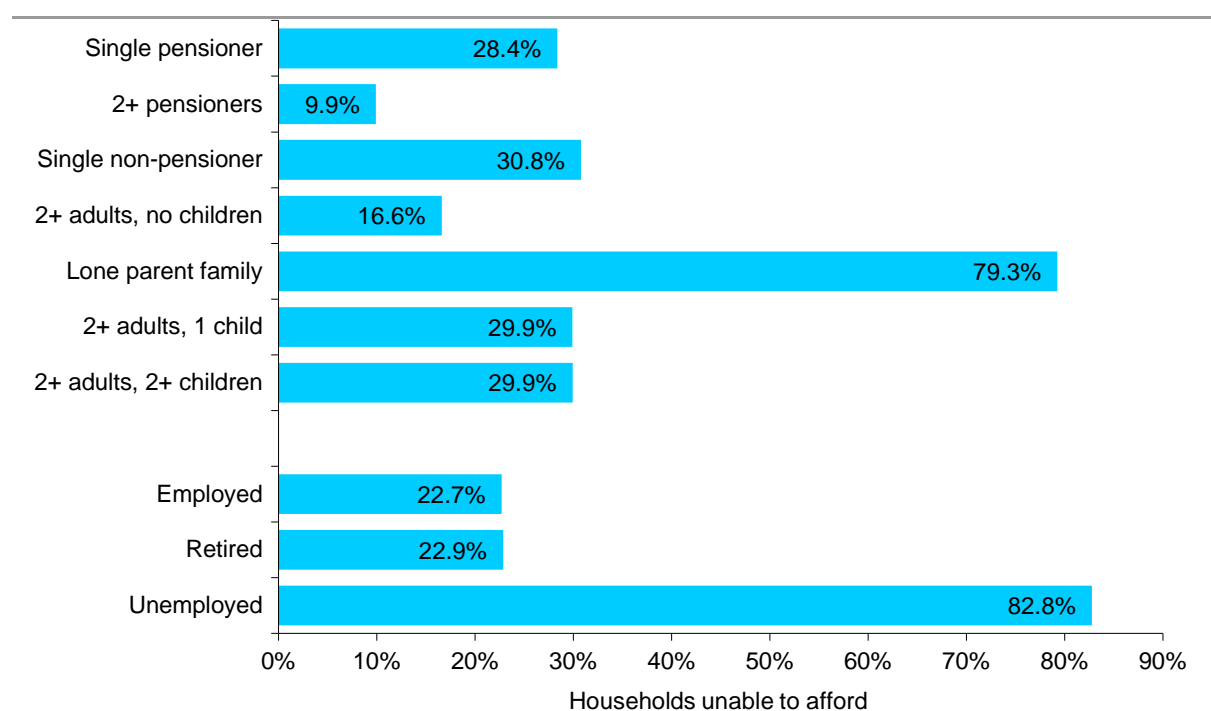
Financial information

S16 The updated dataset estimates that the mean annual gross household income (including non-housing benefits) in Sutton is £38,345. This is an increase of 4.2% since the original HNA report in 2008.

Since 2007 the mean savings levels have increased by 14.7% whilst the mean equity amongst owner-occupiers has increased by 1.9%. A third of residents in Sutton have no savings.

- S17 Information on the financial capacity of households alongside data on the cost of entry-level housing in Sutton can be used to examine the ability of households to afford housing locally. Overall it is estimated that 22,086 (27.5%) households in Sutton would be unable to afford market accommodation if they moved home now. Lone parent households and unemployed households are the most likely to be unable to afford market accommodation (79.3% and 82.8% respectively) – see Figure S3.

Figure S3 Proportion of households unable to afford market housing in Sutton, by household type and employment status



Source: Sutton Housing Needs Assessment Update, 2011

- S18 One of the Government's new policies, planned to be introduced in 2013, is that the benefit entitlement of unemployed households will be capped at £26,000 pa. It is estimated that if all households in Sutton who are workless receive their full benefit entitlement and claim the maximum level of LHA, 7% of households would be entitled to £26,000 pa or more in benefits. However, in practice the proposed £26,000 pa benefit cap is unlikely to have a significant impact on households in Sutton as at present only 1.5% of households are not employed and have an income of £26,000 pa or more.

Housing needs assessment model (CLG Model)

- S19 The Strategic Housing Market Assessment Practice Guidance (August 2007) sets out a 16-step procedure to produce an estimate of the net need for new affordable housing. It was found that 6,659 (8.3%) households lived in unsuitable housing, 72.2% of these households needed to move in order to

resolve this unsuitability. In total 3,360 of these households were unable to afford suitable alternative accommodation and constitute current housing need (65 of these are homeless households).

S20 Future need was estimated to be 2,968 households per annum. Around two thirds of future need (2,095 households) made up from existing households falling into need. The remaining third (873) was made up of newly forming households unable to afford suitable accommodation.

S21 The Practice Guidance states that these figures need to be annualised to establish an overall estimate of net housing need. This leads to a total (net) annual need estimate for affordable housing of **2,558**.

S22 This figure of 2,558 is 144% higher than the total (net) annual need estimate of 1,047 recorded in the original HNA report. This is due to the fall in supply alongside the increase in need. Annual supply for affordable housing was estimated to be 1,256 units per annum in 2007 and is now estimated to be 1,095 per annum (a fall of 12.8%). The growth in gross annual need was greater, increasing from 3,001 in 2007 to 3,653 in 2011 (an increase of 21.7%).

S23 There are three reasons for the increased need figure in this update:

- Increased entry level costs of the Private Rented Sector (PRS)
- Increased risk of non-pensioner households being in need
- Increase in the proportion of households in Sutton that are at a higher risk of being in housing need

S24 The updated survey data indicated that households containing children were the most likely to be in need. Over a third of household need arose from single person households. On the whole, households in the north of the borough were more like to be in need and also more likely to be on the housing register. Households in the south west of the borough were less likely to be in need or on the housing register.

S25 Table S3 shows the need, supply and overall requirement for affordable housing. The table indicates that each dwelling size has an overall shortage of affordable housing. The shortfall is largest for two bedroom properties; however, the shortage relative to supply is greatest for four bedroom dwellings, where supply is estimated to meet 9.4% of the need for affordable housing.

Table S3 Size of affordable housing required in Sutton – CLG Model

Household type	Gross housing need				
	In need	Supply	Net affordable housing requirement	% of net short fall	Supply as a % of need
1 bedroom	1,514	547	966	37.8%	36.2%
2 bedroom	1,469	322	1,147	44.8%	21.9%
3 bedroom	499	210	289	11.3%	42.1%
4+ bedroom	171	16	155	6.1%	9.4%
Total	3,653	1,095	2,558	100%	30.0%

Source: Sutton Housing Needs Assessment Update 2011

Policy developments and affordability

- S26 Three policies have implications for this HNA: the introduction of a cap on LHA (at the 30th percentile of PRS properties in the market), the introduction of fixed-term social tenancies and the introduction of the Affordable Rent tenure. Affordable Rent is a new tenure aimed at replacing the traditional social rented tenure. It charges a rent at up to 80% of the open market value of the property. The aim of this policy is to generate more money for affordable housing and to enable more affordable homes to be built. Affordable rent properties can be both new-build and re-let social rented properties.
- S27 Whilst the aim is to charge up to 80% open market value on the majority of affordable rent properties, the Homes and Communities Agency (HCA) concede that in special circumstances this could be lowered. In addition, the Government has urged Registered Providers to be mindful of both the reduced LHA caps and the total household benefit cap when setting rent levels.
- S28 Affordable Rent at 80% in Sutton will include a range of rent levels within each property size dependent on the location and desirability of the property. However, it is unlikely that even the highest Affordable Rent levels will be higher than the LHA cap. In addition, even a more expensive Affordable Rent property should be lower than a poor quality private rented property of the same size.
- S29 Using estimated Affordable Rent levels it is possible to test to what extent households in need of affordable housing would be able to afford Affordable Rent housing in Sutton (without receiving housing related benefits). It is also possible to assess the impact of lowering the levels at which Affordable Rents are set. The analysis shows that a small minority of households in need (15.3%) and households on the register (2.6%) could afford Affordable Rent at 80%. In addition, these households would also be able to meet the costs of a Shared Ownership property (excluding the cost of a deposit).
- S30 If the Affordable Rent level were lowered to 60% of the open market value, an estimated 41.9% of households in need would be able to live in an Affordable Rent property without relying on housing

related benefits. In addition, the housing costs would be less than those of shared ownership (which is not the case for higher Affordable Rent levels). (See tables S4 & S5 below).

Table S4 Affordability of households in need (annual)

<i>Product type</i>	<i>Exclusive groups*</i>		<i>Cumulative groups**</i>	
	<i>No. of h'holds</i>	<i>% of h'holds</i>	<i>No. of h'holds</i>	<i>% of h'holds</i>
Affordable Rent at 80%	558	15.3%	558	15.3%
Affordable Rent at 70%	631	17.3%	1,189	32.6%
Affordable Rent at 60%	340	9.3%	1,529	41.9%
Affordable Rent at 50%	320	8.8%	1,849	50.6%
Social rent	99	2.7%	1,948	53.3%
Households able to afford with housing related benefits	1,704	46.7%	3,652	100.0%
Total	3,652	100.0%	-	-

* Exclusive groups assumes that households are best suited to the highest (most expensive tenure) available and excludes them from being counted as being able to afford less expensive tenures. ** Cumulative groups show what households in need can afford regardless of also being able to afford a more expensive tenure.

Source: Sutton Housing Needs Assessment Update,

Table S5 Affordability of households on the Register

<i>Product type</i>	<i>Exclusive groups*</i>		<i>Cumulative groups**</i>	
	<i>No. of h'holds</i>	<i>% of h'holds</i>	<i>No. of h'holds</i>	<i>% of h'holds</i>
Market housing	737	16.8%	737	16.8%
Affordable Rent at 80%	116	2.6%	853	19.4%
Affordable Rent at 70%	183	4.2%	1,036	23.6%
Affordable Rent at 60%	143	3.3%	1,179	26.8%
Affordable Rent at 50%	321	7.3%	1,500	34.1%
Social rent	88	2.0%	1,588	36.1%
Households able to afford with housing related benefits	2,809	63.9%	4,397	100.0%
Total	4,397	100.0%	-	-

*Exclusive groups assumes that households are best suited to the highest (most expensive tenure) available and excludes them from being counted as being able to afford less expensive tenures. **Cumulative groups show what households on the register can afford regardless of also being able to afford a more expensive tenure.

Source: Sutton Housing Needs Assessment Update 2011

S31 For both households in need and those on the housing register the vast majority require a one or two bedroom property. However, households on the housing register requiring four bedrooms were much less likely to be able to afford to live in an Affordable Rent property without the support of housing related benefits.

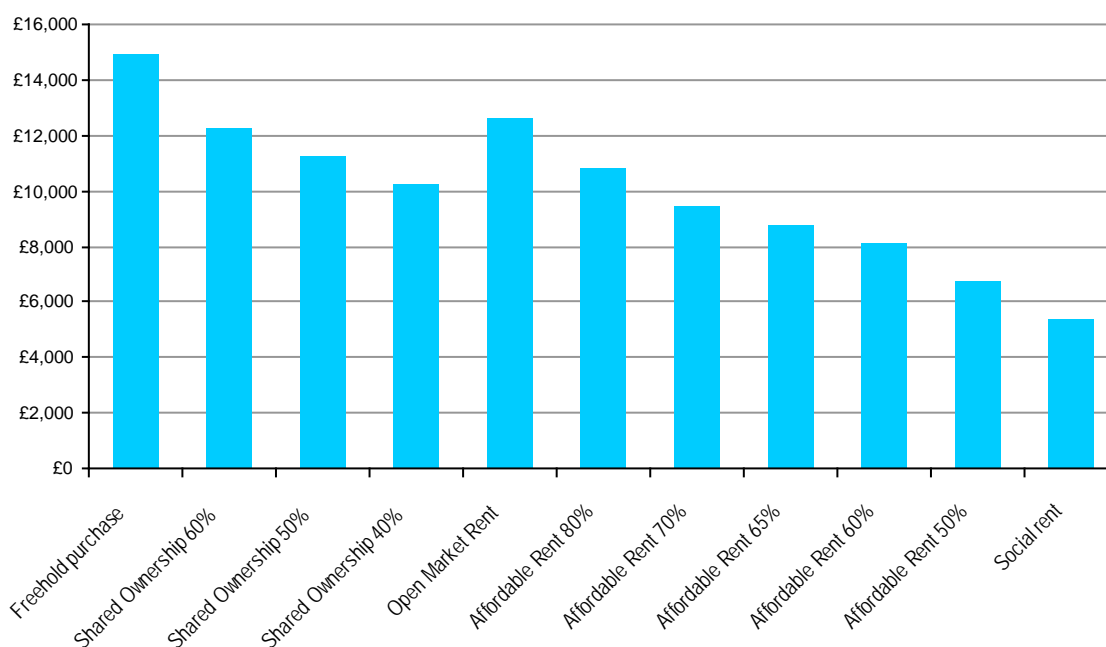
S32 The analysis suggests that some kind of Affordable Rent product would be suitable in Sutton for households in need. However, for it to have the greatest impact we recommended that Affordable Rent be set at the 60% of the market value instead of 80%. This is because the cost of living in a shared ownership property (excluding a deposit) is very similar to the cost of affordable rent at 70% and 80%.

Generating need affordable dwellings vs. meeting need

S33 One of the key aims of the Coalition Government's policy on affordable housing is to make the much reduced HCA budget go further. The new Affordable Rent product is designed to do this as the higher Affordable Rents will, when the rent streams are used to raise capital funding through borrowing or securitisation, generate more finance, which can then be used to build more affordable units.

S34 There is a trade-off however. Although it is desirable, in order to meet housing need, that the Affordable Rent level should be set below 80%; this means that the rent flow available to the housing association or developer to secure additional borrowing or funding is restricted. An important element is the relative costs of occupation of each tenure (shown in Figure S4 below), which is independent of land value.

Figure S4 Annual Costs of occupation of each tenure (3 Bedroom)



Source: Sutton Housing Needs Assessment Update 2011

S35 Perhaps the most notable feature of this figure is that shared ownership at 50% equity, the most common format, is more or less the same cost as the cost of Affordable Rent at 80%. This

emphasises the cost of Affordable Rent. In practice, the borrowing requirements involved in shared ownership may mean that some households who technically can afford shared ownership cannot in fact access that tenure.

Future housing requirements in Sutton (Market Balance Model)

- S36 Part of this study is to provide advice as to mix and type of housing required in Sutton to balance the housing market over time. This Long Term Balancing Housing Markets Model (LTBHM) approach is preferable to alternative models as its use of a long-term timescale corresponds better with the time frame used by planners. It is therefore useful to consider the intervention required to the housing stock over the long-term to enable future action to be planned effectively.
- S37 The model identifies households in the dataset that are inadequately housed and alters their circumstances to remove this inadequacy. It then uses household and population projections to predict the housing stock that would be required in Sutton in 2026 in order for all households to be adequately housed. It is estimated that some 6.0% of households are classified as inadequately housed currently. Lone parent households are the household group least likely to reside in adequate accommodation, with single pensioner households the most likely.
- S38 The LTBHM has been carried out under three different scenarios using the GLA 2008-based projections and using two different build targets: 345 new dwellings per annum, and of 210 new dwellings per annum (i.e. in line with the 2011 London Plan). The results of the model show the additional types and sizes of housing required by 2026.
- S39 Scenario 3 is the favoured scenario for the Council to consider in terms of planning policy as it takes into account the Council's current housing target of 210 additional dwellings per annum. The outputs of the model scenario 3 are presented in Table S6.

**Table S6 Tenure of new accommodation required in Sutton
over the next 15 years (to 2026) – favoured scenario**

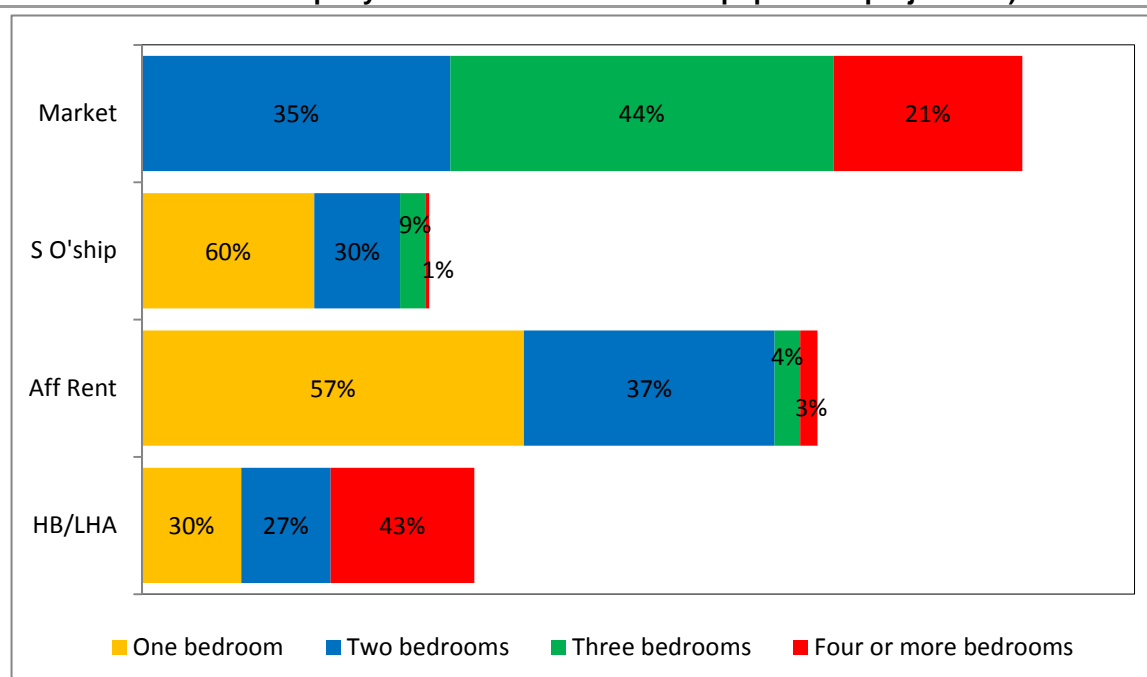
<i>Tenure</i>	<i>Current tenure profile</i>	<i>Tenure profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
Market	66,236	67,348	1,112	35.3%
Shared Ownership	833	1,296	463	14.7%
Affordable Rent	0	1,090	1,090	34.6%
Social rented	4,176	13,716	485	15.4%
Requires financial support*	9,055			
Total	80,299	83,449	3,150	100.0%

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S40 Under all scenarios around 65% of all new dwellings required should be affordable and the remaining 35% market accommodation. Within affordable accommodation most of the requirement is for one and two bedroom accommodation whilst for market accommodation the requirement is for two and three bedroom accommodation (see figure S5).

Figure S5 Summary of Scenario 3.

Accommodation required to be built to balance the housing market in the period to 2026 (210 new homes per year under GLA 2008 based population projections)



Those households in receipt of Housing Benefit or LHA are housed either in the social rented sector or, because there is insufficient stock, in the private rented sector where they receive assistance with their rent. In this context Market Housing is all housing that is not affordable housing (as defined by PPS3) that households can afford in the open market and without recourse to benefits or affordable housing.

Source: Sutton Housing Needs Assessment Update 2011

S41 Scenario 3 sets out the mix and type of new housing that our analysis suggests should be built to balance the housing market on the period to 2026 to meet the housing requirements of Sutton based on the assumption that of 3,150 new houses should be built in that period (210 per year). This is about half of the total (7,327) requirement found in Scenario 1. The Council may decide, for reasons of political priority and with regard to the Council's wider policies, to prioritise specific housing tenure and sizes and build a different mix of housing.

S42 It should be stressed that this advice is based on the assumption that all those people in receipt of housing related benefit should be accommodated in new affordable housing, when in fact many of these can (under the current 'rules') be accommodated in the private rented sector and receive assistance with the rent. This would result in increased pressure on the private rented sector but it is a route to meeting the needs of this group.

Impact of changes on policy implications

- S43 The 2008 HNA report identified the net annual housing need requirement, calculated in accordance with the guidance, of 1,047 affordable homes per annum. This requirement has now increased to 2,558 per year.
- S44 The current Housing Strategy for Sutton states that a minimum target of 210 dwellings per annum overall should be built in Sutton. Given that the requirement for new affordable housing generated by the model greatly exceeds the proposed rate of building of houses overall, clearly it is not viable to base policy directly on the model outputs. However, it does at least suggest that reducing the affordable housing target (of 50% of housing as affordable on appropriate sites) would be inappropriate.
- S45 The LTBHM models the estimated household growth in Sutton using GLA 2008 based projections to 2026. It suggests that, in order to balance the market in the long-term (over 15 years), about 66% of newbuild housing would need to be affordable.
- S46 Taking the evidence from both CLG needs model and the LTBHM model together, it is clear that in terms of the proportion of affordable housing to be provided, purely on the basis of housing need, a high target could be justified. Under the current tenure profile, an estimated 18.2% of households in the combined Housing Benefit / Local Housing Allowance tenure currently live in the private rented sector. If this level was sustained then the affordable build target would reduce to 48% (with 18% of households living in the private rented sector and receiving LHA).
- S47 The LTBHM model estimates that about one quarter of the requirement for affordable housing is for intermediate (shared ownership) units. The council's adopted Core Strategy seeks to meet an overall borough-wide target that 50% of all new housing from all sources is affordable, of which 70% should be for social rent and 30% intermediate provision in accordance with the London Plan (2008). To help achieve this target, emerging Site Development Policies DPD (Policy DM25) seeks the maximum reasonable amount of affordable housing on each site capable of achieving 10 or more residential units. However, the analysis in this report shows that many households that can afford Affordable Rent could also afford the housing costs of shared ownership, but lack the capital required for a deposit. Therefore, it may be feasible for Sutton to pursue the policy of 40% of all newbuild affordable housing being intermediate products if support was provided to households for the deposit.
- S48 Therefore we suggest that Sutton should encourage Registered Providers (PRs) to produce Affordable Rent units at the level of 60% of market value; this is suitable in Sutton for three reasons:
- 60% is the highest level it can be set at whilst costing less than shared ownership properties
 - 60% is the lowest level it can be set at whilst costing more than social rented properties
 - at the 60% level the grant requirement for provision is much reduced

The place of the evidence base

- S49 The findings in this report form part of the evidence base to inform the officers and members of the Council in the development of policy. Evidence does not determine policy in isolation, as the opinions of local people and political priorities will influence the decisions taken. This advice should be considered with other evidence (such as viability, and the Strategic Housing Land Availability Assessment (SHLAA) when formulating policy.

1. Introduction

Summary

- i) This study provides an update of the original Housing Need Assessment (HNA) undertaken by Fordham Research in Sutton in 2008. It is required because the economic downturn has had a significant impact on housing and planning objectives. In addition, a number of changes to housing policy have been announced that have implications for the findings of the original HNA.
- ii) The report documents the changes that have been recorded in Sutton in the last three years as a result of the economic downturn and identifies the appropriate policy response.
- iii) Like the original HNA the update is based on the Government Guidance: Planning Policy Statement 3: Housing (November 2006) and the detailed Practice Guidance (Strategic Housing Market Assessments Practice Guidance) published in March 2007 (revised slightly in August 2007).
- iv) Not all of the topics required by the Practice Guidance, and presented in the original HNA are updated in this report because for some topics no further data has been published since the original publication. The aim is to update the data where possible and consider the changes since 2008 within the context of the changed housing market conditions and new policy environment.

Purpose

- 1.1 A Housing Needs Assessment (HNA) was originally published for Sutton in April 2008 based on data collected in August 2007. This HNA robustly examined the local housing market in accordance with the CLG Strategic Housing Market Assessment Practice Guidance of August 2007. It included a review of the current local situation, an understanding of housing market dynamics and recommendations as to the appropriate actions. In addition, the research met the requirements of Planning Policy Statement 3: Housing (PPS3) and Planning Policy Statement 12: Local Spatial Planning (PPS12) in ensuring that all necessary outputs were provided and that these outputs passed the prescribed tests of soundness.
- 1.2 In April 2011 Sutton Council commissioned Fordham Research to undertake an update to the 2008 Housing Needs Assessment. Fordham Research ceased trading on 20th July 2011 and the business was closed. Sutton Council then commissioned Simon Drummond-Hay MRICS ACIH (who previously worked for Fordham Research) to complete the report.

1.3 Due to the notable change in market conditions and the policy environment since the publication of the original report it is advisable to re-assess its findings. This update report therefore seeks to complement the existing study by reviewing the outputs where more recent data is available. This update report uses secondary data to assess the local impact and the appropriate policy response within the altered market and policy conditions. This is done by direct examination of the secondary data and by applying the changes recorded to the primary data to provide an updated household survey.

Government guidance

1.4 It is important to briefly summarise the key points from Government guidance which are relevant to this assessment. The documents of particular importance are:

- Planning Policy Statement 3 (Housing) – PPS3 (November 2006)
- Strategic Housing Market Assessments Practice Guidance – The Practice Guidance (August 2007)

1.5 PPS3 sets out a number of key definitions relevant to this project (discussed further below). In addition, the PPS is clear about the outputs required from an assessment of the housing market. Paragraph 22 of PPS3 summarises the requirements:

Based upon the findings of the Strategic Housing Market Assessment and other local evidence, Local Planning Authorities should set out in Local Development Documents

- *The likely overall proportions of households that require market or affordable housing*
- *The likely profile of household types requiring market housing*
- *The size and type of affordable housing required*

1.6 This housing needs assessment will form part of the local evidence used to inform these three requirements.

1.7 The Strategic Housing Assessments Practice Guidance (August 2007) provides details about the whole process of conducting a strategic housing market assessment (SHMA). The Greater London Authority (GLA) commissioned a research project that produced most of the results required from an SHMA for London, but individual boroughs were advised to supplement this work with a localised study that produces the outputs described in chapters 5 and 6 of the Practice Guidance. Chapters 5 and 6 of the Practice Guidance relate to housing need and the housing requirements of specific household groups respectively.

1.8 Figure 1.1 in the Practice Guidance details the core outputs required from an SHMA. An abbreviated version of this figure is presented in table 1.1 below, which lists the outputs produced in chapter 5 and 6 of the Practice Guidance.

Table 1.1 Core outputs listed in the Practice Guidance required from this study

1	Estimate of current number of households in housing need
2	Estimate of future households that will require affordable housing
3	Estimate of future households requiring market housing
4	Estimate of size of affordable housing required

- 1.9 This report is a localised study that will, in accordance with chapters 5 and 6 of the Practice Guidance, ascertain the level of housing need in the borough in order to produce the outputs listed in the table above.
- 1.10 A description of the purpose of the housing needs model and an overview of the method used is provided below.

Assessing housing need

- 1.11 The Practice Guidance sets out a series of steps to be followed when assessing net annual housing need and the implied affordable housing requirement (presented in chapter 5 of the Practice Guidance). This superseded the original housing needs assessment model published in 'Local Housing Needs Assessment: A Guide to Good Practice' by the (former) Department of Transport, Local Government and the Regions (DTLR) in July 2000.
- 1.12 A 16-step procedure is set out in the Practice Guidance across three distinct stages. This is aimed at producing an estimate of the net need for new affordable housing. Thus the Practice Guidance is very much geared to the requirements of planning for clear indications of the affordable housing requirement. Table 1.3 below reproduces the stages of the assessment.

Table 1.2 Steps required for the calculation of the affordable housing requirement
Stage and step in calculation
STAGE 1: CURRENT NEED (Gross)
1.1 Homeless households and those in temporary accommodation
1.2 Overcrowding and concealed households
1.3 Other groups
1.4 equals Total current housing need (gross)
STAGE 2: FUTURE NEED
2.1 New household formation (gross per year)
2.2 Proportion of new households unable to buy or rent in the market
2.3 Existing households falling into need
2.4 Total newly arising housing need (gross per year)
STAGE 3: AFFORDABLE HOUSING SUPPLY
3.1 Affordable dwellings occupied by households in need
3.2 Surplus stock
3.3 Committed supply of affordable housing
3.4 Units to be taken out of management
3.5 Total affordable housing stock available
3.6 Annual supply of social re-lets (net)
3.7 Annual supply of intermediate housing available for re-let or resale at sub-market levels
3.8 Annual supply of affordable housing

Source: CLG August 2007 Strategic Housing Market Assessments Practice Guidance

- 1.13 There is a further, final stage which describes how the current and future need and the affordable housing supply should be combined to produce an estimate of the net annual housing need.

Basis for the report

- 1.14 Housing Needs Assessments are based on the Government Guidance: Planning Policy Statement 3: Housing (November 2006) and the detailed Practice Guidance (Strategic Housing Market Assessments Practice Guidance) published in March 2007 (revised slightly in August 2007). The aims of a Housing Needs Assessment are to provide clear evidence as to what is going on in the housing market and what the future prospects for the market might be.
- 1.15 Important features of the HNA process are:
- involvement of an authority or a group of local authorities representing a meaningful market area
 - a process in which key stakeholders are involved throughout the production of the evidence as well as being consumers of it (stakeholders have not been actively involved in the preparation of this update)

- inclusion in the process of all tenures of housing
- higher standards of quality: the tests of rigour are more strict than before
- it is an on-going process, so that once the present report is completed, the stakeholders keep updating the results and using them as the basis for housing and planning policy.

Report coverage

1.16 Whilst PPS3 outlines how a HNA fits into the wider housing policy framework, the Practice Guidance provides an indication as to how a HNA should be undertaken and what topics should be covered. Not all of the topics required by the Practice Guidance, and presented in the original HNA, will be updated within this report. This is because for some topics no further data has been published since the original publication. This report is therefore limited to:

- examining the latest profile of the labour market and the resident population
- analysing the changes that have occurred to the local housing market
- considering the current financial capacity of households and their ability to afford market housing
- updated outputs of the housing needs assessment model
- discussion of new housing policy
- modelling and testing affordability of different kinds of affordable tenures
- outputs of the balancing housing markets model
- assessing the policy implications of these findings within the requirements of PPS3

2. Methodology

Summary

- i) Some of the analysis of the local housing market presented in the original report was based on a household survey. The survey was sent to 25,000 households in Sutton, achieving a response from 3,721.
- ii) For the purpose of this report, this household dataset has been updated through two processes: re-weighting the data and updating the financial profile. This provides as accurate a profile of all households in Sutton as possible in May 2011.
- iii) In order to update the dataset to 2011 for this HNA Update a new weight has been created using a range of secondary data sources so that the profile is representative of the characteristics of the household population.
- iv) The total number of households in Sutton in 2011 was taken as the GLA projection for 2011 (based in 2008). This was chosen over the Council Tax list to in order that other indicators from the GLA could be used without creating inconsistencies. The 2008 based GLA figure was chosen over the more recent 2010 based figure. This was because the total number of households according to the Council Tax list was much closer to the 2008 based prediction of number of households in 2011 than the 2010 based equivalent. Therefore it was assumed that the 2008 based data more accurately represented households in Sutton in 2011.
- v) The principle of updating the financial profile is not to update the situation of the particular household that responded to the initial questionnaire, but to present an accurate representation for an equivalent household that exists currently. Households' financial information was updated via an indexing approach, as there are time-series secondary data available at a local level that record changes in the relevant variables. A separate method was used for the three variables that were updated – income, savings and equity.

Introduction

- 2.1 In addition to documenting the changes that have been recorded in Sutton via secondary data sources since the original HNA, a new analysis of the housing market will be facilitated by updating the primary household survey dataset. The household survey was completed in 2007 using postal questionnaires. The survey was drawn, at random, from the Council Tax Register covering all areas and tenure groups in Sutton. The survey questionnaire, that was sent to 25,000 households, achieved a total sample of 3,721. This is significantly in excess of the 1,500 recommended by the Strategic Housing

Assessments Practice Guidance (August 2007) and allows reliable analysis of housing need and demand in the borough.

- 2.2 The primary data is updated using two measures: re-weighting the data to take account of the latest information on the structure of households in Sutton and updating the financial profile of households to reflect the changes recorded since the original study. This chapter will describe the approach used for these two processes.

Re-weighting the dataset

- 2.3 The original HNA estimated that there were a total of 76,360 households in Sutton. This figure was taken from the total number of households on the Council Tax register (minus the number of vacancies) and the survey dataset was weighted to reflect this.

- 2.4 In order to update the dataset to 2011 for this HNA Update a new weight has to be created to reflect the number and characteristics of households in Sutton in 2011. In the last three years much more will have changed in Sutton than the total number of households e.g. the age distribution in the area, the number of economically active people, the tenure split etc. Therefore in order to create a new weight for 2011, a range of secondary data has been used to provide an indication of household characteristics in Sutton in 2011.

- 2.5 The data has to be weighted by a number of variables so that the profile is representative of the characteristics of the household population. The variables used to weight the data are listed below alongside an indication of the secondary source the appropriate profile was derived from.

- number of households and household type (GLA round household projections 2008 based)
- resident population, age of resident population and economic status of resident population (GLA round population projections 2008 based)
- population by ward (GLA round ward projections 2008 based)
- tenure (2010 HSSA, 2001 Census, Survey of English Housing 2009/10)
- household mobility (2009 Land Registry, 2010 HSSA, Survey of English Housing 2009/10)
- area (Council Tax Register)
- Council tax band (Council Tax Register)
- accommodation type (2001 Census, Survey of English Housing 2009/10)
- car ownership (2001 Census, Survey of English Housing 2009/10)
- ethnicity of household head (2001 Census, ONS Population Estimates by Ethnic Group, 2008)

- 2.6 As can be seen from the list above, the total number of households is based on the 2008 based GLA round household projections, along with the number of people and the ward populations. These are not the most recent figures published by the GLA (which take 2010 as its base year). It was decided

that in order to produce figures that accurately represented households in Sutton in 2011 the 2008 based figures were more appropriate.

- 2.7 Overall the most accurate source of information on the number of households in an area is the Council Tax file. However, the Council Tax file only provides the total number of households and no further detail on the characteristics of those households (e.g. household type). Therefore we need to use another source to weight the dataset and calculate the total number of households (otherwise the number of households would conflict with the other household data required).

Table 2.1 GLA households estimates for 2011 compared to the Council Tax file

<i>Indicator</i>	<i>GLA 2008-based</i>	<i>GLA 2010-based</i>
Estimated number of households in Sutton 2011	80,299	81,200
Actual number of households in Sutton 2011 (<i>Council Tax register</i>)		79,311
Difference of estimate from actual figure	988 (1.2%)	1,889 (2.3%)

Source: Council Tax file, Sutton Council (2001) GLA household projections 2008-based (2009), GLA household projections 2010-based (2011)

- 2.8 Table 2.1 above compares the 2008 and 2010 based GLA household estimate for 2011 with the number of households on the Council Tax file (with the number of vacancies deducted). It shows that the actual number of households living in Sutton in 2011 is around 79,300. The GLA 2010 based data estimates this figure to be 81,200 and the 2008-based data estimates that this figure is 80,299. Clearly the GLA 2008 based projection is the most accurate in terms of household level data (the primary concern of a HNA, rather than population) and therefore the 2008-based data has been used to weight the dataset for the Sutton HNA Update.
- 2.9 In Chapter 10 of this HNA Update the number of households in 2026 is modelled. As it is impossible to say at this stage which of the GLA projections (2008 based or the 2010 based) is more accurate, a range of scenarios have been projected to demonstrate the tenure requirement in 2026 under each projection. This is explained in more detail in Chapter 10.
- 2.10 The option of using Office of National Statistics household projections to weight the dataset was rejected to ensure that the figures in this report were consistent with other reports by Sutton Council which uses the GLA estimates.
- 2.11 Table 2.2 shows an estimate of the current tenure split in Sutton along with the tenure distribution recorded in the original report. The data shows that around 71% of households are now owner-occupiers with 14% in the social rented sector and 16% living in private rented accommodation.

Table 2.2 Number of households in each tenure group 2011 and 2008

Tenure	2008		2011	
	Total number of households	% of households	Total number of households	% of households
Owner-occupied	55,430	72.6%	56,802	70.7%
<i>No mortgage</i>	20,723	27.1%	25,522	31.8%
<i>With mortgage</i>	34,707	45.5%	31,280	39.0%
Social rented	11,682	15.3%	10,821	13.5%
Private rented	9,247	12.1%	12,676	15.8%
Total	76,359	100.0%	80,299	100.0%

Figures generated by Fordham Research by combining data from the English Housing Survey (2009-10), the Housing Strategy Statistical Appendix (2009-10) the Tenant Services Authority Regulatory and Statistical Return (2010) and GLA household estimates for 2011 (2008 based) with the Sutton HNA household survey (2008) to estimate the tenure split across households in Sutton in 2011.

Source: Sutton HNA (2008) Fordham Research & Sutton HNA Update (2011)

- 2.12 In comparison with 2008, the proportion of households in the private rented sector has increased from 12.1% to 15.8%. This increase in the private rented sector in Sutton corresponds to the national trend recorded by the English Housing Survey (EHS). The number and proportion of owner-occupiers with a mortgage has decreased slightly (from 45.5% to 39.0%), also in line with the national trend, while the number of households owning their house outright has shown a slight increase. The number of social rented households has also shown a decrease. Data from the HSSA shows that nationally the number of social rented households has increased, however the proportion of total homes that are designated as affordable has decreased.

Updating the financial profile

- 2.13 As the survey data has been updated from its 2008 base it has been necessary to make an estimate of the likely change in income levels since this time (and indeed changes in savings and equity). The principle of updating the financial profile is not to update the situation of the particular household that responded to the initial questionnaire, but to present an accurate representation for an equivalent household that exists currently. Households' financial information was updated via an indexing approach, as there are time-series secondary data available at a local level that record changes in the relevant variables. A separate method was used for the three variables that were updated – income, savings and equity.
- 2.14 The only up-to-date secondary data on income available at a local level is that presented in the Annual Survey of Hours and Earnings (ASHE), which is the earned income of employed individuals. The change recorded by the ASHE data for the most recent three years (2007-2010) was applied to the dataset to generate a profile for 2011. As ASHE provides values at a range of points on the earnings distribution, it is possible to update income depending on the increase recorded for the particular quartile the original household income of 2008 was in. Between 2007 and 2010 lower quartile

incomes were estimated to have risen by around 7.5%, median incomes have increased by 7.6% and upper quartile incomes have grown by 6.8%. These increases have been applied to the survey data to bring it up to a 2011 base.

- 2.15 For affordability purposes it is also important to consider changes in household equity. The Land Registry provides the best source of information on the value of property at a local level, with data on the price of all home sales for every quarter of the year. Analysis of Land Registry data suggests that overall average house price within Sutton has decreased marginally (less than 2%) over the last three years – although as discussed in Chapter 4 entry level prices have fallen further at around 10%.
- 2.16 These figures have been applied to survey data about property values – this in turn has enabled us to make an estimate of likely equity levels. For example, a household living in a semi-detached house worth £95,000 and with £50,000 of equity (in 2008) would now be assumed to be living in a house worth £87,100 and with £47,500 of equity.
- 2.17 As the amount of rent paid by residents does not impact the affordability assessment (only entry level rent of suitable alternative accommodation needs to be considered), the housing costs of private renting households has not been updated.

3. Socio-economic changes

Summary

- i) Two main drivers of the housing market are the resident population and the local labour market. They affect the nature of housing demand including household formation rates and households' investment in housing.
- ii) The 2008 based GLA demographic projections estimate that the population of the borough in 2011 is 180,998 and the number of households is 80,299. Overall the average household size has decreased from 2.37 in 2001 to 2.29 in 2011, primarily due to the growth in single person households.
- iii) NOMIS data on 'job density' shows that there were 0.62 jobs per working age person in Sutton in 2009, lower than the national and regional average. However, since 2007 the growth in this indicator has been higher in Sutton than for London.
- iv) Whilst Sutton continues to have the capacity to undergo continued economic growth, the level of unemployment amongst residents in the borough increased by 7.4% between January 2011 and April 2011. Overall the level of unemployment is comparatively low when compared with regional and national figures.
- v) Since 2008 there has been a slight decrease in the number of people resident in Sutton employed within the highest skills whilst there has been a much bigger decrease in the lowest skilled jobs.
- vi) The median earned income for full-time Sutton residents in 2010 was £30,497 which, along with the upper and lower quartile income levels, is higher than England as a whole but lower than London.

Introduction

- 3.1 Two main drivers of the housing market are the resident population and the local labour market. They affect the nature of housing demand including household formation rates and households' investment in housing. The most recent data available on these topics at the time of the original HNA was generally from 2006. This chapter documents the changes that have occurred to the socio-economic profile in Sutton since then. The information presented compares the circumstances in the borough to the regional and national situation where possible.

Demography

- 3.2 The original HNA report described the nature of the population in Sutton using the latest information available at the time, principally the 2006 ONS population estimates and the 2001 Census. This section uses data from the Greater London Authority (GLA) to inform how the population in the borough has changed since 2007. (Paragraphs 2.6 to 2.10 explain why the GLA 2008-based data has been used here in favour of alternative data sources.)
- 3.3 The demographic figures used in this report to update the dataset to 2011 are the GLA Round Demographic and Household Projections (2008 based). The table below shows that according to these estimates the average household size in Sutton is declining.

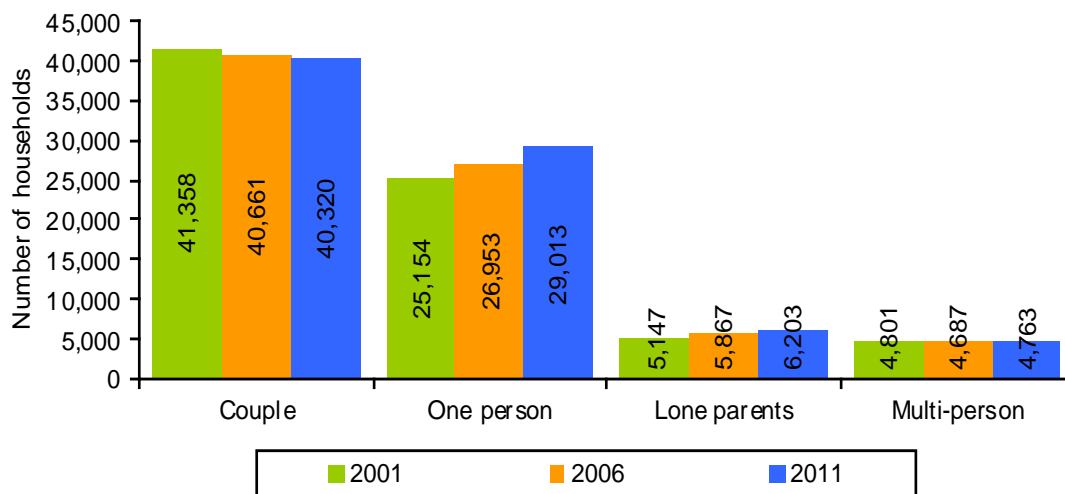
	2001	2006	2011
Population	181,500	180,998	183,745
Households	76,460	78,168	80,299
Average household size	2.37	2.32	2.29

Source: GLA Round Demographic Projections (2008), GLA Round Household Projections (2008), Census (2001)

Number of households

- 3.4 The figure below shows how the estimated composition of households has changed in Sutton since the 2001 Census. It shows that the number of households containing couples is declining whilst the number of single person households is increasing.

Figure 3.1 Households estimates by household composition in 2001, 2006 and 2011



Source: GLA Round Household Projections (2008)

Forecast Population by age and type

- 3.5 We have used the 2008-based household projections to estimate the situation in Sutton in 2011, not because they were the most recent but because they most accurately aligned with the total number of households on the Council Tax register at the time of the update. The most recently published population projections are the 2010-based GLA projections. The scenarios here also use the 2008-based projections.
- 3.6 The projections estimate the number of people in Sutton will increase by 5.1% between 2011 and 2026 (an increase of some 9,400 people), whilst the 2010-based projections forecast lower growth of 3.4% (an increase of around 6,250 people). Both projections present the data broken down by age group. The following figure shows the projected change within each age group between 2011 and 2026 according to each projection. The data indicates a general trend of an ageing population in Sutton. This trend is clearer in the 2010-based projections (particularly among those aged 65 and over) than in the 2008-based projections.

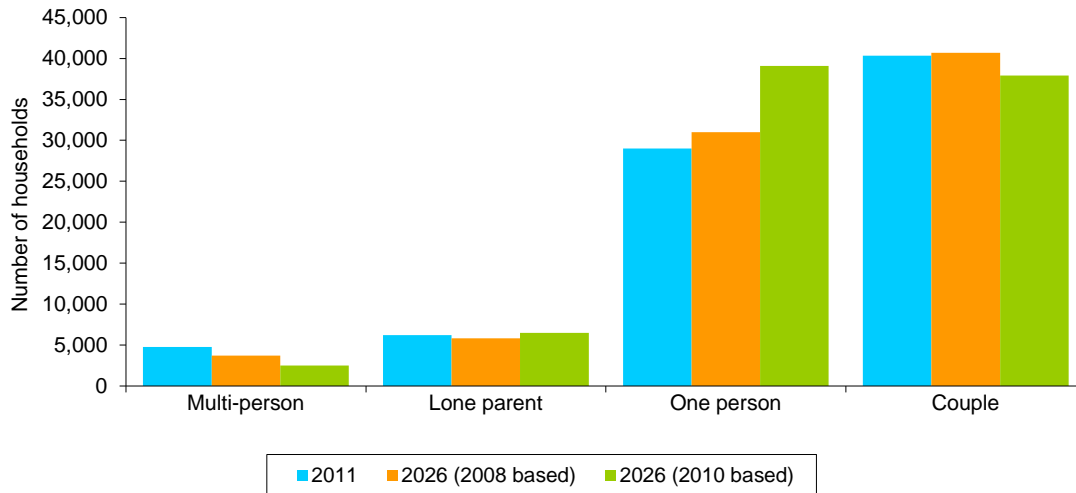
Figure 3.2 Forecast population by age group in Sutton, 2011 compared with 2026 (2008 based and 2010 based)

Source: GLA 2008 Round Demographic Projections (2009)
Sutton Housing Needs Assessment Update 2011

- 3.7 As with the population projections, household growth is expected to be slower under the 2010-based projections than the 2008-based ones. The 2010-based projections indicate that the total number of households will increase by around 5,000 (6.2%) between 2011 and 2026 whilst the 2008-based one predict an increase of 7,300 (9.1%). Under both projections the average household size is anticipated to decrease slightly from 2.29 in 2011 to 2.20 in 2026.

- 3.8 Figure 3.3 below shows the projected changes to the household type in Sutton over the next 15 years under each projection. The most noticeable difference between the two projections is between the change in one person households and couple households.

Figure 3.3 Forecast household types in Sutton, 2011 compared with 2026 (2008 based and 2010 based)



Source: GLA 2008 Round Demographic Projections (2009)
Sutton Housing Needs Assessment Update 2011

Economy

Employment in Sutton

- 3.9 The latest data available on the economy in Sutton indicates that it still has the capacity to undergo continued economic growth. NOMIS1 data on 'job density' (this is a measure of the number of jobs per person of working age) for 2009 shows that there are 0.62 jobs per working age person in Sutton. This is a lower ratio than both London (0.90) and England (0.79). However, Sutton has experienced some economic growth since 2007 when there were 0.57 jobs per person. During this time the ratio in England fell and in London remained the same.
- 3.10 Data is also available from NOMIS about the number of VAT registered businesses in the area and how this has changed over time. This can provide a good indication of the state of the economy, as an increase in VAT registered business would suggest either new companies moving to the area or an increase in local entrepreneurship.

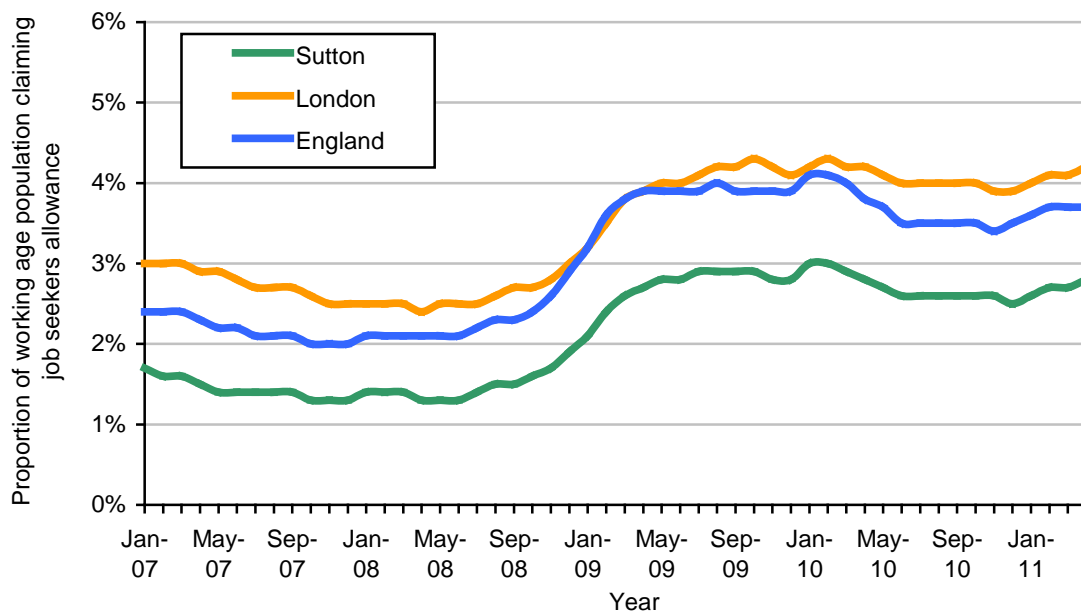
¹ NOMIS official labour market statistics published by Office of National Statistics

- 3.11 NOMIS indicates that the number of VAT registered businesses at the end of 2007 in Sutton was 5,605; this is an increase of 700 over the 10 years since 1997 (14.3%). This proportional increase is considerably lower than that recorded for the region (29.0%) as well as nationally (22.4%). However, the data also indicates that between 2006 and 2007 the number of VAT registered businesses in Sutton increased by 3%, which is in line with national figures but slightly below that of London overall (4.4%).

Employment profile of residents in the borough

- 3.12 Although the overall economic performance of Sutton provides important context, an understanding of the effect of the recent economic downturn on the resident population is more crucial to this study.
- 3.13 The ONS publishes the number of people claiming Job Seekers Allowance on a monthly basis. This provides a very up to date measure of the level of unemployment of residents in an area. Figure 3.4 shows the change in the proportion of the working age population claiming Job Seekers Allowance in Sutton since January 2007. The figure indicates that historically Sutton has had a relatively low unemployment level, lower in comparison to London and England overall. However, unemployment levels in all areas remain above those recorded at the beginning of 2007. In between January 2011 and April 2011 unemployment has increased in Sutton by 7.4%.

Figure 3.4 Level of unemployment in Sutton (2007-2011)



Source: ONS Claimant count

- 3.14 The Annual Population Survey presents a 'Standard Occupation Classification' which categorises all working people resident within an area into one of nine groups depending on the nature of the skills that they use. These nine groups are graded from managerial jobs (Groups 1-3) to unskilled jobs (Groups 8-9). As Table 3.2 illustrates some 49.2% of employed residents in Sutton work in groups 1 to 3, which is higher than national figure but lower than the London region.
- 3.15 The table also shows that since 2008 there has been a slight decrease in the number of people resident in Sutton employed within groups 1 to 3 whilst there has been a much bigger decrease in groups 8 to 9. There has been an increase in the number of residents employed in the other categories, and overall.

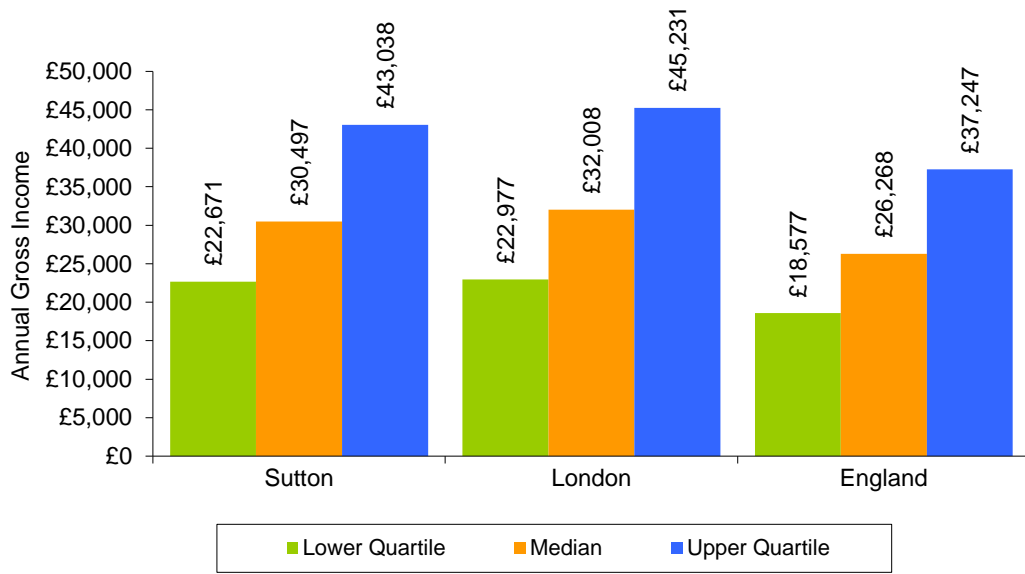
Table 3.2 Occupation structure				
Occupation Groups	Sutton 2009/10	London 2009/10	England 2009/10	Change in no. of people employed in Sutton since 2008/09
Group 1-3: Senior, Professional or Technical	49.2%	54.8%	44.8%	-0.6%
Group 4-5: Administrative, skilled trades	25.5%	18.2%	21.1%	13.3%
Group 6-7: Personal service, Customer service and Sales	14.9%	14.1%	16.1%	10.4%
Group 8-9: Machine operatives, Elementary occupations	10.4%	12.8%	17.6%	-16.1%
Total	100.0%	100.0%	100.0%	2.8%

Source: ONS Annual Population Survey

Income

- 3.16 Income has a crucial effect on the level of choice a household has when determining their future accommodation. According to the ONS Annual Survey of Hours and Earnings, the mean earned income for full-time employees resident in Sutton in 2010 is £36,495, considerably lower than London (at £44,118) but somewhat higher than England as a whole (at £33,001). Between 2009 and 2010 mean income in Sutton fell by 0.8%. However, both London and England as a whole experienced a slight rise in mean income during this time.
- 3.17 However, in terms of understanding the average income of residents in an area the median is a much more suitable figure. The median identifies what the 'middle person' earns, i.e. 50% of residents earn more than the median and 50% earn less, therefore it is not distorted by small numbers of people with exceptionally high incomes as the mean is. Figure 3.5 shows the lower and higher quartiles as well as median earnings in Sutton are slightly above those for England as a whole but lower than the London region.

Figure 3.5 Annual gross income of full-time employed residents 2010



Source: ONS Annual Survey of Hours and Earnings (2010)

4. The current housing market

Summary

- i) The market caused banks to be much more cautious toward lending to one another as there was a greater risk of not being repaid. This meant that the multiples of income that a mortgage was offered on were reduced and a greater proportion of the value of the home was required as a deposit. This particularly affected first-time buyers and has implications for the overall buoyancy of the market
- ii) According to data from the Land Registry, the median house price in Sutton in the first quarter of 2011 was £226,000, higher than the national average but lower than the regional figure. Mean and median house prices in Sutton have decreased between quarter two 2007 and quarter one 2011 by 0.9% and 1.3% respectively. Meanwhile prices in London as a whole experienced strong growth. Across the country the number of sales has fallen by over 40% in the last four years.
- iii) A property survey undertaken by Fordham Research shows a fall in property prices between 2007 and 2011. However, simultaneously rental costs have risen.
- iv) The cost of housing by size was assessed for all tenures within the borough. It showed that the new Affordable Rent product could be effective in closing the gap between the cost of social rented and private rented housing. However, the difference between the cost of Affordable Rent at 80% and the cost of shared ownership is minimal.
- v) Property in Sutton that is further from central London tends to be more expensive than the property elsewhere in the borough. However, when only considering the mean, price variation is somewhat exaggerated because of the range of property sizes available in each area. The rent levels in Sutton are also quite varied. They are particularly expensive in the North West of the borough which is likely to be due to the influence of rent levels in South West London.

Introduction

- 4.1 This chapter describes the downturn in the housing market that has been recorded nationally before examining the extent of the downturn in Sutton and specifically its effects on the housing market within the borough. Subsequently it re-assesses the entry-level costs of housing in Sutton, to document how this has changed since the original HNA report.
- 4.2 A comparison of the cost of different tenures will be used to identify the housing market gaps that exist – this enables the viability of products within these gaps to be assessed.

The national housing market downturn

- 4.3 Many people had been expecting a crash in house prices for some time, due to the history of this occurring after a period of fast house price growth. The market downturn was principally triggered by the realisation of the scale of the bad debt that banks had. This caused banks to be much more cautious toward lending to one another as there was a greater risk of not being repaid.
- 4.4 This therefore limited the credit available for those potentially requiring a mortgage. In addition, banks and building societies were more cautious in their lending practices to ensure they did not create any further bad debts for themselves. This meant that the multiples of income that a mortgage was offered on were reduced and a greater proportion of the value of the home was required as a deposit.
- 4.5 This particularly affected first-time buyers, who have less access to capital. The result was that in 2008, 194,000 home loans were granted to first-time buyers in England compared with 357,800 in 2007², while the average deposit put down by a new entrant to the market rose to 22%, the highest level since 1974³. The average multiple of income that first-time buyers borrowed in 2008 was 3.1 times their earnings compared with 3.4 times in 2007⁴.
- 4.6 The reduction in first-time buyers had implications for the overall buoyancy of the market. The absence of new entrants to the market reduced activity further up the housing ladder with the number of home mover loans dropping from 658,000 in 2007 to 322,200 in 2008⁵.
- 4.7 Figure 4.1 shows the number of sales recorded across England for each quarter since Quarter 1 of 2006. The figure shows that, whilst property sales levels have always been relatively volatile, a marked decrease was recorded between Quarter 3 of 2007 and Quarter 1 2009, followed by an increase in sales throughout 2009. The figure also shows the change in average property prices over this period which, in comparison to sales, has been relatively stable.

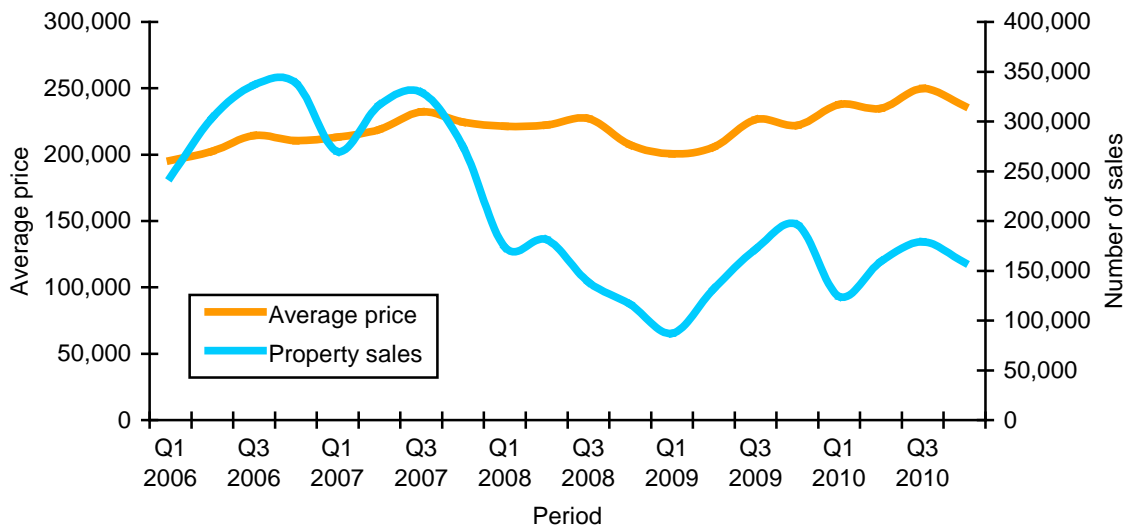
² The Council of Mortgage Lenders, 2009

³ Ibid

⁴ Ibid

⁵ Ibid

Figure 4.1 Average price change and variation in property sales in England 2006–2010 (all quarters)



Source: Land Registry, CLG (2011)

- 4.8 Whilst the decline in property prices had been relatively modest until the summer 2008, the speculation of the total extent of the reduction of the value of housing that would occur in this downturn has also put off potential buyers concerned by the prospect of a continued fall in prices leaving them in negative equity. This perception of investment in housing now representing a risk allied to the difficulty of getting a mortgage is likely to see the recent housing market trends continue. It is considered that overall the market downturn will only start to rise again if unemployment stabilises before interest rates go up. A full market recovery will not occur until credit availability issues for first-time buyers are resolved.

The situation in Sutton

- 4.9 The original HNA provided data on property prices for the 2nd quarter 2007. The Land Registry has now published data for the first period in 2011. Table 4.1 shows the change in average prices between the second quarter of 2007 and the first of 2011 (the quarter of the original study and the most recent quarter) or each of England and Wales, London and Sutton. The table shows that over this period, mean prices in Sutton have largely remained the same which whilst prices across England and Wales grew by (8.5%). Over this same period, London experienced a considerable increase in house prices of 24.7%.

Area	Average price Apr-Jun 2007	Average price Jan-Mar 2011	Percentage change recorded
England & Wales	£216,163	£234,626	8.5%
London	£350,413	£437,062	24.7%
Sutton	£253,444	£251,116	-0.9%

Source: Sutton Housing Needs Assessment 2011 Land Registry (2011)

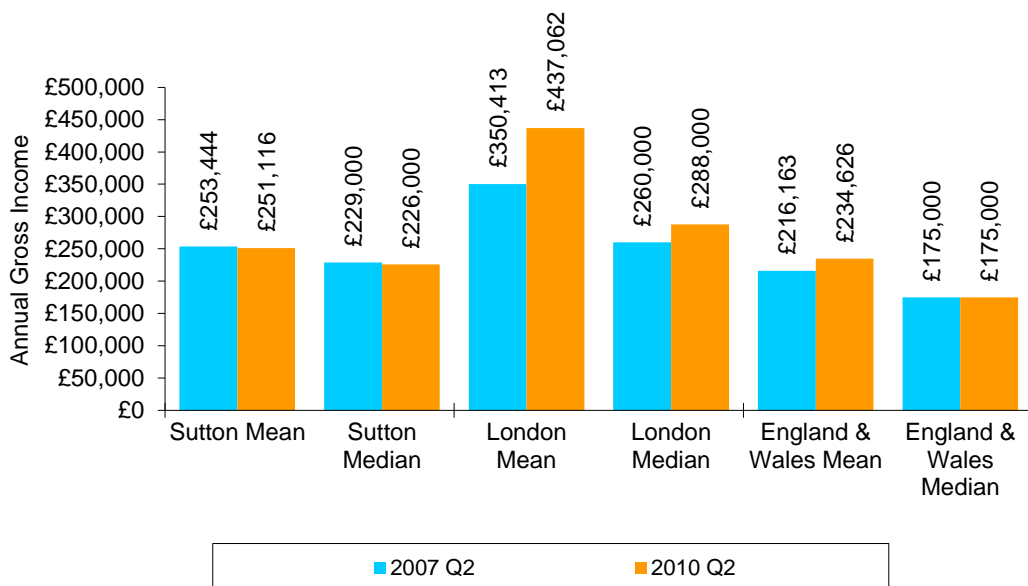
- 4.10 Median property prices data show a similar pattern of change, but in London and England & Wales the change in prices has been less dramatic.

Area	Average price Apr-Jun 2007	Average price Jan-Mar 2011	Percentage change recorded
England & Wales	£175,000	£175,000	0%
London	£260,000	£288,000	12.3%
Sutton	£229,000	£226,000	-1.3%

Source: Land Registry, CLG (2011)

- 4.11 Figure 4.2 presents the data in Tables 4.1 and 4.2 above for comparison. It shows that across the country the mean house price has increased more than the median house prices. It shows that whilst mean house prices in Sutton are much lower than those for London, the gap between the median house price is much smaller, despite the additional increase in prices experienced in London as a whole but not Sutton.

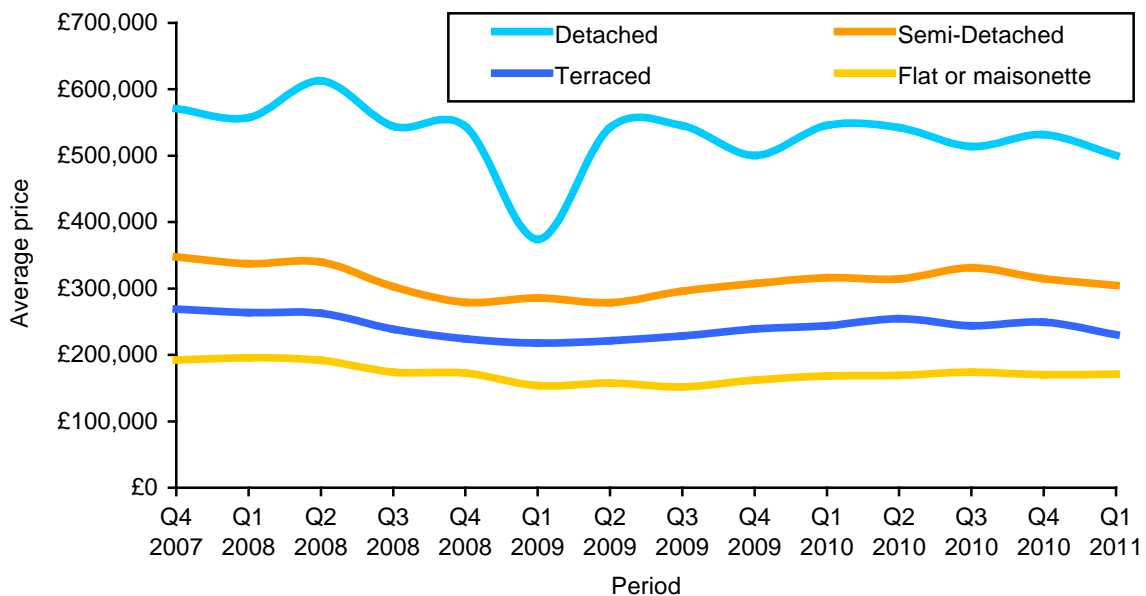
Figure 4.2 Change in average property prices



Source: Land Registry, CLG (2011)

- 4.12 Figure 4.3 shows the change in prices by property type in Sutton since Quarter 4 2007. The figure shows that, for all dwelling types with the exception of detached houses, prices have remained relatively consistent over the period. Overall, the mean price of a detached house is considerably higher than other dwelling types, highlighting the difficulty in progressing up the ladder from a semi-detached house. Detached houses have also been affected most by the downturn in house prices and have recorded the largest price fall between the fourth quarter of 2008 and the first quarter of 2009, at 31.3% but recovered by quarter 3 of 2009.

Figure 4.3 Price change by dwelling type in Sutton since 2007



Source: Land Registry, CLG (2011)

- 4.13 Table 4.3 shows the change in the number of property sales between the third quarter of 2006 and 2010. The table indicates that whilst the change in property sales was similar in all areas, Sutton recorded the highest overall decrease, at 48.3% compared to 46.8% in England and Wales and 44% in London.

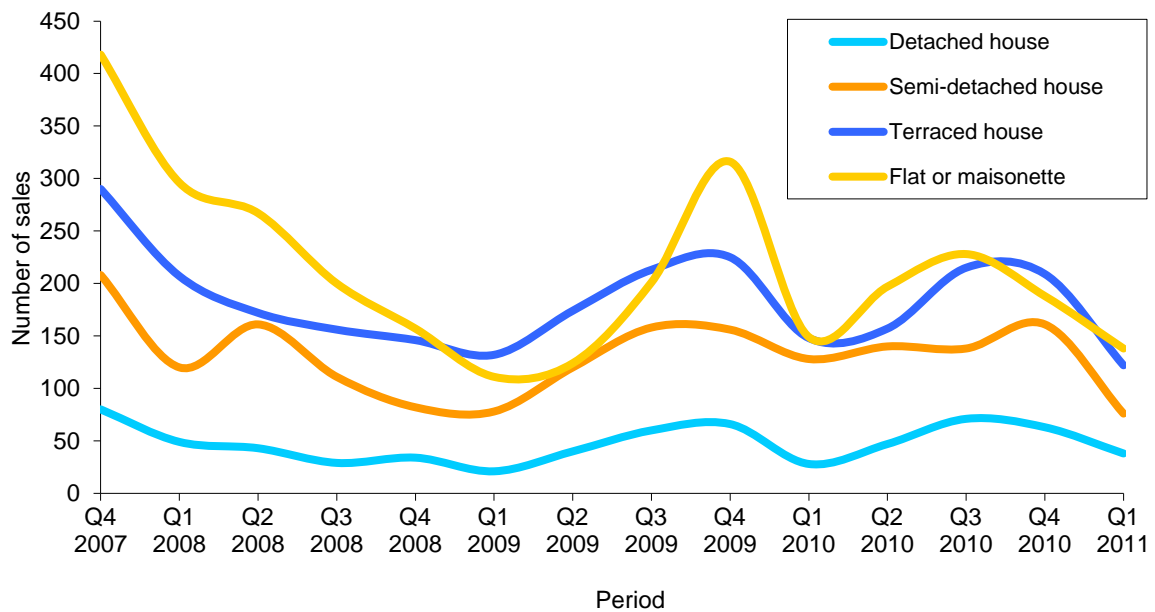
Area	Number of sales Jul-Sep 2006	Number of sales Jul-Sep 2010	Percentage change
England and Wales	352,665	187,522	-46.8%
London	47,039	26,298	-44.1%
Sutton	1,293	669	-48.3%

Source: Land Registry, CLG (2011)

- 4.14 Figure 4.4 shows the change in sales levels over the last two years by property type in Sutton. All dwelling types in Sutton experienced a marked decline in sales between the last quarter in 2007 and

first quarter of 2009. While there was some recovery during 2009 and 2010, sales in 2011 are still considerably lower than the levels experienced at the end of 2007. There was a temporary spike in sales of flats and maisonettes in Quarter 4 of 2009 and whilst the data identifies this trend it does not allow us to speculate why this occurred. Flats and maisonettes have experienced both the largest decline and recovery in sales over this two year period. However, as seen in Figure 4.3 average house prices have remained relatively stable in comparison to detached houses. This indicates that sales of flats and maisonettes may have been affected by factors other than price, such as access to finance in the form of mortgages.

Figure 4.4 Property sales by dwelling type in Sutton since 2007



Source: Land Registry, CLG (2011)

Change in prices and sales

- 4.15 The table below provides, for reference, the changes in prices and sales between the whole year figures for 2007 and 2010. These come from the same source as above, but use whole year rather than quarterly statistics. These figures indicate that house prices in 2010 have returned to a similar level to what they were in 2006, following a volatile market between 2007 and 2010. However, average sales have not recovered, and are 49.2% less than they were in 2007.

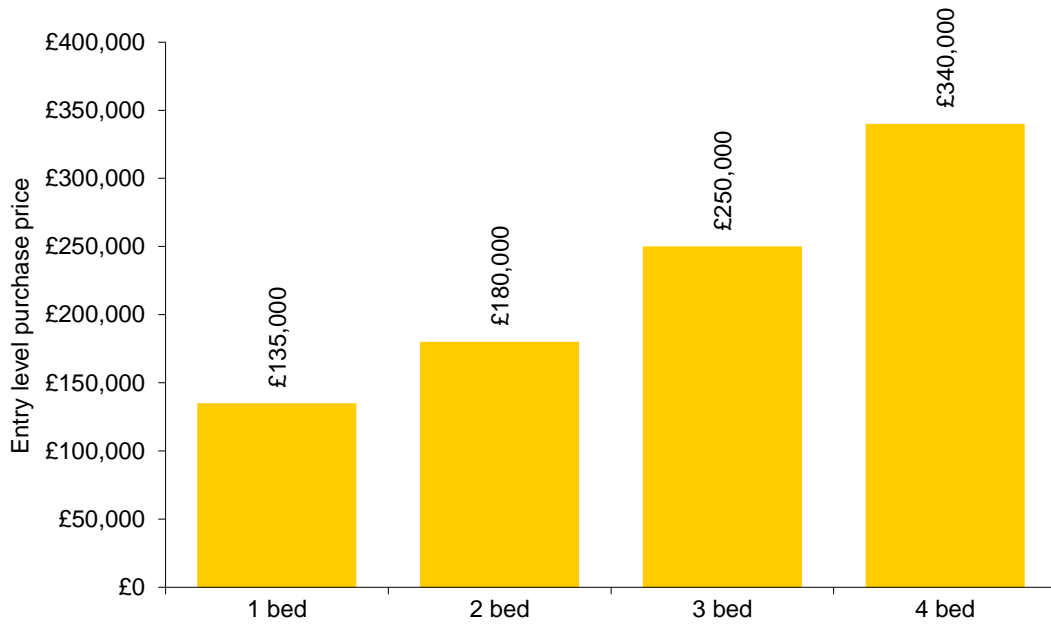
Area	Average price Jan-Dec 2007	Average price Jan-Dec 2010	Percentage change recorded
Mean price	£239,786	£240,045	+0.1%
Median price	£210,000	£210,000	0%
Sales	4699	2387	-49.2%

Source: Land Registry, CLG (2011)

Updated entry-level costs

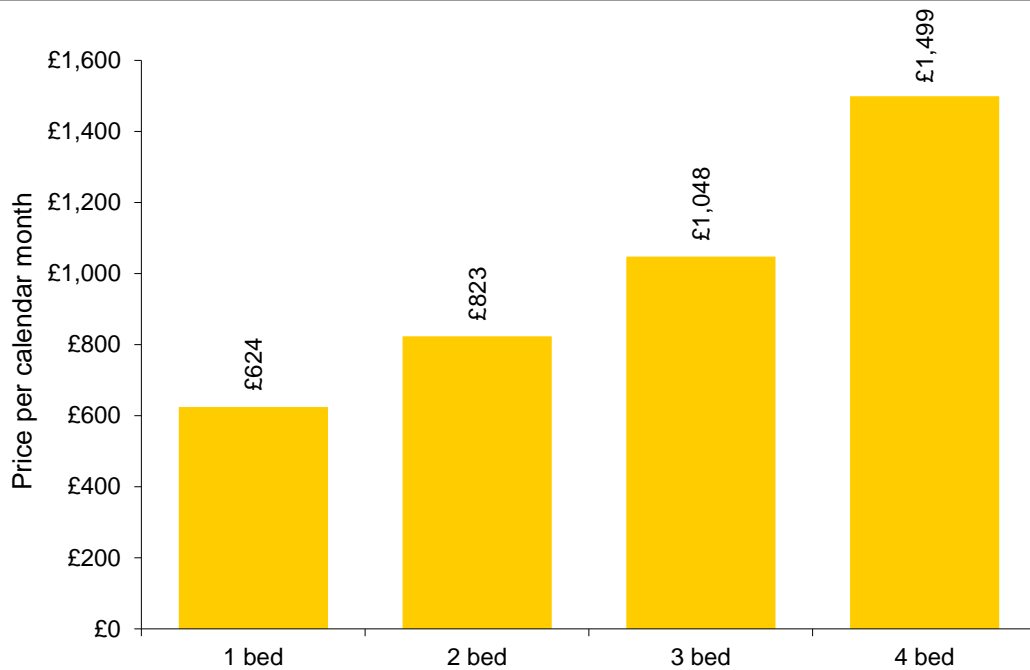
- 4.16 To fully understand the affordability of housing within a price market it is necessary to collect data on the cost of housing by number of bedrooms. This ensures that it is possible to assess the ability of households to afford market housing of the size required by that particular household as determined by the bedroom standard. However, no secondary data contains this information. As part of this study we have therefore undertaken an updated price survey to assess the current cost of housing in the borough.
- 4.17 Updated entry-level property prices and rental costs by number of bedrooms were obtained in each Local Committee area in Sutton via an online search of properties advertised for sale during May 2011. These costs were qualified by brief telephone discussions with local estate and letting agents, who were also able to provide guidance as to what proportion of the asking price is achieved at sale (for purchase). In accordance with the Strategic Housing Assessments Practice Guidance (August 2007) (and to replicate the approach used in the original report), entry-level prices are based on lower quartile prices.
- 4.18 The entry-level price (i.e. lower quartile) for owner-occupied property across the borough of Sutton is presented in Figure 4.5. The figure indicates that entry-level prices in the borough start from around £135,000 for a home with one bedroom to around £340,000 for four bedrooms. In terms of the market availability, the analysis showed that two bedroom properties make up the largest proportion of properties on the market, and one bedroom properties the smallest.
- 4.19 Entry-level private rents by property type are shown in Figure 4.6. The entry-level rent per month for a one bedroom property is an average of £625, rising to £1,500 for a four bedroom property. The market for rented property is dominated by one and two bedroom properties, with larger properties, those with three or more bedrooms, accounting for less than a quarter of advertised rental properties (20.2%).

Figure 4.5 Entry level purchase price



Source: Online estate agents survey May 2011

Figure 4.6 Entry level private rents (cost per month)



Source: Online estate agents survey May 2011

4.20 Table 4.5 documents the change recorded in entry-level purchase prices and rents in Sutton since 2007. Overall, it seems that the entry level purchase price in Sutton has fallen for all bedroom sizes by around 10%, whilst Table 4.4 shows that the average property price has not changed, suggesting that the economic downturn has had a disproportionate effect on the bottom-end of the market. This seems sensible as it is the first time buyers who are struggling to get on the property ladder, suggesting that

entry-level prices have lowered to meet their demand. Meanwhile, private sector rents have on the whole increased; however, this is primarily in one and four bedroom properties. Again, this seem logical: as the number of property sales fall and with fewer households able to purchase demand in the private rented sector, and therefore rents, have increased. This is likely to have a significant impact on the level of household need, as households with insufficient income and savings to buy but were previously able to afford private rented properties could find that they can no longer afford accommodation in the open market.

Table 4.5 Change in entry-level prices in Sutton 2007 to 2011

<i>Property size</i>	<i>Entry level purchase price</i>	<i>Entry-level private rents</i>
1 bedroom	-9.9%	5.9%
2 bedrooms	-9.0%	0.5%
3 bedrooms	-8.1%	-1.2%
4 bedrooms	-11.0%	10.9%

Source: Online survey of property prices 2007 and 2011

- 4.21 The Coalition Government have introduced a new tenure to affordable housing: Affordable Rent. Under this scheme rents will be set at the level of up to 80% of the open market rent of each property available. The specific details of this policy and its implications are discussed in later chapters. As Affordable Rent is not available at the time of writing, the costs of the new tenure have been estimated from our understanding of the private rented sector (explained in more detail in the later chapters). The prices here are at 80% of the middle-market median of the private rented sector.

Table 4.6 Potential costs of Affordable Rent housing

<i>Bedrooms</i>	<i>Monthly rental</i>
1 bed	£520
2 bed	£680
3 bed	£900
4 bed	£1,320

Source: Survey of entry-level rents, Fordham Research February 2011

- 4.22 The monthly costs of shared ownership in Sutton have been displayed Table 4.7 below. It compared the figures for households buying a 75%, 50% and 25% share in the house. In all cases it is assumed that a 20% deposit is supplied with a mortgage length of 25 years.

<i>Bedrooms</i>	<i>Monthly cost at 75% equity</i>	<i>Monthly cost at 50% equity</i>	<i>Monthly cost at 25% equity</i>
1 bed	£639	£540	£441
2 bed	£854	£722	£590
3 bed	£1,238	£1,047	£856
4 bed	£1,858	£1,571	£1,284

Source: Online survey of property prices 2011

- 4.23 The cost of entry level social rented accommodation by dwelling size in Sutton can be obtained from CORE⁶. Table 4.8 illustrates the rental cost for lettings to new social rented properties in Sutton in 2010/11. As can be seen, the costs are significantly below those for private rented housing (set out in Figure 4.5) indicating a significant potential gap between the social rented and market sectors.

<i>Bedrooms</i>	<i>Rent (per month)</i>
1 bed	£370
2 bed	£422
3+ bed	£450

Source: CORE Area Lettings Report for Sutton (2010/11)

Analysis of housing market 'gaps'

- 4.24 Housing market gaps analysis has been developed to allow easy comparisons of the income required to access properties on the tenure range, in order to facilitate the testing of different newbuild proposals, and to show generally the nature of the housing ladder in a particular locality.
- 4.25 Tables 4.9 and 4.10 below show a comparison of the monthly costs of housing of different tenures shown throughout this chapter. Measurement of the size of the gaps between these 'rungs of the ladder' helps assess the feasibility of households moving between the tenures – the smaller the gaps, the easier it is for a household to ascend the ladder from one tenure to the next, assuming that a household aspired to do so.

⁶ The Continuous Recording of Letting and Sales in Social Housing in England. The national information source funded jointly by the Tenant Services Authority (formerly the Housing Corporation) and the CLG that records information on the characteristics of both housing association and local authority new social housing tenants and the homes they rent and buy.

Table 4.9 Monthly costs by tenure

Bedrooms	Social rent	Affordable Rent	Shared ownership (50%)	Entry-level private rent	Entry-level purchase*
1 bed	£370	£520	£540	£624	£663
2 bed	£422	£680	£722	£823	£879
3 bed	£450	£901	£1,047	£1,048	£1,235
4 bed	£450	£1,321	£1,573	£1,499	£1,677

*weekly costs are based on 25 year repayment mortgage at an interest rate of 3.95% (Nationwide 2011)

Source: Survey of entry-level house prices, Fordham Research February 2011; CORE 2009/2010

Table 4.10 Market gaps between tenures

Bedrooms	Social rent – Affordable Rent	Social rent – Private rent	Affordable Rent – Shared ownership (50%)	Private rent – Private purchase
1 bed	40.5%	68.8%	3.9%	6.3%
2 bed	61.1%	95.0%	6.2%	6.8%
3 bed	100.2%	132.9%	16.3%	17.8%
4 bed	193.6%	233.1%	19.0%	11.9%

Source: Survey of entry-level rents and house prices, Fordham Research February 2011; CORE 2009/2010

- 4.26 In summary, the Table 4.10 shows that across all categories the market gap between tenures grows as the property size increases. The gap between private rent and private purchase is reasonably small. This suggests that the main reason for private renting households for not buying a property is the cost of the deposit. As documented earlier in this chapter, the entry-level cost of buying a property in Sutton has decreased since 2007. Taking this into account, it is theoretically easier for some households to enter the owner-occupied sector. However, the change in the availability of credit and concerns as to the future direction of the housing market has meant that this may not be experienced in reality.
- 4.27 The largest market gap is between the cost of entry-level market accommodation and social rented which suggests that an 'Affordable Rent' product which is intended to replace social rent could be beneficial to households who cannot afford market accommodation (either to buy or rent). However, Affordable Rent (taken as 80% of the middle-market private rented value) is still substantially larger than social rented costs, particularly for three and four bedroom properties; therefore households on the lowest income are unlikely to be able to afford to live in an Affordable Rent tenure without depending on housing related benefits. In addition, the smallest market gap is between Affordable Rent and 50% shared ownership, when Affordable Rent costs are compared to 25% shared ownership costs, shared ownership is cheaper across all bedroom sizes. This suggests that an Affordable Rent type product would be valuable in terms of offering a lower rent than open market rents to households that would normally be housed in social rented accommodation. However, it may be more suitable in Sutton at a lower rate than 80% in order to provide a cheaper alternative to shared ownership. This issue of Affordable Rent levels is discussed in more detail in later chapters.

Price variations across Sutton

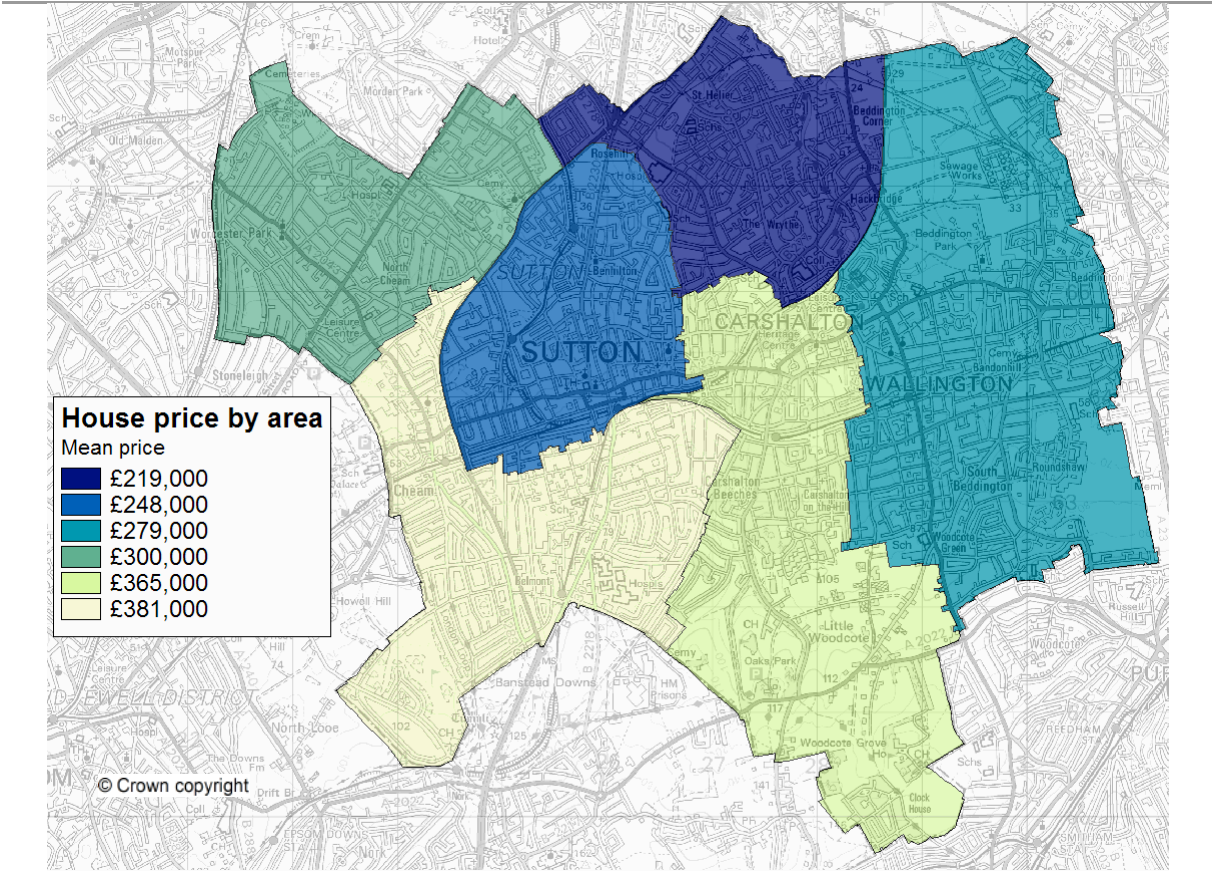
- 4.28 According to the Strategic Housing Assessments Practice Guidance (August 2007) a housing market area is an area with around 70% or more self-containment (with 70% of household moves occurring within an area, or 70% of commuting journeys occurring within an area). In London such distinct housing market areas cannot be defined. The original HNA produced results by the six local committee areas in the borough. This section will consider how varied the housing market is in Sutton is by comparing the average house price across the borough by local committee area.
- 4.29 The table below presents the average price in Sutton by local committee area. Looking at the mean prices it shows that the most expensive area is Sutton South, Cheam & Belmont and the cheapest area is St. Hellier, The Wrythe & Wandle Valley. The median prices show a similar pattern but the variation in prices is much smaller. In Carshalton & Clockhouse and Sutton South, Cheam & Belmont there is a big difference between the mean and the median prices. This indicates that there are a small number of luxury properties in these areas that has increased the mean price.
- 4.30 The fourth column (% mean) in the table indexes the mean price to the mean for the whole area. As these figures present the average price for all properties in the committee area some of the variation could be a result of the size of the properties available in the area - i.e. an area with mostly one bedroom properties will be less expensive than an area with mostly four bedroom properties. The final column in table 4.11 shows the variation in price controlled for property size. It shows that whilst St. Hellier, The Wrythe & Wandle Valley remains the least expensive area and Sutton South, Cheam & Belmont the most expensive, the variation in price is actually much smaller.

<i>Sub-area</i>	<i>Mean</i>	<i>Median</i>	<i>% Mean</i>	<i>% Mean by size</i>
Beddington and Wallington	£279,000	£235,000	93.9%	93.7%
Carshalton and Clockhouse	£365,000	£300,000	123.3%	112.2%
Cheam North and Worcester Park	£300,000	£289,000	100.9%	105.5%
St. Hellier, The Wrythe and Wandle Valley	£219,000	£215,000	73.9%	80.8%
Sutton	£248,000	£220,000	83.5%	94.0%
Sutton South, Cheam and Belmont	£381,000	£250,000	128.5%	112.9%
All Areas	£297,000	£240,000	100.0%	100.0%

Source: Online survey of property prices May 2011

- 4.31 The map below shows the mean house price by local committee area. It shows that generally house prices in the northern and eastern parts of the borough tend to be less expensive than those prices in the local committee areas on the edge of London.

Figure 4.7 Map of Average house prices by local committee area



Source: Online survey of property prices May 2011

- 4.32 The table below presents the same data for rent levels in Sutton. It shows that the unlike price levels, the most expensive area assembly for rents is Cheam North & Worcester Park and the least expensive area is Beddington and Wallington. The difference between the mean and the median for each area is much smaller for rents than it is for prices.
- 4.33 When the price levels have been controlled for the size of the property there is a dramatic difference in the ranking of areas by price. Carshalton & Clockhouse goes from being the second most expensive to below average whilst the relative cost for Sutton and Sutton South, Cheam & Belmont increase.

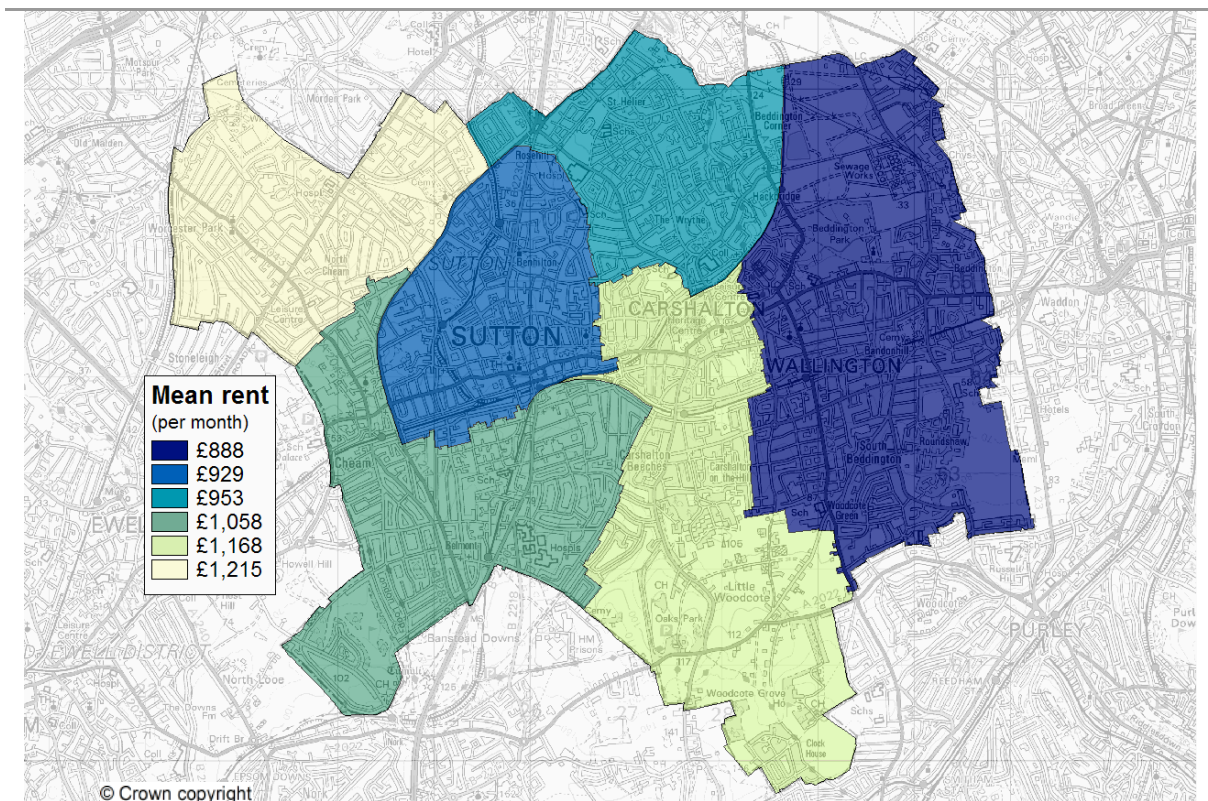
Table 4.12 Average monthly rents by local committee area

Sub-area	Mean	Median	% Mean	% Mean by size
Beddington and Wallington	£888	£800	86.0%	86.8%
Carshalton and Clockhouse	£1,168	£823	113.0%	95.4%
Cheam North and Worcester Park	£1,215	£1,250	117.6%	106.8%
St. Helier, The Wrythe and Wandle Valley	£953	£900	92.2%	93.1%
Sutton	£929	£875	89.9%	94.3%
Sutton South, Cheam and Belmont	£1,058	£900	102.4%	107.6%
All Areas	£1,033	£925	100.0%	100.0%

Source: Online survey of rents May 2011

- 4.34 The table below shows the mean rent by local committee area in Sutton. It shows that the spatial price trends in the private rented sector are less distinct. Generally properties in the North East are the least expensive. However, Cheam North & Worcester Park in the North West is much more expensive than its surrounding areas.

Figure 4.8 Map of mean rents (per month) by local committee area

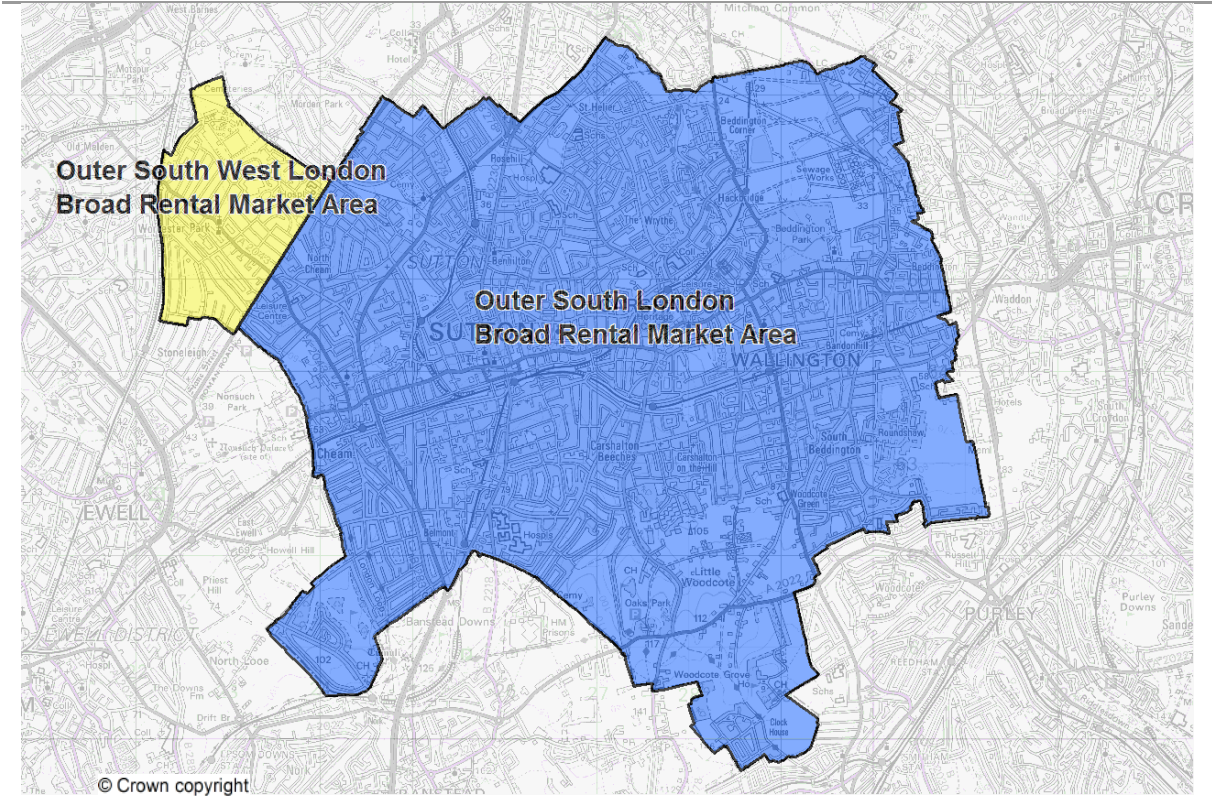


Source: Online survey of rents May 2011

- 4.35 One reason for the higher rent levels in Cheam North & Worcester Park could be due to the influence of the West London private rented sector which tends to be more expensive. The map below shows the

broad rental market areas (BRMAs) in Sutton according to the Valuation Agency. It shows that all of Sutton except for the North West edge is in the Outer South London BRMA where rents are slightly lower than the Outer South West London BRMA. Given the high level of rents found in Cheam North & Worcester Park in Figure 4.8 this seems an appropriate division.

Figure 4.9 Map of Broad Rental Market Areas in Sutton



Source: Valuation Office Agency 2011

5. Household financial information

Summary

- i) The updated dataset estimates that the mean annual gross household income (including non-housing benefits) in Sutton is £38,345. This is an increase of 4.2% since the original HNA report in 2007. Since 2007 the mean savings levels have increased by 14.7% whilst the mean equity amongst owner-occupiers has increased by 1.9%. A third of residents in Sutton have no savings.
- ii) Information on the financial capacity of households alongside data on the cost of entry-level housing in Sutton can be used to examine the ability of households to afford housing locally, based on the affordability criteria set out in the Strategic Housing Assessments Practice Guidance (August 2007) (and presented in the glossary).
- iii) Overall it is estimated that 22,086 (27.5%) households in Sutton would be unable to afford market accommodation if they moved home now and were not to receive LHA. Lone parent households and unemployed households are the most likely to be unable to afford market accommodation (79.3% and 82.8% respectively).
- iv) The proportion of households that are able to afford market accommodation increases to 83.3% if an alternative test is used based on a minimum income level. This test allows households to spend all of their income on housing except for the minimum required to meet basic needs (assumed to be the non-housing benefit entitlement of the household if it were workless).
- v) Despite the proportion of households unable to afford reducing under the minimum income affordability test, lone parents and unemployed households continue to be the households mostly likely to be unable to afford market housing. It should also be noted that the extent to which benefit entitlement allows for a sufficient standard of living is widely contested.
- vi) One of the Government's new policies, planned to be introduced in 2013 is that the benefit entitlement of unemployed households will be capped at £26,000pa. It is estimated that if all households in Sutton were workless receiving their full benefit entitlement and claiming the maximum level of housing benefit, 7% of households would be entitled to £26,000pa or more in benefits. However, in practice the proposed £26,000pa benefit cap is unlikely to have a significant impact on households in Sutton as at present only 1.5% of households are not employed and have an income of £26,000pa or more.

Introduction

- 5.1 Chapter 2 of this report describes how the financial profile of each sample household within the primary dataset has been updated using a range of secondary data sources including the GLA 2008

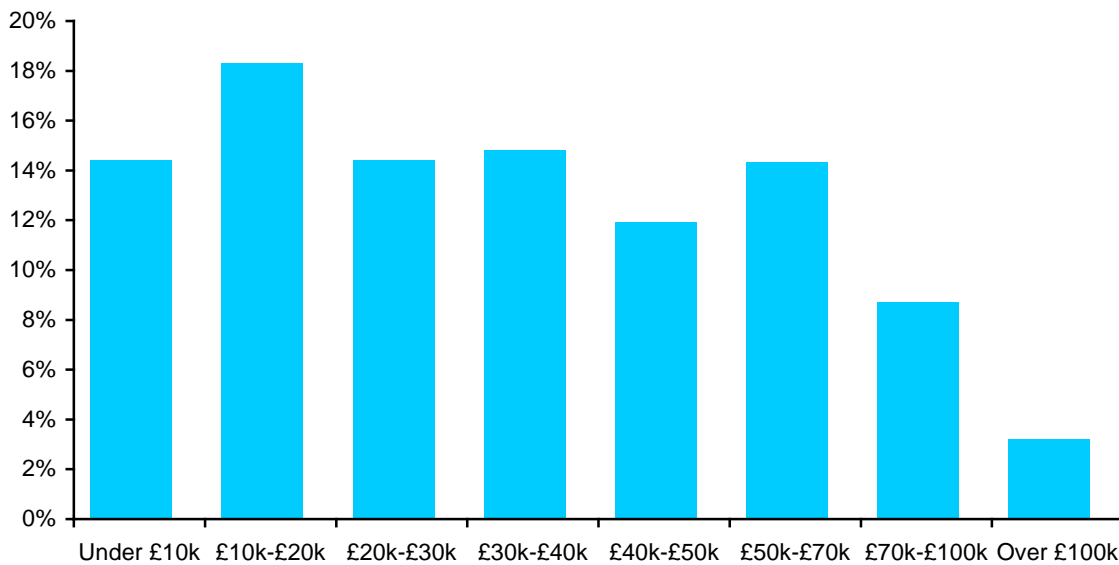
based projections. This chapter presents the current financial situation of households in Sutton recorded as a result of the updating process. It considers each of the elements that constitute financial capacity. These results are then combined with the analysis of the local housing market, presented in the previous chapter, to make an assessment of affordability for households in Sutton. Finally, alternative measures of affordability and the possible impacts of benefit reforms on households are discussed.

Household income

5.2 The updated dataset estimates that the mean household income in Sutton is £38,345, which is an increase of 4.2% since the original HNA report in 2007. The median household income is lower at £30,720 (an increase of 4.6% since 2007).

5.3 Figure 5.1 shows the distribution of income in Sutton. Just under two thirds (62%) of households have an income which is below the mean income of £38,345, with over a third benefiting from an income equal to or above this figure. Over a quarter (26.2%) of households have an income of £50,000 or above and 3.2% of households have an income of more than £100,000.

Figure 5.1 Distribution of annual gross household income



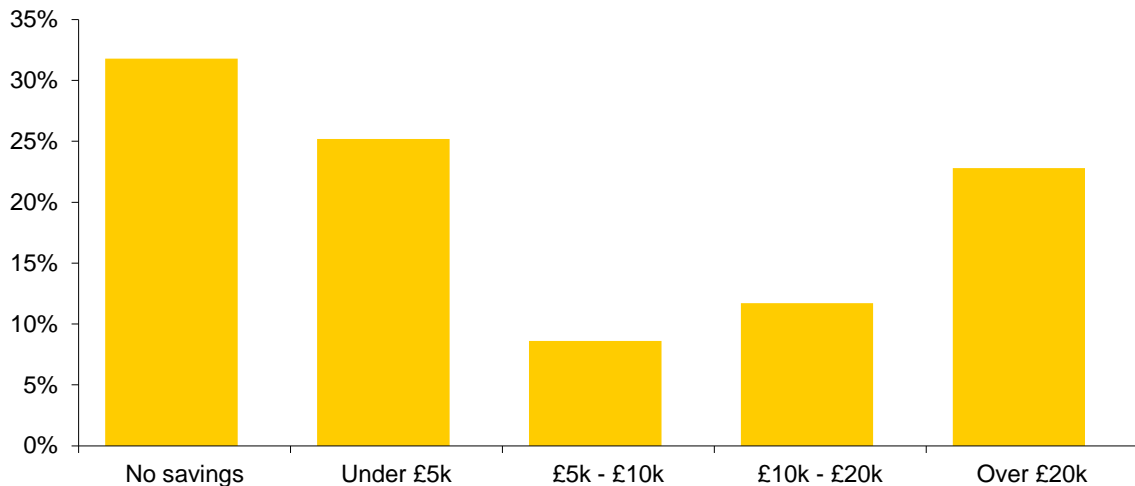
Source: Sutton Housing Needs Assessment Update 2011

Household savings and equity

5.4 The mean household savings in Sutton in 2011 is £32,414, which is an increase of 14.7% from the figure recorded in 2007. The median figure for household savings is currently £3,656 (an increase of 12.5%), indicating the mean is skewed by a small number of households with large savings.

- 5.5 Figure 5.2 shows the distribution of savings in Sutton. Households with no savings also include those in debt.

Figure 5.2 Distribution of household savings



Source: Sutton Housing Needs Assessment Update 2011

- 5.6 The mean amount of equity that all owner-occupiers (both those with and without mortgages) have in their property is estimated to be £220,285 currently. This is an increase of 1.9% since 2007. The median level of equity in 2011 was £191,852.

Financial capacity of Sutton's households

- 5.7 Financial capacity is the term created to define the capitalised amount of money a household potentially has available to move home. It takes account of all the resources that a household has available and is calculated as: $\text{income} (\times 3.5) + \text{savings} + \text{equity}$. It is recommended by the 2007 CLG Strategic Housing Market Assessments Practice Guidance that a household should not be reasonably expected to obtain a mortgage of more than 3.5 times the household income, and therefore this multiple has been used when calculating affordability throughout this report. This approach is, necessarily, a simplification of reality and whilst it is in line with the guidance and the practice in this field the mortgage approval process is complicated and not just based on simple income multipliers. Mortgage lenders also consider a range of factors such as the age of the borrower (to assess how many working years the applicant has before retirement), their employer and employment status (to assess their security of income), their lifestyle and credit rating information (to assess whether the non-housing expenditure and thus whether or not they can afford the repayments).
- 5.8 Table 5.1 provides the median financial capacity figures by tenure. The data shows that owners without a mortgage (often retired) have a greater overall financial capacity than those (typically younger) with a mortgage, but the latter have much higher incomes. Both have a far greater financial

capacity than households in the rented sector. It is clear that the financial capacity of social renters will prohibit the majority from being able to consider buying a home.

Table 5.1 Median financial information by tenure

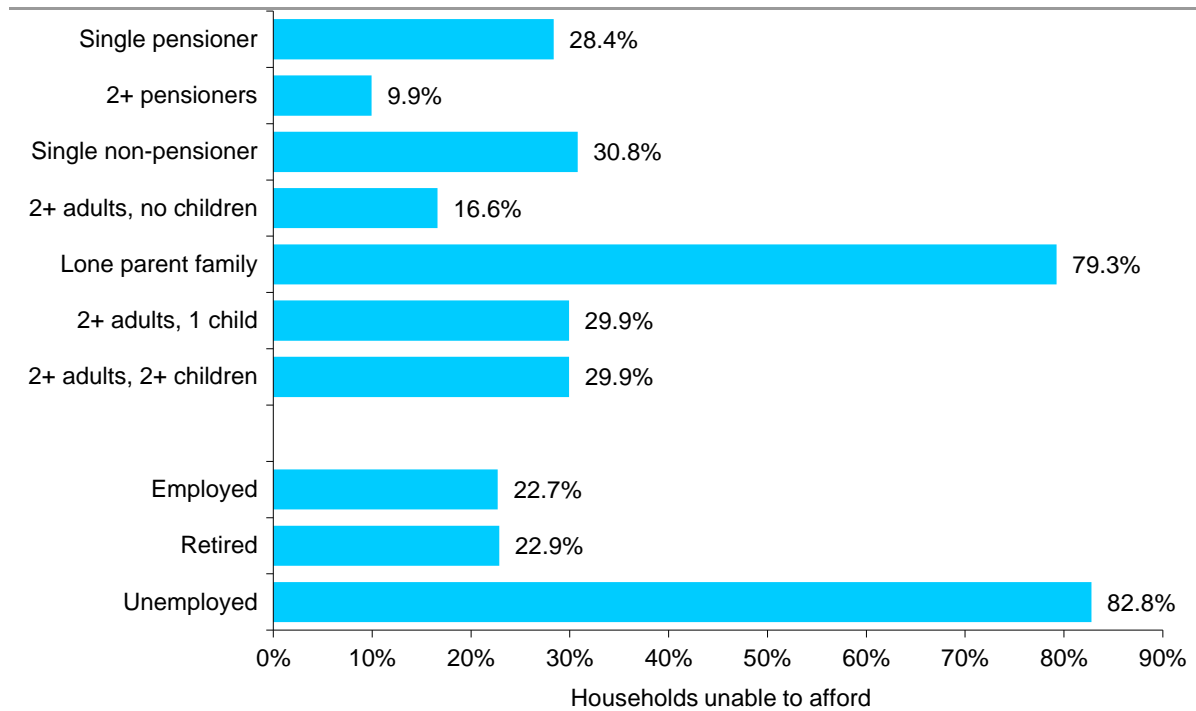
<i>Tenure</i>	<i>Annual gross household income</i>	<i>Savings</i>	<i>Equity</i>	<i>Financial capacity*</i>
Owner-occupied	£36,246	£7,971	£191,852	£347,438
<i>No mortgage</i>	£24,688	£31,920	£286,023	£441,416
<i>With mortgage</i>	£44,889	£2,912	£118,359	£293,826
Social rented	£9,591	£244	-	£35,696
Private rented	£28,053	£630	-	£102,059

*Financial capacity = income (× 3.5) + savings + equity
Source: Sutton Housing Needs Assessment Update 2011

Theoretical affordability of market housing

- 5.9 This information on the financial capacity of households alongside data on the cost of entry-level housing in Sutton can be used to examine the ability of households to afford housing locally, based on the affordability criteria set out in the Strategic Housing Assessments Practice Guidance (August 2007) (and presented in the glossary). It is worth noting that this affordability test for owner-occupation does not take account of whether the household has access to a deposit as this is not required by the Practice Guidance.
- 5.10 Figure 5.3 shows the proportion of households unable to afford market housing by household type and employment status. This is the theoretical affordability of households as the analysis considers all households in the borough and does not take into account their intention of moving. Overall it is estimated that 22,086 (27.5%) households in Sutton would be unable to afford market accommodation if they moved home now.
- 5.11 The data indicates that 79.3% of lone parent households in the borough would be unable to afford market housing (if they were to move home now). All other household types have much lower proportions of households unable to afford market accommodation. The household types most likely to be able to afford market accommodation contained two or more pensioners. Unsurprisingly 82.8% of unemployed households would be unable to afford market housing in the borough (if they were to move now) compared to around 22% for employed and retired households.

Figure 5.3 Proportion of households unable to afford market housing in Sutton, by household type and employment status



Source: Sutton Housing Needs Assessment Update 2011

Alternative measure of affordability

- 5.12 The income test used above is based on the Strategic Housing Assessments Practice Guidance (August 2007) and is a widely used measure. However, the measure of allowing a household to spend 25% of their gross income on housing costs arguably overlooks to what extent the household is able to live on the income that remains i.e. some low income households may not have enough money to live on once 25% of their income has been spent on housing. Conversely households on high incomes may be able to spend a much greater proportion of their income on housing. This section examines how housing affordability can be measured in a way that ensures households still have enough money to live on once housing costs have been taken into account.
- 5.13 The basis of this affordability test is to identify how a much in benefits each household is entitled to (excluding housing related benefits) as a measure of the minimum income required by that household for living costs (excluding housing).

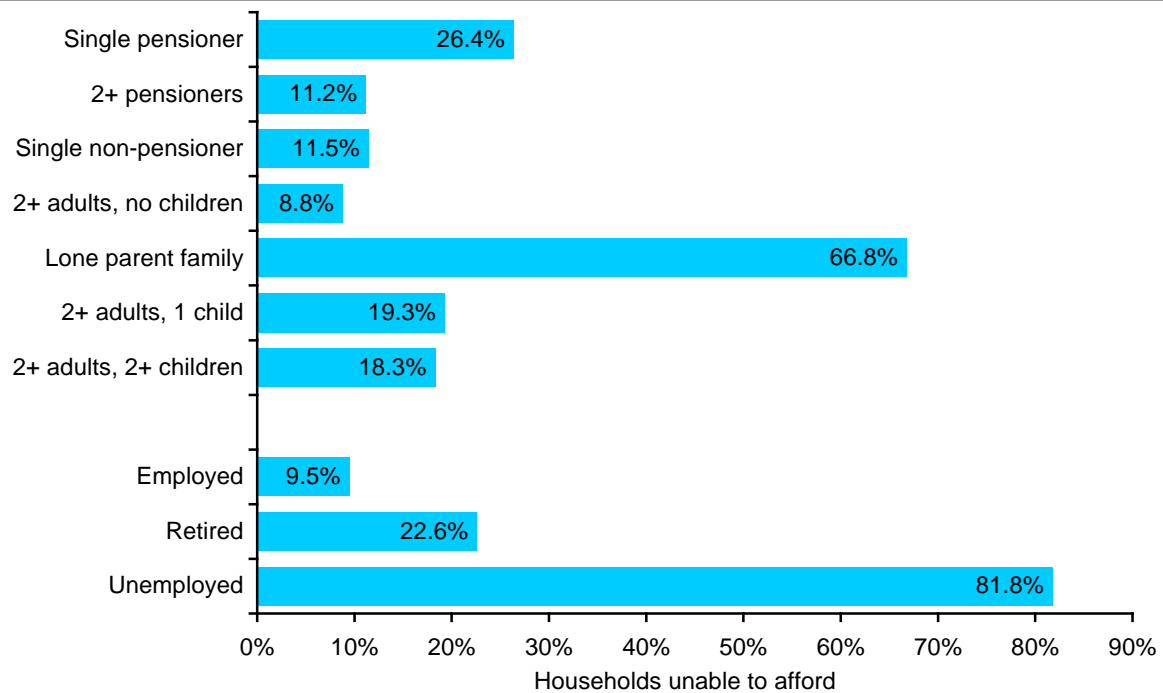
- 5.14 For the purpose of this research the benefit entitlement for each household has been identified by calculating how much each individual in the household would be entitled to (assuming they had no alternative source of income). This involved splitting household members into three groups: working age adults, children and pensioners. For the purposes of simplicity, benefit entitlement such as carers allowance were excluded from this analysis. The benefit entitlements for each of group have been summarised in the table below.

<i>Income group</i>	<i>Weekly benefit entitlement</i>	<i>Benefits included</i>
Pensioner	£137.35	State pension
Unemployed Adult	£67.50	Job seekers allowance
One child	£74.97	Child benefit & Child tax credit
Each additional child	£57.57	

Source: Direct.gov 2011

- 5.15 Using this information we calculated the minimum each household would be entitled to in Sutton excluding the cost of housing.
- 5.16 A household was deemed able to afford to buy a home if their savings and equity combined were more than the entry level price of a home of the appropriate size (according to the bedroom standard). A household was deemed able to rent a home if their income was greater than their minimum income entitlement in benefits without housing related benefits combined with the entry level rent of a home of the appropriate size (according to the bedroom standard). All other households were classified as unable to afford suitable market housing without additional support such as receiving LHA.
- 5.17 Under this measure the number of households unable to afford suitable housing decreased from 22,086 in the CLG affordability test to 14,070 households (17.5%). The figure below shows the types of households that are unable to afford under the minimum income test. It shows a similar distribution of affordability amongst the groups as the 25% of income affordability test with lone parent household and unemployed households the most likely to be unable to afford suitable accommodation.

Figure 5.4 Proportion of households unable to afford market housing in Sutton, by household type and employment status – according to minimum income entitlement test and without recourse to Housing Benefit or LHA



Source: Sutton Housing Needs Assessment Update 2011

- 5.18 The distribution by household group and employment classification shown in figure 5.4 is not surprising. It is inevitably difficult for lone parents and unemployed people to secure sufficient income in order to cover housing costs. For many of the households in these groups housing is unaffordable to them not necessarily because home ownership is too expensive but because their incomes are too low to cover any housing costs.
- 5.19 Both of the affordability tests presented in this chapter consider a household's ability to afford suitable accommodation without the support of housing related benefits; in reality, however, the majority of households at the bottom of the income scale that are unable to afford will be able to access housing related benefits that cover the cost of housing. It is likely to that a large proportion of lone parents with young children and unemployed individuals will be dependent on housing related benefits until their circumstances change.
- 5.20 Using benefit entitlement can be a helpful tool to identify the minimum income required by households from which to measure the affordability of housing. However, it should be noted that the extent to which benefit entitlement allows for a sufficient standard of living is widely contested. The best known challenge this is the Minimum Income Standard. This is a project by the Centre for Research in Social Policy at Loughborough University funded by the Joseph Rountree Foundation. The Minimum Income Standard project is an on-going programme of research to define how much income people need in order to allow a minimum acceptable standard of living in the United Kingdom today. It has found that

benefit entitlement covers about 40% of the income required by a single working age adult, 60-70% of income required by family and 100% of income required by a pensioner. Therefore if the Minimum Income Standard measure was used to test the affordability of housing, a larger number of non-pensioner households would be unable to afford adequate housing in Sutton if they were to move home now.

Proposed benefit cap of £26,000 per annum

- 5.21 A range of national policy proposals have been announced since the original HNA which will have an impact on housing. These are discussed in detail in Chapter 7. One of the new policies is that the benefit entitlement of unemployed households will be capped at £26,000 pa. This section uses the data from the HNA survey to consider how the benefit cap would impact households in Sutton.
- 5.22 Firstly, we can consider households that contain no employed people but have an income of over £26,000 pa. It is estimated from the household survey that around 951 households in Sutton (excluding pensioner households) do not contain anyone who is employed but have an income of £26,000 pa or more. However, it is important to note that this does not mean that their incomes will fall as a result of the benefit cap. The survey does not distinguish income from benefits and income from other sources. This figure has been provided for interest only and cannot be reliably used to assess the impact of the benefit cap. Table 5.3. below identifies these households by household type. It shows that over half of these households are multiple-adult households without children.
- 5.23 Secondly, we can consider how many households in Sutton would be entitled to more than £26,000 pa in benefits assuming they were unemployed and the cap was not in place. This was calculated by adding the maximum LHA allowance for each household to the minimum income required (used in the earlier affordability test). The maximum LHA allowance added was split into two groups: households living in Worcester Park and Nonsuch wards (which are all or mostly in the Outer South West London BRMA) and all other households (in the Outer South London BRMA). The LHA caps for these two broad rental market areas can be seen in Table 7.1.
- 5.24 This analysis found that around 9,578 households would be entitled to £26,000 pa or more in benefits if they were unemployed. This accounts for around 11.9% of households in the borough. The households with two or more adults and children were the most likely to be entitled to more than £26,000 pa in benefits.

Table 5.3 Income received by unemployed households and the potential benefit income of all households – by household type

<i>Household type</i>	<i>Unemployed households with £26,000 or above income</i>		<i>All households entitled to £26,000 or above in benefits if unemployed</i>	
	<i>total</i>	<i>%</i>	<i>total</i>	<i>%</i>
Single pensioner	NA	NA	0	0.0%
2+ pensioners	NA	NA	89	1.5%
Single non-pensioner	103	0.6%	0	0.0%
2+ adults, no children	555	3.0%	4,432	19.1%
Lone parent	161	0.9%	36	0.8%
2+ adults, 1 child	35	0.2%	1,997	22.8%
2+ adults, 2+ children	96	0.5%	3,024	34.2%
Total	951	1.5%	9,578	11.9%

Source: Sutton Housing Needs Assessment Update 2011

6. Housing need assessment model

Summary

- i) This chapter set out the 16 steps set out in the CLG Practice Guidance (August 2007) to calculate the annual estimate of the need for affordable housing. It was found that 6,659 (8.3%) households lived in unsuitable housing, 72.2% of these households needed to move in order to resolve this unsuitability. In total 3,360 of these households were unable to afford suitable alternative accommodation and constitute current housing need (65 homeless households).
- ii) Future need was estimated to be 2,968 households per annum. Around two thirds of future need (2,095 households) made up from existing households falling into need. The remaining third (873) was made up of newly forming households unable to afford suitable accommodation.
- iii) It is estimated that there will be a supply of 2,568 affordable housing units available to offset current need and 581 units to offset future need.
- iv) Overall it was calculated that the total (net) annual need estimate is 2,558 an increase in 144% from the 2008 HNA figure.
- v) This increase in annual net-need is due to the fall in supply alongside the increase in need. The annual supply for affordable housing has fallen by 12.8% whilst gross annual need has increased by 21.7%. As the level of gross annual need is determined by the household survey, we analyse the reasons for the increase in more detail. The increase in gross need is partly due to the decreasing ability of younger low income households to afford private sector rents in Sutton, usually the most accessible market tenure. It is also partly due an increase in the number of households in sudden that face a higher risk of need.
- vi) The updated survey data indicated that households containing children were the most likely to be in need. Over a third of household need arose from single person households. On the whole, households in the north of the borough were more like to be in need and also more likely to be on the housing register. Households in the south west of the borough were less likely to be in need or on the housing register.
- vii) In terms of dwelling size of affordable accommodation that is required and that is expected to become available each dwelling size has an overall shortage of affordable housing. The shortfall is largest for two bedroom properties; however, the shortage relative to supply is greatest for four bedroom dwellings, where supply is estimated to meet 9.4% of the need for affordable housing.

Introduction

- 6.1 Chapter 7 of the original HNA report set out the key terms and definitions crucial to understanding the housing needs assessment model. This chapter, which updates the calculation of housing need for 2011, is based on the same definitions (see glossary) as were used in the original HNA report.
- 6.2 The calculation of housing need follows the 16 steps outlined in the Strategic Housing Assessments Practice Guidance (August 2007) separated into three broad stages. Each of these stages will be calculated separately before the overall annual need for affordable housing is derived. In addition to determining the extent of housing need in Sutton, the chapter will also examine the characteristics of households in need.

Current need

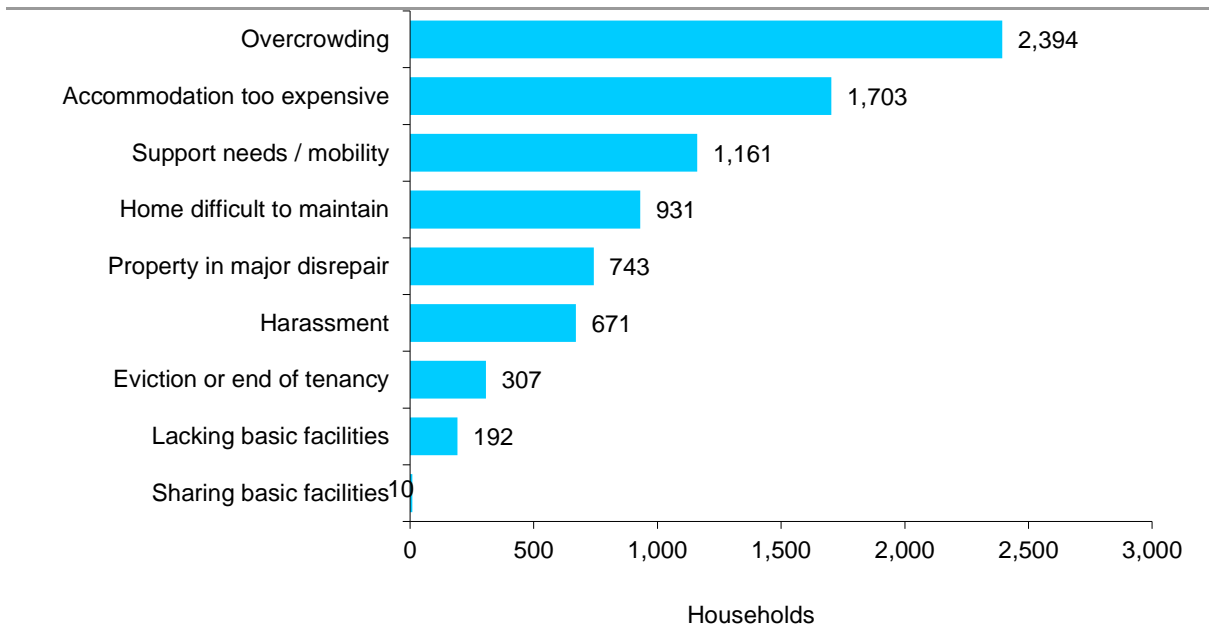
- 6.3 The first stage of the model assesses current need. This begins with an assessment of housing suitability and affordability and also considers homeless households before arriving at a total current need estimate (gross).

Unsuitable housing

- 6.4 A key element of housing need is an assessment of the suitability of a household's current housing. The Practice Guidance sets out a series of nine criteria for unsuitable housing – which has been followed in this report. In Sutton it is estimated that a total of 6,659 households are living in unsuitable housing (this represents 8.3% of all households in the borough). A comparison with the original HNA report shows that the proportion of households resident in unsuitable housing has slightly increased from 7.5% of households affected in 2007.
- 6.5 The main reason for the increase in the proportion of households in unsuitable housing since 2007 is due to the increase in the number of households in unsuitable housing because their accommodation is too expensive: the 2007 level was 1.6% of households compared to 2.1% of households in 2011. Further analysis has shown that households with children are the most likely to claim to live in accommodation that is too expensive (see table 6.2). According to GLA round household projections (2008) that have been used to re-weight the dataset households with children make up a greater proportion of households in Sutton in 2011 than the ONS estimates used in the 2007 HNA. Therefore the households most likely to live in unsuitable housing because their accommodation is too expensive have been given a greater weight in the 2011 HNA dataset which has increased the total proportion of households living in unsuitable housing.
- 6.6 Figure 6.1 shows a summary of the numbers of households living in unsuitable housing (ordered by the number of households in each category). It should be noted that the overall total of reasons for unsuitability shown in the figure will usually be greater than the total number of households with unsuitability, as some households have more than one reason for unsuitability.

- 6.7 The most common reason for unsuitable housing is over-crowding followed by the accommodation being too expensive and then a property being unsuitable for a household with support needs or mobility problems.

Figure 6.1 Summary of unsuitable housing categories



Source: Sutton Housing Needs Assessment Update 2011

- 6.8 Table 6.1 shows unsuitable housing by tenure. The patterns emerging suggest that households living in social rented and private rented accommodation are the most likely to live in unsuitable housing. However, due to the fact that the majority of households are owner-occupiers, the results show that around a third (31.2%) of those in unsuitable housing are owner-occupiers, which similar to the figures for those in private rented accommodation (32.2%).

Table 6.1 Unsuitable housing and tenure

Tenure	Unsuitable housing			
	H'holds in unsuitable housing	Number of h'holds in borough	% of total h'holds in unsuitable housing	% of those in unsuitable housing
Owner-occupied	2,077	56,802	3.7%	31.2%
No mortgage	831	25,522	3.3%	12.5%
With mortgage	1,246	31,280	4.0%	18.7%
Social rented	2,437	10,821	22.5%	36.6%
Private rented	2,145	12,676	16.9%	32.2%
Total	6,659	80,299	8.3%	100.0%

Source: Sutton Housing Needs Assessment Update 2011

- 6.9 The table below shows unsuitable housing by household type. On the whole, households containing children are more likely to be in unsuitable housing, in particular lone parents. However, households containing two (non-pensioner) adults and no children are the largest group of households living in unsuitable housing (making up around a quarter of all households in unsuitable housing).

Table 6.2 Unsuitable housing and household type				
Household Type	Unsuitable housing			
	H'holds in unsuitable housing	Number of h'holds in borough	% of total h'holds in unsuitable housing	% of those in unsuitable housing
Single pensioner	462	10,669	4.3%	6.9%
2+ pensioners	285	5,872	4.8%	4.3%
Single non-pensioner	891	18,247	4.9%	13.4%
2+ adults, no children	1,698	23,194	7.3%	25.5%
Lone parent	1,107	4,714	23.5%	16.6%
2+ adults, 1 child	1,349	8,752	15.4%	20.3%
2+ adults, 2+ children	867	8,851	9.8%	13.0%
Total	6,659	80,299	8.3%	100.0%

Source: Sutton Housing Needs Assessment Update 2011

- 6.10 Table 6.3 shows unsuitable housing by dwelling type. It shows that more than one in ten households living in flats are living in unsuitable housing, which makes up 61.8% of households in unsuitable housing. There were no reported cases of households living in a bungalow living in unsuitable housing. The trends in this table correspond with those in the original HNA report.

Table 6.3 Unsuitable housing and dwelling type				
Tenure	Unsuitable housing			
	H'holds in unsuitable housing	Number of h'holds in borough	% of total h'holds in unsuitable housing	% of those in unsuitable housing
Detached House	128	7,319	1.7%	1.9%
Semi-Detached House	861	15,527	5.5%	12.9%
Terraced House	1,553	22,838	6.8%	23.3%
Bungalow	0	1,107	0.0%	0.0%
Flat	4,116	33,508	12.3%	61.8%
Total	6,659	80,299	8.3%	100.0%

Source: Sutton Housing Needs Assessment Update 2011

'In-situ' solutions

- 6.11 The survey has highlighted that 6,659 households are in unsuitable housing. However, it is most probable that some of the unsuitability can be resolved in the households' current accommodation. Households living in housing deemed unsuitable for the following reasons were not considered to have

an in-situ solution: end of tenancy, accommodation too expensive, overcrowding, sharing facilities, harassment.

- 6.12 The survey data therefore estimates that of the 6,659 households in unsuitable housing, 4,843 (or 72.7%) do not have an in-situ solution and therefore require a move to alternative accommodation.

Affordability

- 6.13 The ability of each of these 4,843 households to afford entry-level market housing of an appropriate size is tested using the affordability criteria described in the glossary. The dataset indicates that of the 4,843 households, 3,360 cannot afford market housing (without recourse to Housing benefit or LHA) and are living in unsuitable housing (and require a move to alternative accommodation). This represents 4.2% of all existing households in the borough. These 3,360 households are considered to be in current housing need. The equivalent figure recorded in the original HNA report was 2,646 households (3.5% of all households in the borough).
- 6.14 Table 6.4 shows the tenure of the households currently estimated to be in housing need – i.e. households in unsuitable housing without an in-situ solution and unable to afford suitable market accommodation. The results show that social rented tenants are most likely to be in housing need. Around 13.9% of households in the social rented accommodation are in housing need, closely followed by private rented sector tenants at 11.3%. Of all households in need, 44.8% currently live in social rented accommodation and 42.8% in private rented housing.

<i>Tenure</i>	<i>Housing need</i>			
	<i>H'holds in need</i>	<i>Number of h'holds in borough</i>	<i>% of tenure in need</i>	<i>% of those in need</i>
Owner-occupied	417	56,802	0.7%	12.4%
<i>No mortgage</i>	26	25,522	0.1%	0.8%
<i>With mortgage</i>	391	31,280	1.3%	11.6%
Social rented	1,504	10,821	13.9%	44.8%
Private rented	1,438	12,676	11.3%	42.8%
Total	3,360	80,299	4.2%	100.0%

Source: Sutton Housing Needs Assessment Update 2011

- 6.15 For the purposes of the housing needs assessment, households considered to be in housing need have been split into two categories: current occupiers of affordable housing in need (this includes occupiers of social rented and shared ownership accommodation), and households from other tenures in need. It is estimated that some 1,504 households in need currently live in affordable housing (none are in a shared ownership property) and 1,856 reside in other tenures.

Homeless households

- 6.16 The housing needs assessment is a 'snapshot' that assesses housing need at a particular point in time. There will, in addition to the existing households in need, be some homeless households who were in need at the time of the assessment and should also be included within any calculation of backlog need.
- 6.17 To assess the number of homeless households we have used CLG data on statutory homelessness which is drawn from the information contained in the Council's P1(E) Homeless returns. The main source of information used is "*Homeless households accommodated by your authority at the end of the quarter*". The important point about this information is the note underneath. "*This should be a 'snapshot' of the numbers in accommodation on the last day of the quarter, not the numbers taking up accommodation during the quarter.*" This is important given the snapshot nature of the survey. Data compiled from the first quarter of 2011 is shown in Table 6.5.

Table 6.5 Homeless households accommodated by authority at March 2011	
Category	Quarter ending 31/03/11
<u>Bed and breakfast (including shared annex)</u>	<u>55</u>
<u>Hostels (including women refuges)</u>	<u>10</u>
LA/HA stock	86
Private sector accommodation leased by LA or Housing Association	95
Other	5
Total	251

Source: London Borough of Sutton (31/03/11)

- 6.18 Not all of the categories in the above table are added to our assessment of current need. This is because, in theory, they will be part of our sample for the Housing Needs Assessment. For example, households housed in Council or housing association accommodation should already be included as part of the housing need – such household addresses should appear on the Council Tax file from which the dataset sample was derived. After considering the various categories, we have decided there are two which should be included as part of the homeless element. These have been underlined in the table above. Therefore of the homeless households identified in the P1(E) form, 65 households shall be added to the estimate of current housing need.

Total current need (gross)

- 6.19 Stage one (steps 1.2 and 1.3) of the housing needs assessment indicates that households in housing need should be split between overcrowded and concealed households, and households in unsuitable housing for other reasons. Analysis of the reasons for unsuitability of the 3,425 households in need can provide this distinction and gives the following:

- Overcrowding and concealed households = 1,814
- Other groups = 1,546
- Homeless Households and those in temporary accommodation = 65

6.20 Table 6.6 below summarises the first stage of the overall assessment of housing need as set out by the Strategic Housing Assessments Practice Guidance (August 2007). The data shows that there are an estimated 3,425 households currently in need in Sutton.

Table 6.6 Backlog of housing need		
Step	Notes	Number
1.1 Homeless households and those in temporary accommodation		65
1.2 Overcrowding and concealed households		1,814
1.3 Other groups		1,546
1.4 equals Total current housing need (gross)	1.1+1.2+1.3	3,425

Source: Sutton Housing Needs Assessment Update 2011

Future need

6.21 In addition to current need, there will also be future need. This forms the second stage of the housing needs assessment model. This is split, as per CLG guidance, into two main categories. These are as follows:

- new households formation (× proportion unable to buy or rent in market)
- existing households falling into need.

New household formation

6.22 The estimate of the number of newly forming households in need of affordable housing is based on an assessment of households that have formed over the past two years. Such an approach is preferred to studying households stating likely future intentions as it provides more detailed information on the characteristics of these households contributing to this element of newly arising need.

6.23 Table 6.7 shows details of the derivation of new household formation. The table begins by establishing the number of newly forming households over the past two years – an affordability test is then applied.

Table 6.7 Derivation of newly arising need from new household formation

<i>Aspect of calculation</i>	<i>Notes</i>	<i>Sub-total</i>
Number of households moving in past two years		18,734
Minus households NOT forming in previous move	-15,690	
TOTAL APPLICABLE MOVES		3,044
Proportion unable to buy or rent in the market	57.4%	-
Estimate of newly arising need (over two years)	3,044 x 57.4%	1,746
Annual estimate of newly arising need	1,746 ÷ 2	873

Source: Sutton Housing Needs Assessment Update 2011

6.24 The table shows that an estimated 3,044 households are newly formed within the borough over the past two years (1,522 per annum). The survey estimates that 57.4% of newly forming households are unable to afford market housing without some form of housing related benefit in Sutton. This results in an annual estimate of the number of newly forming households falling into need of 873. This figure represents an increase of 58.4% from the estimate of 551 households documented in the original HNA report.

Existing households falling into need

6.25 This is an estimate of the number of existing households who will fall into housing need over the next two years (and then annualised). The basic information for this is households who have moved home within the last two years and affordability. A household will fall into need if it has to move home and is unable to afford to do this (without recourse to housing benefit or LHA) within the private sector (examples of such a move will be because of the end of a tenancy agreement). A household unable to afford market rent prices but moving to private rented accommodation may have to either claim housing benefit or spend more than a quarter of their gross income on housing, which under the Strategic Housing Assessments Practice Guidance (August 2007) is considered unaffordable (or indeed a combination of both).

6.26 Households previously living with parents, relatives or friends are excluded as these will double-count with the newly forming households already considered in the previous table. The data also excludes moves between social rented properties. Households falling into need in the social rented sector in theory have their needs met through a transfer to another social rented property, hence releasing a social rented property for someone else in need. The number of households falling into need in the social rented sector should therefore, over a period of time, roughly equal the supply of 'transfers' and so the additional needs arising from within the social rented stock will be net zero. However, this makes the assumption that the size and type of accommodation required by social rented households will equate to the supply, which may not be the case in practice.

6.27 Table 6.8 shows the derivation of existing households falling into need.

Table 6.8 Derivation of Newly Arising Need from existing households

<i>Aspect of calculation</i>	<i>Notes</i>	<i>Sub-total</i>
Number of households moving in past two years		18,734
Minus households forming in previous move	-3,044	15,690
Minus households transferring within affordable housing	-1,230	14,460
Proportion unable to buy or rent in the market	29.0%	-
Estimate of newly arising need	14,460 x 29.0%	4,189
Annual estimate of newly arising need	4,189 ÷ 2	2,095

Source: Sutton Housing Needs Assessment Update 2011

- 6.28 The table shows that a total of 14,460 existing households are considered as potentially in need (7,230 per annum). Using the standard affordability test for existing households it is estimated that 29.0% of these households cannot afford market housing. Therefore our estimate of the number of households falling into need excluding transfers is 4,189 households over the two-year period. Annualised this is 2,095 households per annum. This figure is 73.1% higher than the equivalent estimate recorded in the original HNA report of 1,210 households.

Total future need (gross)

- 6.29 The data from each of the above sources can now be put into the needs assessment table as illustrated in Table 6.9. It indicates that additional need will arise from a total of 2,995 households per annum.

Table 6.9 Future need (per annum)

<i>Step</i>	<i>Notes</i>	<i>Number</i>
2.1 New household formation (gross per year)		1,522
2.2 Proportion of new households unable to buy or rent in the market	57.4%	-
- <i>New household formation unable to afford (gross per year)</i>	57.4% x 1,522	874
2.3 Existing households falling into need		2,095
2.4 Total newly arising housing need (gross per year)	2.1x2.2+2.3	2,968

Source: Sutton Housing Needs Assessment Update 2011

Affordable housing supply

- 6.30 The supply of affordable housing to meet need comprises the third stage of the housing needs assessment model. The affordable housing supply stage is split between existing stock that is available to offset the current need and the likely future level of supply.

Available stock to offset current need

- 6.31 The stock available to offset the current need includes stock from current occupiers of affordable housing in need, surplus stock from vacant properties and committed supply of new affordable units. Units to be taken out of management are removed from the calculation.
- 6.32 Firstly, it is important when considering net need levels to discount households already living in affordable housing. This is because the movement of such households within affordable housing will have an overall nil effect in terms of housing need. As established in stage 1 (paragraph 6.15), there are currently 1,504 households currently in need already living in affordable housing (none of which are resident in shared ownership accommodation).
- 6.33 A certain level of vacant dwellings is normal as this allows for transfers and for work on properties to be carried out. The Strategic Housing Assessments Practice Guidance (August 2007) suggests that if the vacancy rate in the affordable stock is in excess of 3% then some of the vacant units should be considered as surplus stock which can be included within the supply to offset needs. Sutton records a vacancy rate in the social rented sector of 1.3%. As the vacancy rate is lower than the 3% benchmark in Sutton, no vacant dwellings are available to be brought back into use to increase the supply of affordable housing.
- 6.34 The Practice Guidance recommends that this part of the assessment includes '*new social rented and intermediate housing which are committed to be built over the period of the assessment*'. For the purposes of analysis we have taken Sutton HSSA (Housing Strategy Statistical Appendix) data showing the number of planned and proposed affordable units for the period 2010-2012 as a guide to new provision.
- 6.35 Overall the 2010 HSSA data suggests that there are 479 affordable dwellings planned and proposed for 2010/11 and 2011/2012. Over the five year period of the model, this would amount to 1,203 units.
- 6.36 The Practice Guidance states that this stage '*involves estimating the numbers of social rented or intermediate units that will be taken out of management*'. The main component of this step will be properties which are expected to be demolished (or replacement schemes that lead to net losses of affordable stock). At the time of reporting the proposed number of affordable dwellings expected to be 'taken out of management' in the next two years was 94 in 2011/12 and 45 in 2012/13 – a total of 139 for step 3.4 in the model.
- 6.37 Having been through a number of detailed stages in order to assess the total available stock to offset current need in the borough we shall now bring together all pieces of data to complete this part of the needs assessment. This is presented in Table 6.10. The data shows that there are an estimated 2,568 properties available to offset the current need in Sutton. The comparable figure from the original HNA report was 1,909 dwellings, indicating a 34.5% increase in supply overall. A major part of this increase in supply is due to the 448 affordable dwellings that were taken out of management during the

previous HNA therefore decreasing the number of vacancies that could be used for households in need.

Table 6.10 Current supply of affordable housing

<i>Step</i>	<i>Notes</i>	<i>Number</i>
3.1 Affordable dwellings occupied by households in need		1,504
3.2 Surplus stock		0
3.3 Committed supply of affordable housing (over five years)		1,203
3.4 Units to be taken out of management		139
3.5 Total affordable housing stock available	3.1+3.2+3.3-3.4	2,568

Source: Sutton Housing Needs Assessment Update 2011

- 6.38 The future supply of affordable housing is the flow of affordable housing arising from the existing stock that is available to meet future need. It is split between the annual supply of social relets and the annual supply of relets within the intermediate sector.

Future Supply of Social rented housing

- 6.39 The Practice Guidance suggests that the estimate of likely future relets from the social rented stock should be based on past trend data which can be taken as a prediction for the future.
- 6.40 The Council have provided data on the number of lettings in the housing association sector. In addition, HSSA data provides an indication of the number of lettings in Council owned housing. Table 6.9 below shows the number of lettings (excluding transfers from other social rented properties) over the past two years (this is the sum of the 'dwellings let to tenants transferring from a social housing dwelling from outside of Sutton', the 'total dwellings let to new tenants to social housing' and 'mutual exchanges of which tenant has moved from outside Sutton'). The average for the two-year period is 554 per annum.

Table 6.11 Analysis of past housing supply

	<i>2009/10</i>	<i>2010/11</i>	<i>Average</i>
<i>LA dwellings let to tenants transferring from a social housing dwelling from outside the LA area</i>	2	0	1
<i>Total LA dwellings let to new tenants to social housing</i>	243	245	244
<i>LA Mutual exchanges of which tenant has moved from outside LA area</i>	34	25	30
Total LA lets (HSSA)	279	270	275
Total HA lets (Council data)	232	327	280
Total	511	597	554

Source: Sutton Council HSSA 2009/01 & 2010/11, Sutton Council 2011

- 6.41 In most local authorities the amount of intermediate housing (mostly shared ownership) available in the stock is fairly limited. However, it is still important to consider to what extent the current supply may be able to help those in need of affordable housing.
- 6.42 Therefore we include an estimate of the number of shared ownership units that become available each year. Applying the relet rate for social rented housing to the estimated stock of shared ownership housing it is estimated that around 27 units of shared ownership housing will become available to meet housing needs from the existing stock of such housing.
- 6.43 This figure of 27 units is much lower than the original HNA which estimates the annual supply to be 83 units. This is primarily because the number of intermediate units that will become available is based on the relet rate of affordable accommodation. The relet rate in 2011 is 554, lower than the level of 791 recorded in 2008, as a result the supply of intermediate units is also reduced.
- 6.44 This step is the sum of the previous two. The total future supply is estimated to be 581 comprised of 554 units of social relets and 27 units of shared ownership as is shown in Table 6.10. This estimate represents a decrease of about 34% from the comparable figure in the original HNA report of 874.

Table 6.12 Future supply of affordable housing (per annum)		
<i>Step</i>	<i>Notes</i>	<i>Number</i>
3.6 Annual supply of social relets (net)		554
3.7 Annual supply of intermediate housing available for relet or resale at sub-market levels		27
3.8 Annual supply of affordable housing	3.6+3.7	581

Source: Sutton Housing Needs Assessment Update 2011

Estimate of net annual housing need

- 6.45 Table 6.11 brings together the 16 steps that were calculated within the housing needs assessment model.

Table 6.13 Housing needs assessment model for Sutton (CLG Model)		
Stage and step in calculation	Notes	Number
STAGE 1: CURRENT NEED (Gross)		
1.1 Homeless households and those in temporary accommodation		65
1.2 Overcrowding and concealed households		1,814
1.3 Other groups		1,546
1.4 Total current housing need (gross)	1.1+1.2+1.3	3,425
STAGE 2: FUTURE NEED		
2.1 New household formation (gross per year)		1,522
2.2 Proportion of new households unable to buy or rent in the market		57.4%
2.3 Existing households falling into need		2,095
2.4 Total newly arising housing need (gross per year)	2.1x2.2+2.3	2,968
STAGE 3: AFFORDABLE HOUSING SUPPLY		
3.1 Affordable dwellings occupied by households in need		1,504
3.2 Surplus stock		0
3.3 Committed supply of affordable housing		1,203
3.4 Units to be taken out of management		139
3.5 Total affordable housing stock available	3.1+3.2+3.3-3.4	2,568
3.6 Annual supply of social relets (net)		554
3.7 Annual supply of intermediate housing available for relet or resale at sub-market levels		27
3.8 Annual supply of affordable housing	3.6+3.7	581

Source: Sutton Housing Needs Assessment Update 2011

- 6.46 The Practice Guidance states that these figures need to be annualised to establish an overall estimate of net housing need. The first step in this process is to calculate the net current need. This is derived by subtracting the estimated total stock of affordable housing available (step 3.5) from the gross current need (step 1.4). This produces a net current need figure of 857 (3,425 - 2,568).
- 6.47 The second step is to convert this net backlog need figure into an annual flow. The Practice Guidance acknowledges that this backlog can be addressed over any length of time although a period of less than five years should be avoided. For the purposes of this study the quota of five years proposed in the Practice Guidance will be used. Therefore to annualise the net current need figure, it will be divided by five. This calculation results in a net annual quota of 171 (857 ÷ 5) households who should have their needs addressed.
- 6.48 The final step is to sum the net annual quota of households who should have their needs addressed with the total newly arising housing need (step 2.4) and subtract the future annual supply of affordable housing (step 3.8). This leads to a total (net) annual need estimate for affordable housing of **2,558** (171 + 2,968 - 581). The overall calculation is set out in Table 6.13.

Table 6.14 Summary of housing needs assessment model (CLG Model - Net Need)		
<i>Element</i>	<i>Notes</i>	<i>Annual estimate</i>
Current need	3,425 / 5	685
<i>less</i> Current supply	2,568 / 5	- 514
Net current need	685 – 514	171
Future need	-	2,968
<i>less</i> Future supply	-	- 581
Net future need	2,968 – 581	2,387
Total net annual need	171 + 2,387	2,558

Source: Sutton Housing Needs Assessment Update 2011

Table 6.15 Summary of housing needs assessment model (CLG Model – Gross Need)		
Total gross annual need	685 + 2,968	3,653
<i>less</i> Total gross annual supply	514 + 581	- 1,095
Total net annual need	3,653 – 1,095	2,558

Source: Sutton Housing Needs Assessment Update 2011

Reasons for the change in need since 2007

- 6.49 This figure of 2,558 is nearly 2½ times higher (144%) than the total (net) annual need estimate of 1,047 recorded in the original HNA report. This is due to the fall in supply alongside a substantial increase in need. Annual supply of affordable housing was estimated to be 1,256 units per annum in 2007 and is now estimated to be 1,095 per annum (a fall of 12.8%). The growth in gross annual need was greater, increasing from 3,001 in 2007 to 3,653 in 2011 (an increase of 21.7%). As the level of gross annual need is determined by the household survey, we can analyse the reasons for the increase in more detail.
- 6.50 The CLG model identified the gross number of households in need annually as 3,653 (the total number of households in need before the supply of affordable housing is discounted). This consists of a newly arising need of 2,968 households and an annualised current need of 685 (3,425/5). The current gross need figure includes those transferring within the affordable housing sector. In order to understand why the gross number of households in need annually increased from 2007 to 2011 by 21.7% we will consider the impact of the following factors:
- The change in the entry level cost of market housing
 - The change in risk of being in need by household type
 - The proportion of household types in the total number of households

Changes in the entry level cost of market housing

- 6.51 One of the main reasons for the increase in need is the increase in market entry level rents discussed in Chapter 4. The private rented sector tends to be the cheapest market housing available and the most accessible to low income households. Therefore if rent levels increase the number of households unable to afford suitable market accommodation (and the number of households in need) rises. This trend can be seen in the dataset as the proportion of households able afford open market rents has fallen from 46.8% at the time of the original HNA to 44.9% in 2011.

Changes in risk of being in need by household type

- 6.52 Table below shows the number and proportion of households in need annually by household type in the 2008 HNA and the 2011 Update. It shows that in 2011 pensioner households are the least likely to be in housing need compared to other household types. There are also fewer pensioner households in need now than there were in 2008. However, the number and proportion of non-pensioner households in need has increased.
- 6.53 The increased proportion of households in need shows that since 2008 it has become increasingly difficult for moving households, newly forming households and household unsuitably housed to afford suitable accommodation in Sutton. This suggests that household financial capacity these groups has increased more slowly than the cost of housing.
- 6.54 However, this is not the case for pensioner households. This is likely to be because there has been little change in the entry level price to purchase a home which favours pensioner households who tend to have lower incomes but a large amount of equity and savings. Meanwhile non-pensioner households tend to have much lower levels of equity and savings and are most likely to be able to afford the private rented sector over property purchase.

Table 6.16 Risk of being in gross annual housing need by household type – 2008 HNA and 2011 HNA Update

<i>Household type</i>	<i>2008</i>		<i>2011</i>	
	<i>In need</i>	<i>% of h'hold type in need</i>	<i>In need</i>	<i>% of h'hold type in need</i>
Pensioner household	402	2.3%	136	0.8%
Non-pensioner, no children	1,344	3.4%	1,740	4.2%
1+ adult, 1+ child	1,256	6.5%	1,776	8.0%
Total	3,001	3.9%	3,653	4.5%

Source: Sutton Housing Needs Assessment Update 2011

The proportion of household types in the total number of households

- 6.55 The proportion of household types resident in Sutton also impacts the level of need. The 2011 data estimates that there is a lower proportion of pensioner households, a similar proportion of non-

pensioner adult only households and a greater proportion of households containing children in Sutton than were estimated in 2007.

- 6.56 In addition, Table 6.14 above shows that households containing children are the most likely to be in housing need and pensioner households are the least likely. Therefore, as there has been an increase in proportion of household most likely to be in housing need and a decrease in the proportion of household least likely to be in housing need, the overall proportion of households in need will increase.

Summary and Conclusions

- 6.57 There are three reasons for the increased need figure in this update:

- Increased entry level costs of the PRS
- Increased risk of non-pensioner households being in need
- Increase in the proportion of household in Sutton that are at a higher risk of being in housing need

- 6.58 For each of these factors conclusions can be drawn. Firstly, the increased entry level cost of the PRS is likely to impact younger low income households, who do not have sufficient savings/equity to afford to buy a property. A large part of this rent increase is likely to be as a result of the market downturn, with fewer households able buy a property, demand and prices in the private rented sector increase. It is difficult to say at this stage if this is a permanent change to the PRS and therefore the relationship between rent levels and incomes should be closely monitored in future.

- 6.59 Secondly, the market downturn appears to have disproportionately impacted non-pensioner households whose financial capacity has fallen relative to the cost of housing, whilst pensioner households' financial capacity has increased relative to the cost of housing.

- 6.60 Finally, the types of household in an area impact on the level of need. The data here is the most accurate estimate that can be made on the proportion of households types in Sutton. However, the 2011 Census will be able to provide the true figures of the number and types of households in Sutton. Given the high level of need, the recent decline in the supply of affordable housing and the limited capacity to build affordable housing, such a revaluation is unlikely to have an impact on the overall situation in Sutton.

Households in need

- 6.61 This considers makeup and distribution of households in need (with the dataset weighted to the GLA 2008 based projections). It looks specifically at the households included in the gross annual need figure, 3,653.

Households in need by type

6.62 The table below gives a breakdown of gross annual household in need (3,653), by household type. Overall households containing children are the most likely to be in need and they account for almost half of the annual gross household need. Pensioner only households are the least likely to be in need. In total, 14.6% of lone parent households are in housing need. However, single non-pensioner households account for the highest number of households in need (1,181).

<i>Household type</i>	<i>Gross housing need</i>				
	<i>In need</i>	<i>Not in need</i>	<i>Total number of h'holds</i>	<i>% of h'hold type in need</i>	<i>% of all need</i>
Single pensioner	112	10,557	10,669	1.0%	3.1%
2+ pensioners	25	5,847	5,872	0.4%	0.7%
Single non-pensioner	1,181	17,066	18,247	6.5%	32.3%
2+ adults, no children	559	22,635	23,194	2.4%	15.3%
Lone parent	686	4,028	4,714	14.6%	18.8%
2+ adults, 1 child	626	8,126	8,752	7.2%	17.1%
2+ adults, 2+ children	464	8,387	8,851	5.2%	12.7%
Total	3,653	76,646	80,299	4.5%	100.0%

Source: Sutton Housing Needs Assessment Update 2011

Households in need by ward

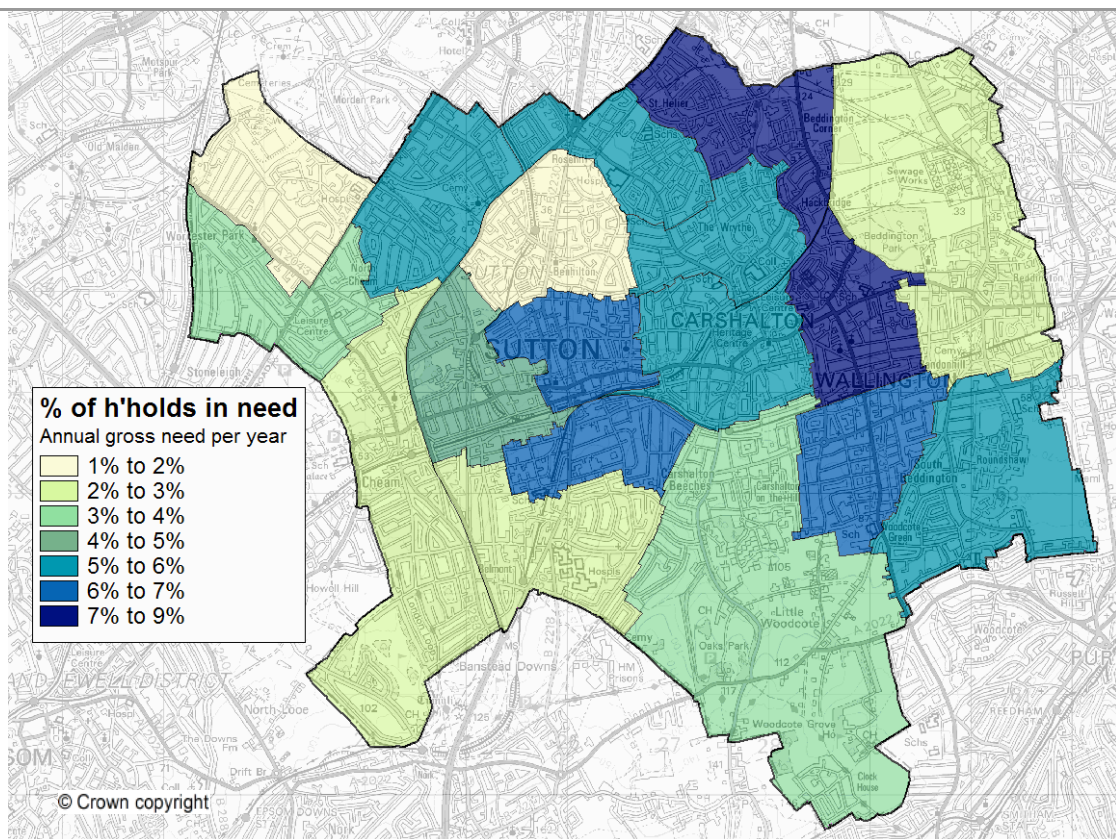
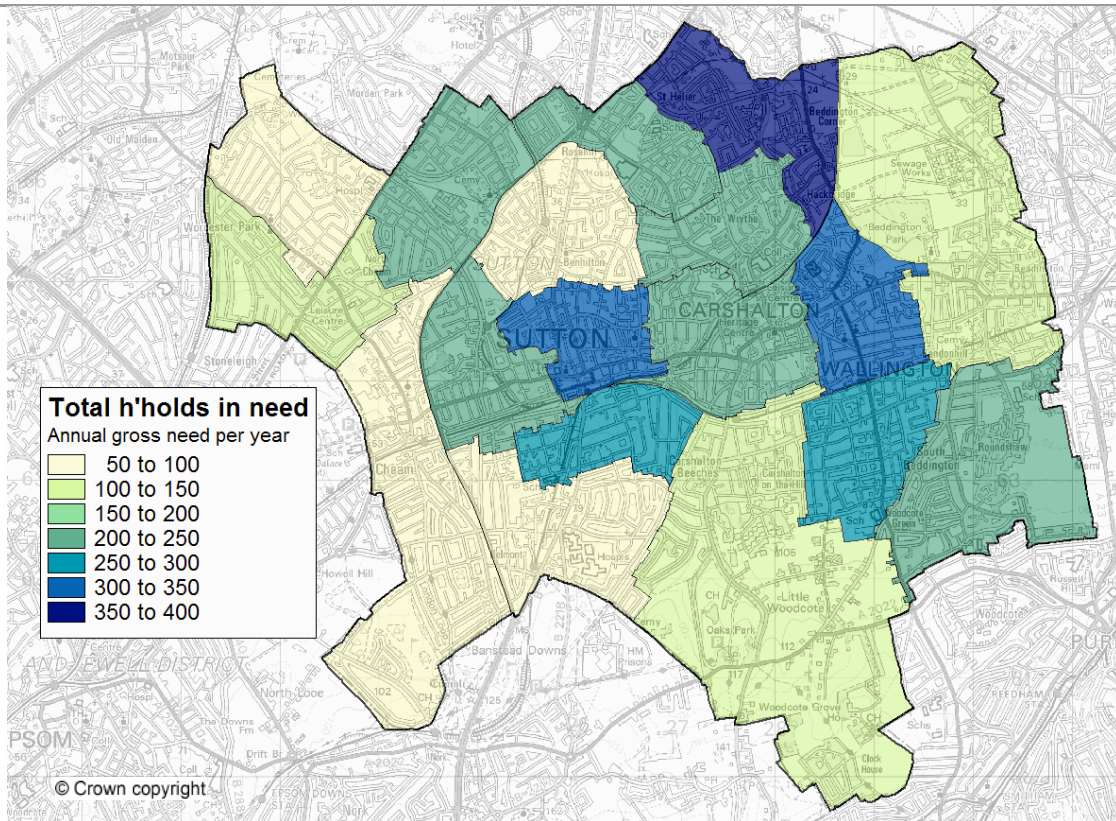
6.63 In addition, we can look at the distribution of housing need in different parts of the borough. The table below shows the results of this analysis. As can be seen, the highest level of need occurs in Wandle Valley (where there are also large amounts of social housing) and Wallington North. The lowest level of need is in Sutton North.

Table 6.18 Gross annual housing need by ward (CLG Model)					
Ward	Gross housing need				
	<i>In need</i>	<i>Not in need</i>	<i>Total number of h'holds</i>	<i>% of h'hold type in need</i>	<i>% of all need</i>
Beddington North	108	4,067	4,175	2.6%	3.0%
Beddington South	209	3,786	3,995	5.2%	5.7%
Belmont	88	4,300	4,388	2.0%	2.4%
Carshalton Central	223	4,092	4,316	5.2%	6.1%
Carshalton South and Clockhouse	114	3,615	3,728	3.1%	3.1%
Cheam	83	3,913	3,996	2.1%	2.3%
Nonsuch	141	3,985	4,126	3.4%	3.9%
St. Helier	231	4,520	4,751	4.9%	6.3%
Stonecot	216	3,877	4,093	5.3%	5.9%
Sutton Central	313	4,856	5,169	6.1%	8.6%
Sutton North	57	4,232	4,289	1.3%	1.6%
Sutton South	289	4,818	5,107	5.7%	7.9%
Sutton West	224	4,598	4,823	4.7%	6.1%
The Wrythe	232	4,284	4,516	5.1%	6.3%
Wallington North	348	4,298	4,646	7.5%	9.5%
Wallington South	300	4,330	4,630	6.5%	8.2%
Wandle Valley	391	4,497	4,888	8.0%	10.7%
Worcester Park	84	4,579	4,664	1.8%	2.3%
Total	3,653	76,646	80,299	4.5%	100.0%

Source: Sutton Housing Needs Assessment Update 2011

6.64 It can also be useful to map this data to understand how need is spread across the borough specifically. The figure below maps the number of households in need annually by ward and the proportion of households in need annually. The maps (figures 6.2 & 6.3) show that, on the whole, the level of need towards the west of the borough is much lower than in the east as was found in the 2008 HNA.

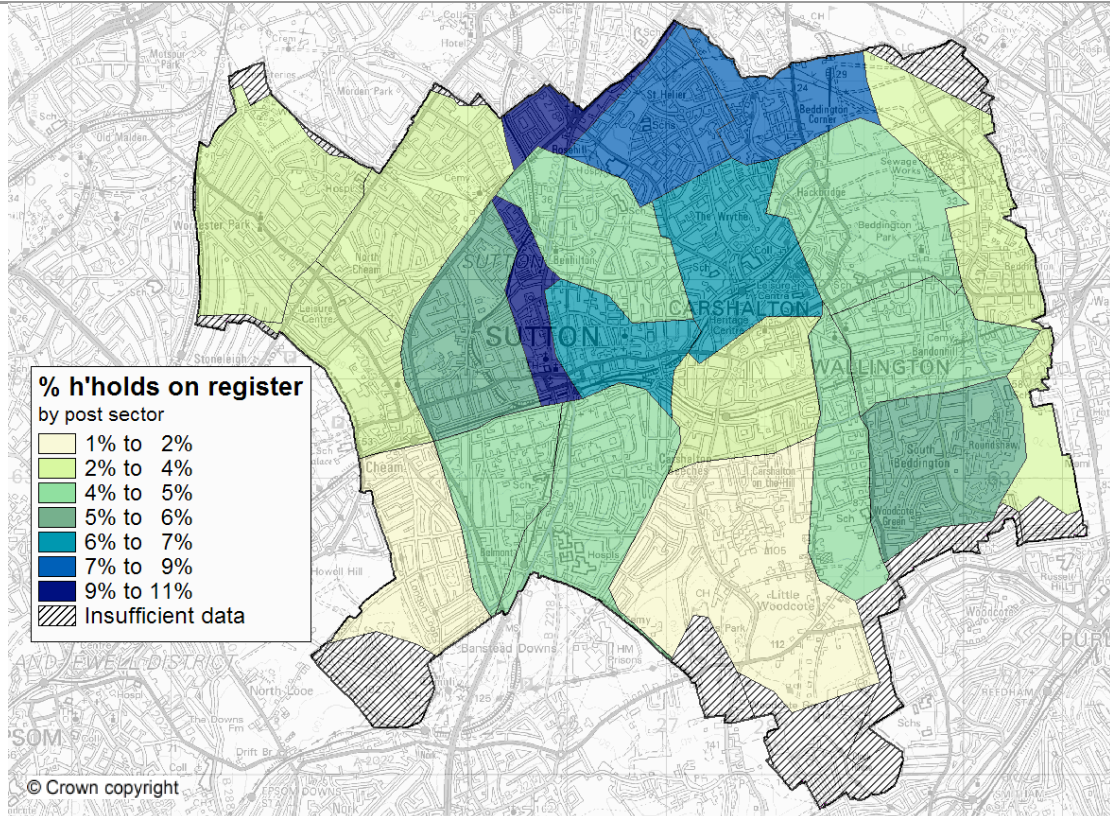
Figure 6.2 Map of annual gross household need



Source: Sutton Housing Needs Assessment Update 2011

6.65 The map below considers households on the Housing Register, reflecting the demand for affordable housing. It shows an estimate of the proportion of households in each post sector (e.g. an area containing all the households with the postcode beginning SM5 1) on the Housing Register. On the whole it corresponds with the spread of the level of housing need, with households in the south west of the borough least likely to be on the Housing Register and households in the centre and north of the borough most likely to be on the Housing Register.

Figure 6.3 Map of the percentage of households on the housing register



Source: Sutton Council Housing Register (2011),
Sutton Housing Needs Assessment Update (2011)

6.66 Finally it would be beneficial to consider the type of affordable housing required by households in need. However, since the original HNA, reforms to the affordable housing products available have been introduced. These will be considered in the next chapter which is followed by an analysis of the types of affordable tenures that would be suitable for households in need.

Size of affordable housing required

6.67 Overall the survey suggests a significant shortfall of affordable housing in Sutton. However, it is also important to look at what type of shortfalls exists within the current stock of affordable housing. This section looks at any mismatches between the size of affordable housing need and supply. This is done by looking at the size of home required by households in need according to the Council's bedroom standard described and the likely size of affordable accommodation to become available. Table 6.19 below presents this analysis. The annual number of households in need was identified as 3,653

above. The annualised supply of affordable accommodation is 1,095. This consists of a future supply of 581 dwellings, an annualised current supply of 514 (2,568/5).

Table 6.19 Size of affordable housing required in Sutton					
Household type	Gross housing need				
	<i>In need</i>	<i>Supply</i>	<i>Net affordable housing requirement</i>	<i>% of net short fall</i>	<i>Supply as a % of need</i>
1 bedroom	1,514	547	966	37.8%	36.2%
2 bedroom	1,469	322	1,147	44.8%	21.9%
3 bedroom	499	210	289	11.3%	42.1%
4+ bedroom	171	16	155	6.1%	9.4%
Total	3,653	1,095	2,558	100%	30.0%

Source: Sutton Housing Needs Assessment Update 2011

6.68 Table 6.19 shows the need, supply and overall requirement for affordable housing. The table indicates that each dwelling size has an overall shortage of affordable housing. The shortfall is largest for two bedroom properties; however, the shortage relative to supply is greatest for four bedroom dwellings, where supply is estimated to meet 9.4% of the need for affordable housing.

7. Affordable Rent: a new tenure

Summary

- i) Three policies have implications for this HNA: the introduction of a cap on LHA (at the 30th percentile of PRS properties in the market), the introduction of fixed-term social tenancies and the introduction of the Affordable Rent tenure.
- ii) Affordable Rent is new tenure aimed at replacing the traditional social rented tenure. It charges a rent level at up to 80% of the open market value of the property. The aim of this policy is to generate more money for affordable housing and to enable more affordable homes to be built. Affordable rent properties can be both new-build and social rented properties available for re-let.
- iii) Whilst the aim is to charge 80% open market value on the majority of affordable rent properties, the HCA concede that in special circumstances this could be lowered. In addition the Government has urged Registered Providers to be mindful of both the reduced LHA caps and the total household benefit cap when setting rent levels.
- iv) As Affordable Rent levels will be linked to the open market value of each individual property it is likely that the range of rents available will mirror those in the private rented sector (although at least 20% lower). However, the price variation among Affordable Rent properties is likely be less broad as the sector will be more regulated and targeted to low income households.
- v) Affordable Rent at 80% will include a range of rent levels within each property size dependent on the location and desirability of the property. However in Sutton, it is unlikely that even the highest Affordable Rent levels will be higher than the LHA cap. In addition, even a more expensive Affordable Rent property should be lower than a poor quality private rented property of the same size.
- vi) Overall, if the only newly available social tenure is Affordable Rent, this means a significant increase on the previous social rents available; however, these will largely remain below open market levels. These gaps between the rents changed by different tenures (social rent, Affordable Rent and private rent) are the greatest for larger properties.

Introduction

- 7.1 The Localism Bill is introducing Flexible Tenancies as a new tenure. Flexible Tenancies will be significantly different to the currently used social rented tenure. Flexible Tenancies will not give the tenant security of tenure for life. In addition, the new Affordable Rent product (set at up to 80% of the market value of the property) can be charged to tenants of affordable housing in certain circumstances. There are a number of issues which have to be resolved in order for any Council to

establish what its policy should be. The issues which arise will be summarised after a description of the proposed product.

Ministerial Statement and definition of Affordable Rent

7.2 In '2011-15 Affordable Homes Programme – Framework' published by CLG/HCA in 2011, Grant Shapps, the Minister of State for Housing and Local Government said:

'[T]he money must go further. So we are introducing new flexibilities for providers on using existing assets, and a new offer on rents. The objective of these flexibilities, including the new Affordable Rent product, is to enable providers to deliver up to 150,000 new affordable homes' (Ministerial Foreword).

7.3 This statement is amplified in various ways in the Framework document. Key facts are as follows:

- Affordable Rents can be set at 'up to 80% of open market rental value'
- it is formally defined as a social tenure (paragraph 3.20)
- it is intended to be made available to those on the Housing Register, though it will be attractive to some of those on the Register who are on higher incomes and may not be in formally defined housing need
- Flexible Tenancies must not be for terms less than two years.

7.4 Paragraph 3.24 of the '2011-15 Affordable Homes Programme – Framework' says that accommodation which is let as Affordable Rent must 'be permanently available for letting'. This does not prevent 'staircasing' up to ownership – but does prevent switching to the social rent structure in the future.

7.5 The most interesting point is the 'up to 80%' of Open Market Value (OMV). The conditions under which an Affordable Rent below 80% may be set are addressed in the following two paragraphs quoted from the Framework document.

3.10 While offers which include Affordable Rent for new supply and/or conversions at less than 80% of market rents will be considered, it is expected that providers utilise the flexibility to charge rents of up to 80% of market rents to maximise financial capacity. The HCA would need to understand how any proposal to charge lower rents would help to meet particular housing needs, deliver value for money for the taxpayer and generate the capacity required to deliver new supply aspirations.

3.11 There may be specific circumstances where it is appropriate to set rents at less than 80% of market rents. For example, providers may wish to charge a lower rent where a rent at 80% of market rent would exceed or be close to the relevant Local Housing Allowance (LHA) cap, or if the local rented market was considered to be

particularly weak or fragile (for example on an existing estate where there may be few market rented properties). The HCA would wish to explore with providers the rationale for considering rents at less than 80% of market rents. In all cases, an Affordable Rent should be no lower than the rent calculated based on the current target rent regime. In cases where an Affordable Rent would otherwise be lower than the target rent for a property, the target rent will constitute a 'floor' for the rent to be charged.

- 7.6 In terms of letting Affordable Rent dwellings the Framework says that the same procedures should be used as with social rents:

3.20 Allocations and nominations processes for Affordable Rent homes are expected to mirror the existing frameworks for social rented housing. Providers will be under the same statutory and regulatory obligations when allocating Affordable Rent homes as they are when allocating properties for social rent.

- 7.7 Paragraph 3.10 emphasises the need to maximise the amount of affordable housing created for each pound of money spent:

'...it is expected that providers utilise the flexibility to charge rents of up to 80% of market rents to maximise financial capacity.'

- 7.8 Taken by itself, this would suggest that there is in fact very little flexibility: the HCA wants to see rents at 80% because that way there will be more money than if they are set below 80%. But paragraph 3.11 softens this message:

'There may be special circumstances where it is appropriate to set rents at less than 80% of market rents...The HCA would wish to explore with providers the rationale for considering rents at less than 80% of market rents.'

- 7.9 The tone of this statement is still directed to 80% as the default position, but does entertain the argument that there may be evidence to justify rents at lower than 80%. This statement by the HCA can be set beside many statements by Ministers to the effect that 'up to' is a very important part of the message. For example the statement by Grant Shapps (below):

'There's another couple of billion plus for the new Affordable Rent, which is the entirely new scheme of up to 80% – not at 80% , which has often been inferred, wrongly – of the market rent' [Response to Q47 of Oral Evidence from Ministers to the Communities and Local Government Committee on the Comprehensive Spending Review 21st December 2010]

- 7.10 The Minister had been referring to the overall total of £4.5 billion for all forms of social housing (Affordable Rent is now defined to be social housing), but the £2 billion for Affordable Rent is the only

'new money'. There is about the same £2 billion+ left over from the previous spending round which will be spent on social rented housing.

- 7.11 The key point in this case is his underlining of the 'up to 80%'. It seems clear that in the wider political agenda it is important that this downward flexibility should exist. At the same time, the HCA has suffered a considerable cut in the funding it had hoped for, and clearly needs to maximise how much affordable housing can be delivered from the money that is available.

Social rents

- 7.12 It is made clear in the Framework that existing social rented units can be relet as Affordable Rent when they become vacant. Indeed this will be a major source of new Affordable Rent units.

1.3 Affordable Rent will form the principal element of the new supply offer. At the same time, new flexibilities will allow a proportion of social rent properties to be made available at re-let at an Affordable Rent, with the additional capacity generated from those re-lets applied to support delivery of new supply.

2.11 In the new model there will be four broad funding streams which contribute to the development of new supply:

i) the additional borrowing capacity that can be generated from the conversion of social rent properties to Affordable Rent (or other tenures) at re-let, as well as borrowing capacity generated by the net rental income stream of the new properties developed;

2.17 Providers are invited to consider offering conversion to Affordable Rent of existing committed social rent schemes begun under the 2008-11 National Affordable Housing Programme (NAHP) which will achieve practical completion in the new programme period. We encourage such proposals as a way of generating additional financial capacity for new development in a way that can offer certainty of volume, rent, location and timing. This will not lead to recovery of existing funding, but will generate additional financial capacity for the delivery of new supply. This option is covered by scenario one in Annex four.

- 7.13 The analysis in this report does not address the question of the level of conversion of relets of social rented units, since it is mainly focussed upon the financial implications of this tenure, and the degree to which it can assist in meeting housing need. The report is not devoted to the source of the Affordable Rented units.

Local Housing Allowance

- 7.14 Local Housing Allowance (LHA) was established as a replacement for the former Rent Allowance for private lettings. It is designed to make up the shortfall in people's ability to pay for the housing they need. LHA may represent 100% or some lower percentage of the overall rent paid. A major difference between LHA and the former Rent Allowance is that it is paid directly to the tenant and not to the (private or public) landlord as was the case with the latter.
- 7.15 LHA had previously been limited to the rent level at the 50th percentile: the halfway point in the local private rental market. The country is divided into housing market areas for the purpose of setting these levels. The new policy, which has been in effect since April 2011, is that the overall cap is reduced from the value of the 50th to the 30th percentile. These levels are assessed locally. There are also new national LHA caps based on bedroom size.
- 7.16 The table below shows the LHA caps that will apply in Sutton. As can be seen, the national LHA cap which overrides local caps if the local level is higher than the national standard will not impact Sutton. Sutton includes two broad market rental areas (BRMAs): Outer South London containing the vast majority of the borough and Outer South West London containing the Worcester Park ward and some of Nonsuch.

House size	One bed	Two bed	Three bed	Four bed
National	£1,083 (£250)	£1,257 (£290)	£1,473 (£340)	£1,733 (£400)
Outer South London BRMA	£650 (£150)	£825 (£190)	£1,000 (£230)	£1,300 (£300)
Outer South West London BRMA	£800 (£185)	£1,025 (£237)	£1,250 (£288)	£1,550 (£358)

Source: Directgov June 2011

- 7.17 There is an interaction between LHA availability and Affordable Rent: at the most basic level there is no point in setting an Affordable Rent when nobody could afford it either because they did not have the income or could not obtain sufficient LHA to pay the rent due to the new caps. The following extract from the Framework expands on that:

3.7 The TSA is therefore not proposing to restrict the maximum rent that Registered Providers can charge for Affordable Rent properties based on the Local Housing Allowance. However, landlords will wish to consider the local market context when setting rents, including the relevant Local Housing Allowance for the Broad Rental Market Area in which the property is located. They should also take into account wider benefit policy such as the proposal, subject to the passage of the Welfare Reform Bill, to cap total household benefit payments so that workless families do not receive more

in welfare than the median earned income after tax and National Insurance contribution earnings of working families. War widows and households with a member entitled to Disability Living Allowance, Constant Attendance Allowance or Working Tax Credit will be exempt from the cap.

- 7.18 Although therefore, the Tenants Service Authority (TSA), soon to be part of the Homes and Communities Agency (HCA), will not restrict the Affordable Rent to the LHA it expects Registered Providers (RPs) to take account of the wider situation in setting those rents.

Modelling Affordable Rent

- 7.19 As discussed earlier in this chapter, Affordable Rent will be based on the open market value of each property. Therefore the private rented sector (PRS) needs to be understood. This does not only apply to newly built affordable housing but also to converted social relets. For all affordable properties, the market price will be inferred from values in the PRS. This chapter outlines the nature of the PRS in Sutton and uses this understanding to model the Affordable Rented sector.
- 7.20 The remainder of this chapter will look at the PRS for one, two, three and four bedroom properties across Sutton. It is important that each market is considered individually by bedroom size as each size market operates differently as will be seen in the following analysis.

Understanding the Private Rented Sector

- 7.21 The following table is based on the range of monthly market rents available in the borough of Sutton's PRS in May 2011. This evidence is based on an online and telephone survey of agents in the borough covering some 900 specific PRS dwellings (320 one-beds, 399 two-beds, 120 three-beds and 62 four plus-beds).
- 7.22 Table 7.2 allows us to examine the spread of properties within the range of prices available, i.e. to what extent the properties available 'bunch' around the median rent level by considering the inter-quartile range. The table below shows that as the size of the property increases the inter-quartile range increases. The price of such property will depend on size and the attractiveness of the location, and clearly for three and four bed accommodation this is much wider.

Table 7.2 Private sector rent level in the London Borough of Sutton (cost per month)

<i>Rent level</i>	<i>One bed</i>	<i>Two bed</i>	<i>Three bed</i>	<i>Four bed</i>
Minimum	£400	£600	£750	£1,000
Lower Quartile	£625	£825	£1,050	£1,500
Median	£675	£900	£1,250	£1,750
Upper Quartile	£725	£1,000	£1,350	£2,000
Maximum	£1,050	£1,500	£1,800	£3,000
Inter-quartile range*	£100	£175	£300	£500
% difference between quartiles	16.0%	21.2%	28.6%	33.3%

* Inter-quartile range = Upper quartile – Lower quartile
Source: Estate Agent survey (May 2011 Fordham Research)

Estimating the cost of Affordable Rent

7.23 Now that the PRS has been outlined we can go on to consider how Affordable Rent will work in practice. This process uses our knowledge of the PRS and the information from the ‘2011-15 Affordable Homes Programme – Framework’ (HCA, 2011) to model Affordable Rent. However, in practice Affordable Rent may deviate from this model as there is little detail in the Guidance on how Affordable Rent will work and in particular, it will depend on what individual registered housing providers decide to provide. Despite this, it is essential to understand how Affordable Rent may operate to assess to what extent the policy is appropriate for the local housing market and for meeting need.

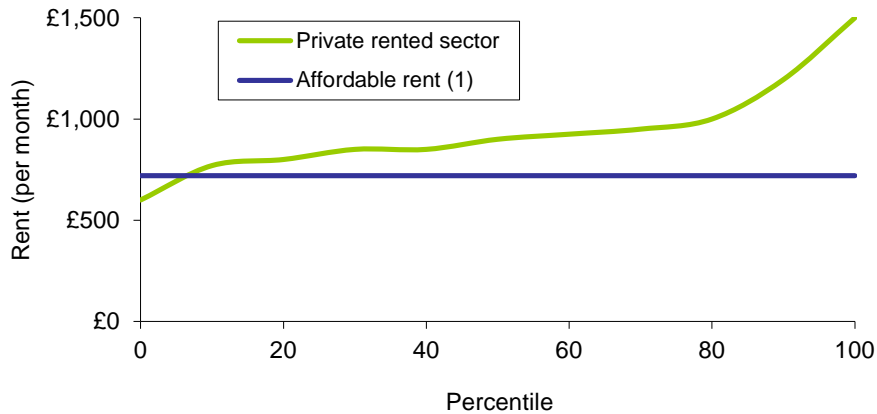
7.24 This modelling illustrates the way that Affordable Rent is likely to operate from which an in-depth understanding of the implications of adopting Affordable Rent can be gained. These implications are discussed later in the report. This section outlines three different ways that Affordable Rent can be modelled to account for the range of factors that need to be considered.

7.25 The three approaches for modelling Affordable Rent will be explained in turn:

1) 80% of the PRS: use of overall average rent

7.26 Affordable Rent is defined as being up to 80% of the market value of the property. Therefore we could consider Affordable Rent to be 80% of the median price for that property size. The figure below shows this for two bedroom properties. The green curve shows the level of private sector rents across the market (using the data at decile intervals). This illustrates that there is a small low priced end, a larger high priced end and a broad ‘plateau’ in the centre suggesting similar location/attractiveness across the middle of the market. The blue line shows the Affordable Rent level at 80% of the median figure which falls very close to the bottom of the private rented sector range: around 90% of the of two bed properties available in the borough charge rents above 80% of the median value.

Figure 7.1 Affordable Rent model one - for two bedroom properties

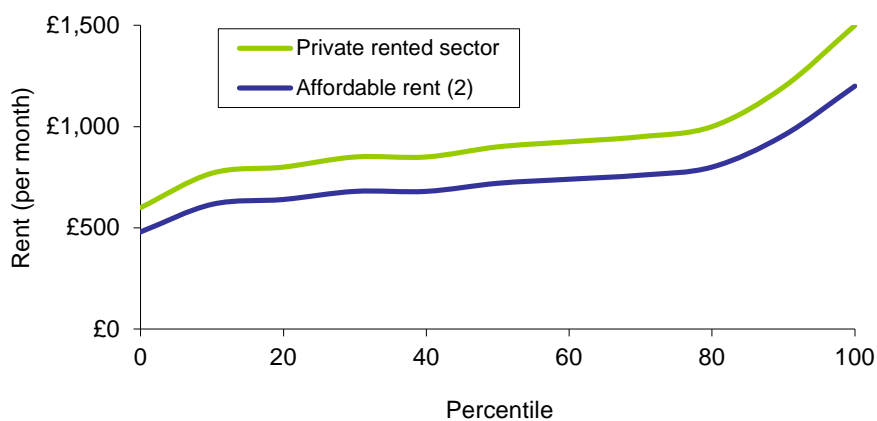


Source: Estate Agent survey (May 2011) Fordham Research

2) 80% of the entire PRS range: use of moving average

7.27 However, we know that Affordable Rent, unlike fixed social rents, will vary with the market value of each individual property. Therefore Affordable Rent could be modelled as mirroring the private rented sector, offering a range of products and a range of rents, all 20% below the market value. This is illustrated in the figure below. The result is a wide range of 80% figures, across the spectrum of property in the Sutton PRS market. In this model some high-end properties charging Affordable Rents could be more expensive than the median private sector rents for that property size.

Figure 7.2 Affordable Rent model two - for two bedroom properties

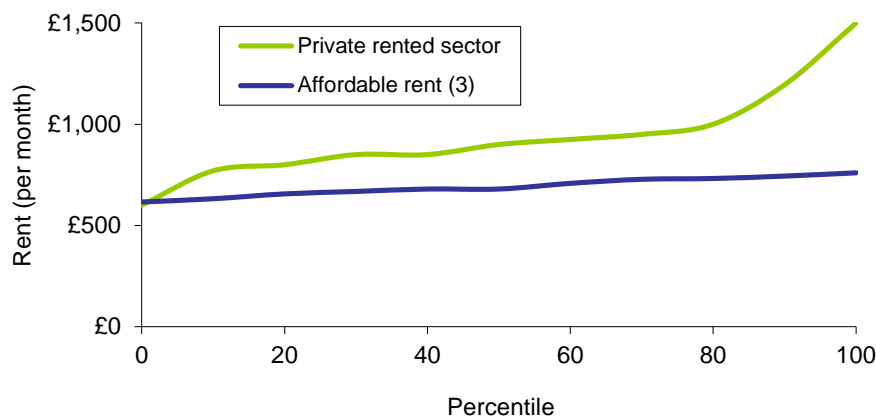


Source: Estate Agent survey (May 2011) Fordham Research

3) 80% of the mid-market PRS range: use of mid-market average

7.28 We believe that a more practical approach is to omit the top and bottom of the market. The top is the luxury end and therefore not appropriate for Affordable Rent, while the bottom end of the PRS is usually of poor quality and therefore not appropriate for a social housing tenure. A major proportion of the new Affordable Rent units will be built by RPs and therefore to good standards. For these reasons the third approach examines only the middle of the range of the PRS. This is the market Affordable Rent would occupy. The figures above show that the two bedroom PRS in Sutton is very broad and includes properties between the 10th and 70th percentile which represents the middle of the market. (The middle market for one bedroom properties was between the 10th and 70th percentiles, whilst for three and four bedrooms it was between the 10th and the 60th percentiles). We have therefore taken the middle market PRS range of rents to represent the entire range of Affordable Rents that would be offered by RPs. The figure below shows this (i.e. Affordable Rent as 80% of the equivalent PRS mid-range market level).

Figure 7.3 Affordable Rent model three - for two bedroom properties



Source: Estate Agent survey (May 2011) Fordham Research

Tabulation of these three options

7.29 The table below presents results for all three options. For the reasons stated above we believe that the third option gives a better picture of the likely price of Affordable Rent in practice. Option 2 can be rejected as it overestimated the range of products that would be made available through registered housing providers. However, if providers or developers express an interest in building top-end products for Affordable Rent or Affordable Rent products in sought after areas that the range should be re-considered.

Table 7.3 Affordable Rent levels in London Borough of Sutton (price per month)

<i>Property size</i>	<i>One bed</i>	<i>Two bed</i>	<i>Three bed</i>	<i>Four bed</i>
1) 80% of median	£540	£720	£1,000	£1,400
2) 80% of range of PRS	£320 - £850	£470 - £1,200	£600 - £1,440	£800 - £2,400
3) 80% of mid-range of PRS	£440 - £580	£620 - £760	£760 - £1,000	£1,080 - £1,450

Source: Estate Agent survey (May 2011) Fordham Research

7.30 Table 7.4 below focuses upon the figures for Option 3. It shows that, in terms of Affordable Rent, each property size exists in a distinct price range. The range in rents is much greater for three and four bedroom properties which will have implications in terms of affordability, as some households will be able to afford the minimum but not the maximum in this range. Overall, the ranges are reasonably compact but reflect reality: in practice Affordable Rent will be built in more and less attractive locations and so resultant rents will vary.

Table 7.4 Affordable Rent ranges for London Borough of Sutton (price per month)

<i>Property size</i>	<i>One bed</i>	<i>Two bed</i>	<i>Three bed</i>	<i>Four bed</i>
Minimum	£440	£620	£760	£1,080
Median	£520	£680	£900	£1,320
Maximum	£580	£760	£1,000	£1,450
<i>Range</i>	<i>£140</i>	<i>£140</i>	<i>£240</i>	<i>£370</i>

Source: Estate Agent survey (May 2011) Fordham Research

Affordable Rents and the PRS

7.31 Table 7.5 shows the range of Affordable Rents generated in Table 7.4 in comparison with the range of PRS rents shown in Table 7.2. It shows that for all property sizes the Affordable Rents rates fall below the entry-level private rents available. However, the difference in rent levels between the maximum Affordable Rent level and the entry-level private rented sector is relatively small (around £50 per month). There is likely to be some overlap with Affordable Rent levels and the private rented properties below the lower quartile level but such private rented properties are likely to be of poor quality.

7.32 This range of prices should represent the vast majority of Affordable Rent homes that are made available in Sutton under the current policy guidance. However, it is important to note that some properties may deviate from this range. For example, Affordable Rent may exceed this range if newbuild accommodation is built in a highly desirable area or it could fall below the range if a previously social rent property in an undesirable area is relet as an Affordable Rent property. But as a general picture, we believe that Table 7.5 shows the likely outcome for the majority of Affordable Rent stock.

7.33 The final row of the table below shows the LHA cap in Sutton in each of the two BRMA areas. It shows that the entire ranges of Affordable Rents expected under this model will be below the LHA cap in both BRMAs.

Table 7.5 PRS rent levels compared to Affordable Rent levels in Sutton (price per month)				
<i>Property size</i>	<i>One bed</i>	<i>Two bed</i>	<i>Three bed</i>	<i>Four bed</i>
PRS				
Upper Quartile	£725	£1,000	£1,350	£2,000
Median	£675	£900	£1,250	£1,750
Lower Quartile (market entry)	£625	£825	£1,050	£1,500
Affordable Rent*				
Maximum	£580	£760	£1,000	£1,450
Median	£520	£680	£900	£1,320
Minimum	£440	£620	£760	£1,080
Social rent				
Typical rent	£370	£422	£450	£450
LHA				
Outer South London BRMA	£650	£825	£1,000	£1,300
Outer South West London BRMA	£800	£1,025	£1,250	£1,550

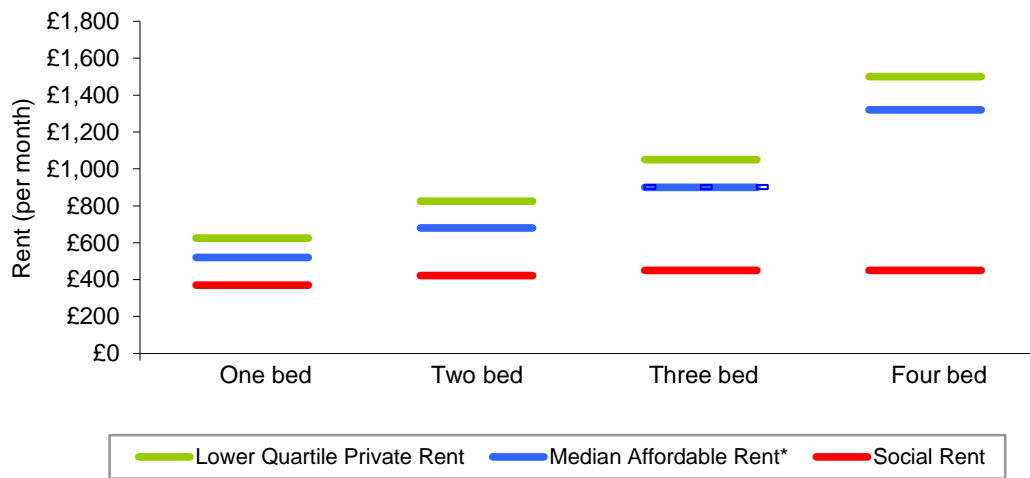
* Based on the mid-market average

Source: Estate Agent survey (March 2011) Fordham Research, LHA rates from Directgov June 2011, social rent rates from CORE Annual report 2010-2011

7.34 Table 7.5 also shows the social rent levels in Sutton. The social rents are consistently below the entire range of rates for Affordable Rent products. However, the gap between social rent and Affordable Rent increases with property size. This can be seen more clearly in Figure 7.4 below which shows the gaps between the social rent level, the median Affordable Rent (based on the mid-market average) level and the lower quartile private rented sector level (considered to be the market entry level rate). This diagram highlights two key implications of the introduction of Affordable Rents:

- i) If the only newly available social tenure is Affordable Rent, this means a significant increase on the previous social rents available; however, these will largely remain below open market levels.
- ii) The gap between social rent and Affordable Rent increases substantially as property size increases.

Figure 7.4 Affordable rent rate: Gap between market and social rent levels



* Based on the mid-market average

Source: Estate Agent survey (May 2011) Fordham Research

7.35 Having established a broad range of prices for the Affordable Rent product, we go on in further chapters to consider what types of household may be able to access it.

8. Affordable Rent at what price?

Summary

- i) Using the estimated Affordable Rent levels established in the previous chapter it is possible to test to what extent households in need of affordable housing would be able to afford Affordable Rent housing in Sutton (without receiving housing related benefits). It is also possible to assess the impact of lowering the levels at which Affordable Rents are set.
- ii) The analysis shows that a small minority of households in need (15.3%) and households on the register (2.6%) could afford Affordable Rent at 80%. In addition, these households would also be able to meet the costs of a Shared Ownership property (excluding the cost of a deposit).
- iii) If the Affordable rent level were lowered to 60% of the open market value, an estimated 41.9% of households in need would be able to live in an Affordable Rent property without relying on housing related benefits. In addition, the housing costs would be less than those of shared ownership (which is not the case for higher Affordable Rent levels).
- iv) For both households in need and those on the housing register the vast majority of households require a one or two bedroom property. However, households on the housing register requiring four bedrooms were much less likely to be able to afford to live in an Affordable Rent property without the support of housing related benefits.
- v) The analysis suggests that some kind of Affordable Rent product would be suitable in Sutton for households in need. However, for it to have the greatest impact we recommend that Affordable Rent be set at the 60% of the market value instead of 80%. This is because the cost of living in a shared ownership property is very similar to the cost of affordable rent at 70% and 80%.
- vi) In addition, the number of annual households in need able to afford 60% Affordable Rent closely corresponds to projected the number of re-lets suggesting that demand will meet supply.
- vii) Households in need that are unable to afford Affordable Rent at 60% are more likely to already live in a social rented property and / or contain someone with a support need. Around 71% of the households in need that were able to afford Affordable Rent at 60% currently lived in the private rented sector; none of them were workless households.

Introduction

- 8.1 Affordable Rent is defined as a social tenure, and is intended to be the modern alternative to social renting as a way to raise money for investment in new build affordable housing. This chapter provides

an assessment of the potential numbers of households who could access Affordable Rent housing at different rent levels.

8.2 Two groups of households are analysed here: households in need and households on the Housing Register. Whilst there was access to an anonymous version of Sutton's Housing Register we have not used this data for the affordability analysis here, primarily because self-reported income on local authority Housing Registers are reputedly unreliable. Instead we have used the household survey data looking at households who claimed to be on the Council's Housing Register or a housing associations waiting/transfer list. This has two advantages:

- i) financial data is more reliable
- ii) as the data on households in need and households on the Housing Register is identical direct comparisons can be made.

8.3 In carrying out the assessment we have used the traditional '25% of income on housing' test, rather than a higher one. This is because for households on low incomes, as those in housing need mainly are, anything much higher than 25% of income on housing leaves very little to live upon. Households on high incomes would be able to spend more than 25% of their income on housing and enjoy a good quality of life. However, these high income households would be able to afford the market entry level rates that they are tested against without spending more than 25% of their income.

8.4 In order to provide the assessment we first need to consider the rent levels at which Affordable Rent dwellings could become available.

Rent levels

8.5 The Affordable Rent levels used for this analysis are based on the third option discussed in the previous chapter. The analysis here also considers alternative levels of Affordable Rent (70%, 60% and 50% of the market) to understand how lowering rents impacts affordability. The costs of renting in each tenure type and bedroom size have been displayed in the table below. In Sutton, the 50% Affordable Rent rate is lower than the social rent level for one bedroom and around the same for two bedroom properties. For both three and four bedroom properties it is significantly higher.

Table 8.1 Monthly Rents				
	Number of Bedrooms			
	One	Two	Three	Four
Lower Quartile Private Rents	£625	£825	£1,050	£1,500
Affordable Rent at 80%	£520	£680	£900	£1,320
Affordable Rent at 70%	£455	£595	£788	£1,155
Affordable Rent at 60%	£390	£510	£675	£990
Affordable Rent at 50%	£325	£425	£563	£825
Social rent (mean level)	£370	£422	£450	£450

NB Affordable rent rates are percentages are of the median of the middle market rent
Source: Estate Agent survey (March 2011) Fordham Research.

Affordability of Affordable Rent for households in housing need

- 8.6 The tables below illustrate how many households in need are able to afford different kinds of affordable housing products without reliance on housing related benefits. This is calculated using information on the financial capacity of households alongside data on the cost of entry-level housing in Sutton. It is based on the affordability criteria set out in the Strategic Housing Assessments Practice Guidance (August 2007) (presented in the glossary). It is worth noting that this affordability test for owner-occupation does not take account of whether the household has access to a deposit as this is not required by the Practice Guidance. In addition, the affordability test considers what households are able to afford without receiving Housing Benefit or Local Housing Allowance. Many households in need live on very low incomes and are unable to afford any affordable housing tenure without receiving a housing related benefit, these households are grouped separately in the affordability assessments below. Households listed as able to afford market housing are able to either rent or buy suitable accommodation privately.
- 8.7 Table 8.2 shows the number of households in need (annual) who can afford Affordable Rent at each successive step down from 80% to 50%, the latter being virtually the same as a social rent for one- and two-bed properties.
- 8.8 Table 8.2 shows that, although a modest number of households in need can afford Affordable Rent at 80% of market rent without housing related benefit, the number of households able to afford Affordable Rent would more than double to 1,189 (households per annum) if the Affordable Rent was lowered to 70% of market rent. Just under half (46.7%) of households in need would be unable to afford any accommodation without the support of housing related benefits.

Table 8.2 Affordability of households in need				
Product type	Exclusive groups*		Cumulative groups**	
	No. of h'holds	% of h'holds	No. of h'holds	% of h'holds
Affordable Rent at 80%	558	15.3%	558	15.3%
Affordable Rent at 70%	631	17.3%	1,189	32.6%
Affordable Rent at 60%	340	9.3%	1,529	41.9%
Affordable Rent at 50%	320	8.8%	1,849	50.6%
Social rent	99	2.7%	1,948	53.3%
Households able to afford with housing related benefits	1,704	46.7%	3,652	100.0%
Total	3,652	100.0%	-	-

* Exclusive groups assumes that households are best suited to the highest (most expensive tenure) available and excludes them from being counted as being able to afford less expensive tenures. ** Cumulative groups show what households in need can afford regardless of also being able to afford a more expensive tenure.

Source: Sutton Housing Needs Assessment Update 2011

- 8.9 However, it is important to consider alternative affordable tenures that households in need could be eligible for – i.e. shared ownership properties. In Sutton, shared ownership properties have similar costs to Affordable Rent at between 80% and 70%. All households that could afford Affordable Rent at 70% and 80% could also afford shared ownership at 25% equity or above, assuming they could provide a deposit. This suggests that for Affordable Rent to provide a suitable alternative to intermediate tenures the rent level would need to be lowered to 60% of the market level across all properties.

Table 8.3 Affordability of households in need – comparing Affordable Rent with shared ownership

<i>Product type</i>	<i>Exclusive groups*</i>		<i>Cumulative groups**</i>	
	<i>No. of h'holds</i>	<i>% of h'holds</i>	<i>No. of h'holds</i>	<i>% of h'holds</i>
Shared ownership at 75%	17	0.5%	17	0.5%
Shared ownership at 50%	466	12.8%	483	13.2%
Shared ownership at 25%	831	22.7%	1,314	36.0%
Affordable Rent at 80%	0	0.0%	1,314	36.0%
Affordable Rent at 70%	0	0.0%	1,314	36.0%
Affordable Rent at 60%	215	5.9%	1,529	41.9%
Affordable Rent at 50%	320	8.8%	1,849	50.6%
Social rent	99	2.7%	1,948	53.3%
Households able to afford with housing related benefits	1,704	46.7%	3,652	100.0%
Total	3,652	100.0%	-	-

*Exclusive groups assumes that households are best suited to the highest (most expensive tenure) available and excludes them from being counted as being able to afford less expensive tenures. **Cumulative groups show what households in need can afford regardless of also being able to afford a more expensive tenure.

Source: Sutton Housing Needs Assessment Update 2011

8.10 Tables 8.4 and 8.5 show the same figures presented in Table 8.2 by bedroom size respectively in exclusive and cumulative numbers and percentages. It can be seen that:

- About half of households in need can afford Affordable Rent if the threshold is set as low as 50% of median market rent, nearly at the social rent level.
- Some 41.9% of those in need can still afford Affordable Rent if the percentage is lowered to 60% – all but 215 of these 1,529 would also be able to afford a shared ownership property.
- Around 41.5% of the households in need require one-bed accommodation and most of the rest require two-beds. Only relatively small numbers require three and four bed accommodation.

Table 8.4 Detailed breakdown of size and type of Affordable Rent home required by those in need (households) cumulative groups*

<i>Bedrooms</i>	<i>One</i>	<i>Two</i>	<i>Three</i>	<i>Four</i>	<i>Total</i>
Affordable Rent at 80%	330	148	74	6	558
Affordable Rent at 70%	674	426	74	14	1188
Affordable Rent at 60%	816	582	116	14	1528
Affordable Rent at 50%	971	660	204	14	1849
Social rent	971	660	250	67	1948
Households able to afford with housing related benefits	1,514	1,469	499	171	3653

*Cumulative groups show what households in need can afford regardless of also being able to afford a more expensive tenure. NB row totals do not equal those in table 8.2 due to rounding

Source: Sutton Housing Needs Assessment Update 2011

Table 8.5 Detailed breakdown of size and type of Affordable Rent home required by those in need (percentage) cumulative groups*

<i>Bedrooms</i>	<i>One</i>	<i>Two</i>	<i>Three</i>	<i>Four</i>
Affordable Rent at 80%	21.8%	10.0%	14.9%	3.2%
Affordable Rent at 70%	44.5%	29.0%	14.9%	8.5%
Affordable Rent at 60%	53.9%	39.6%	23.3%	8.5%
Affordable Rent at 50%	64.2%	45.0%	40.8%	8.5%
Social rent	64.2%	45.0%	50.1%	39.0%
Households able to afford with housing related benefits	100.0%	100.0%	100.0%	100.0%

*Cumulative groups show what households in need can afford regardless of also being able to afford a more expensive tenure.

Source: Sutton Housing Needs Assessment Update 2011

Households on the Housing Register

- 8.11 At the time of writing there were 4,397 households on Sutton's Housing Register (2,186 requiring one bedroom, 1,272 two bedrooms, 821 three bedrooms and 120 four or more bedrooms). Fordham Research have weighted the outputs in the following tables to reflect the Council's data.
- 8.12 Comparing the results of households on the Housing Register in Table 8.6 with those of households in need in Table 8.2 it can be seen that there is greater inequality in what households on the Register can afford compared to households in need. Of the households on the Register, 16.8% can afford market housing (to rent or buy) and 63.9% are dependent on housing related benefits compared to 0% and 46.6% respectively for household in need.
- 8.13 As can be seen from Table 8.6, very few of the households on the Register can afford Affordable Rent at 80% and not afford market housing (2.6%) without support from housing related benefits. These are the main target of the policy, so this is not encouraging for retention of the 80% threshold. But going

down to 60% improves the situation markedly to 326 (183 + 143) households. The drop from 60% to 50% produces the biggest step gain of the series shown; however, this is unsurprising as many for most households this lowers rent costs to the level of social rent.

Table 8.6 Affordability of households on the Register				
Product type	Exclusive groups*		Cumulative groups**	
	No. of h'holds	% of h'holds	No. of h'holds	% of h'holds
Market housing	737	16.8%	737	16.8%
Affordable Rent at 80%	116	2.6%	853	19.4%
Affordable Rent at 70%	183	4.2%	1,036	23.6%
Affordable Rent at 60%	143	3.3%	1,179	26.8%
Affordable Rent at 50%	321	7.3%	1,500	34.1%
Social rent	88	2.0%	1,588	36.1%
Households able to afford with housing related benefits	2,809	63.9%	4,397	100.0%
Total	4,397	100.0%	-	-

*Exclusive groups assumes that households are best suited to the highest (most expensive tenure) available and excludes them from being counted as being able to afford less expensive tenures. **Cumulative groups show what households on the register can afford regardless of also being able to afford a more expensive tenure.

Source: Sutton Housing Needs Assessment Update 2011

8.14 Table 8.7 below shows what households on the Register can afford including shared ownership tenures at 75%, 50 and 25% equity. As in Table 8.3, it shows that Affordable Rent would have to be lowered to 60% of the market value if it is to offer a cheaper alternative to 25% equity shared ownership properties.

Table 8.7 Affordability households on the Register – comparing Affordable Rent with shared ownership

<i>Product type</i>	<i>Exclusive groups</i>		<i>Cumulative groups</i>	
	<i>No. of h'holds</i>	<i>% of h'holds</i>	<i>No. of h'holds</i>	<i>% of h'holds</i>
Market housing	737	16.8%	737	16.8%
Shared ownership at 75%	0	0.0%	737	16.8%
Shared ownership at 50%	134	3.1%	871	19.8%
Shared ownership at 25%	237	5.4%	1,108	25.2%
Affordable Rent at 80%	0	0.0%	1,108	25.2%
Affordable Rent at 70%	0	0.0%	1,108	25.2%
Affordable Rent at 60%	100	2.3%	1,208	27.5%
Affordable Rent at 50%	342	7.8%	1,550	35.3%
Social rent	65	1.5%	1,615	36.7%
Households able to afford with housing related benefits	2,782	63.4%	4,397	100.0%
Total	4,397	100.0%	-	-

*Exclusive groups assumes that households are best suited to the highest (most expensive tenure) available and excludes them from being counted as being able to afford less expensive tenures. **Cumulative groups show what households on the register can afford regardless of also being able to afford a more expensive tenure.

Source: Sutton Housing Needs Assessment Update 2011

- 8.15 Finally, in terms of bedroom sizes, almost half of households on the Register need a one bedroom property. However, households requiring one bedroom are most likely to be able to afford market accommodation to rent or buy (over a quarter). Interestingly, for households requiring a three bedroom property, no households are able to afford Affordable Rent at 80% and 70% that aren't also able to afford market accommodation. Unlike households in need, households requiring a four bedroom property on the Housing Register are the most likely to not be dependent on housing related benefits.

Table 8.8 Detailed breakdown of size and type of Affordable Rent home required by households on the Register (households) cumulative groups*

<i>Bedrooms</i>	<i>One</i>	<i>Two</i>	<i>Three</i>	<i>Four</i>	<i>Total</i>
Market housing	568	111	58	0	737
Affordable Rent at 80%	588	187	58	20	853
Affordable Rent at 70%	691	260	58	28	1037
Affordable Rent at 60%	748	298	106	28	1180
Affordable Rent at 50%	829	463	182	28	1502
Social rent	829	463	227	70	1589
Households able to afford with housing related benefits	2,186	1,272	821	120	4399

*Cumulative groups show what households on the register can afford regardless of also being able to afford a more expensive tenure. NB row totals do not equal those in table 8.6 due to rounding

Source: Sutton Housing Needs Assessment Update 2011

Table 8.9 Detailed breakdown of size and type of Affordable Rent home required by households on the Register (percentages) cumulative groups*

<i>Bedrooms</i>	<i>One</i>	<i>Two</i>	<i>Three</i>	<i>Four</i>
Market housing	26.0%	8.7%	7.1%	0.0%
Affordable Rent at 80%	26.9%	14.7%	7.1%	16.7%
Affordable Rent at 70%	31.6%	20.4%	7.1%	23.3%
Affordable Rent at 60%	34.2%	23.4%	12.9%	23.3%
Affordable Rent at 50%	37.9%	36.4%	22.2%	23.3%
Social rent	37.9%	36.4%	27.6%	58.3%
Households able to afford with housing related benefits	100.0%	100.0%	100.0%	100.0%

*Cumulative groups show what households on the register can afford regardless of also being able to afford a more expensive tenure.

Source: Sutton Housing Needs Assessment Update 2011

Scope for Affordable Rent

- 8.16 We understand from the HSSA and Council data that the total number of relets in Sutton in the past two years were 511 in 2009/10 and 597 in 2010/11. This makes the average annual supply of relets in Sutton over the last two years 554 indicating the maximum annual supply of Affordable Rent housing in Sutton if all relet properties to new tenants were converted to Affordable Rent (it should be noted that at present this would not be possible as some of the stock is Council owned and cannot currently be converted to Affordable Rent).
- 8.17 Going back to Table 8.6: affordability of households on the Register, we can consider the level at which Affordable Rent might be set in Sutton. The number of households on the Register able to afford Affordable Rent (but not market accommodation) were as follows:
- | | |
|---------------------|-----|
| 80% Affordable Rent | 116 |
| 70% Affordable Rent | 299 |
| 60% Affordable Rent | 442 |
| 50% Affordable Rent | 763 |
- 8.18 In order to best match the affordability of households to the expected annual number of relets (554) Affordable Rent would be most suited to the 60% level. This would allow for the maximum number of households on the Register to be able to afford the tenure without lowering rent levels beyond social rent (which Affordable Rent at 50% would do).
- 8.19 At 60% a significant number of households would be able to afford Affordable Rent without housing related benefit and those that did require housing related benefit would need less than if the rent level were set at 80%. Therefore we believe that providing an Affordable Rent tenure in Sutton would be most beneficial if it were set at the level of 60% of the market value. However, it would also be

valuable for the Council to consider to what extent relets could also be converted to shared ownership properties which is affordable to a significant proportion of households on the Register.

Households in need by affordability

- 8.20 Finally, this chapter considers in more detail households in need by comparing households able to afford Affordable Rent products and those that cannot. Here Affordable Rent includes rent set at 60% level or more expensive non-market tenures (as in Table 8.2) due to the recommendations above and that for one and two bedroom properties rents set at a lower Affordable Rent level would be similar to social rent.
- 8.21 The table below compares the financial information of households in need who are able to afford Affordable Rent (at 60% or above) tenures with other households in need. Unsurprisingly, it shows that households able to afford Affordable Rent have a much greater financial capacity than those unable to afford Affordable Rent. We can also see that the level of savings amongst all households in need is much smaller than the average for all households; this suggests that whilst many households in need could be able to afford the monthly costs of shared ownership tenures it is unlikely that many will be able to afford a deposit.

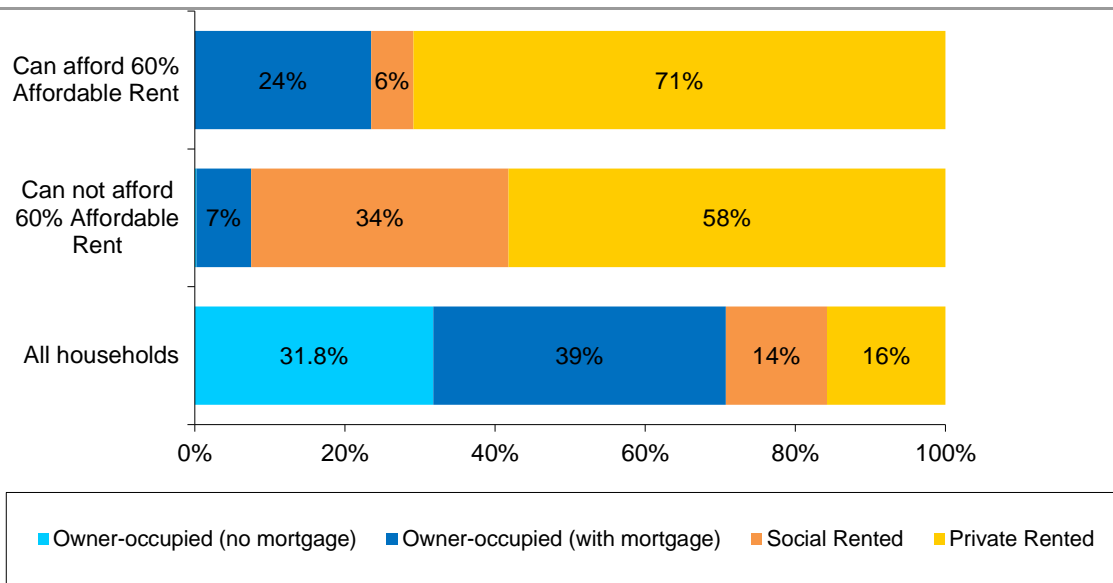
Table 8.10 Median financial information of households in need – those who can/cannot afford 60% Affordable Rent

<i>Need group</i>	<i>Annual gross household income</i>	<i>Savings</i>	<i>Financial capacity</i>
In need: able to afford 60% Affordable Rent	£26,800	£393	£97,319
In need: not able to afford 60% Affordable Rent	£10,278	£147	£35,891
All households	£30,720	£32,414	£264,462

Source: Sutton Housing Needs Assessment Update 2011

- 8.22 Table 8.10 also shows that the financial capacity of households in need is much smaller than the average for all households; this is partly due to a lack of equity. Figure 8.1 shows the tenure groups of households in need. It shows that households that are unable to afford Affordable Rent housing are more likely to live in social rented accommodation whilst households able to afford an Affordable Rent tenure are more likely to live in the private rented sector.

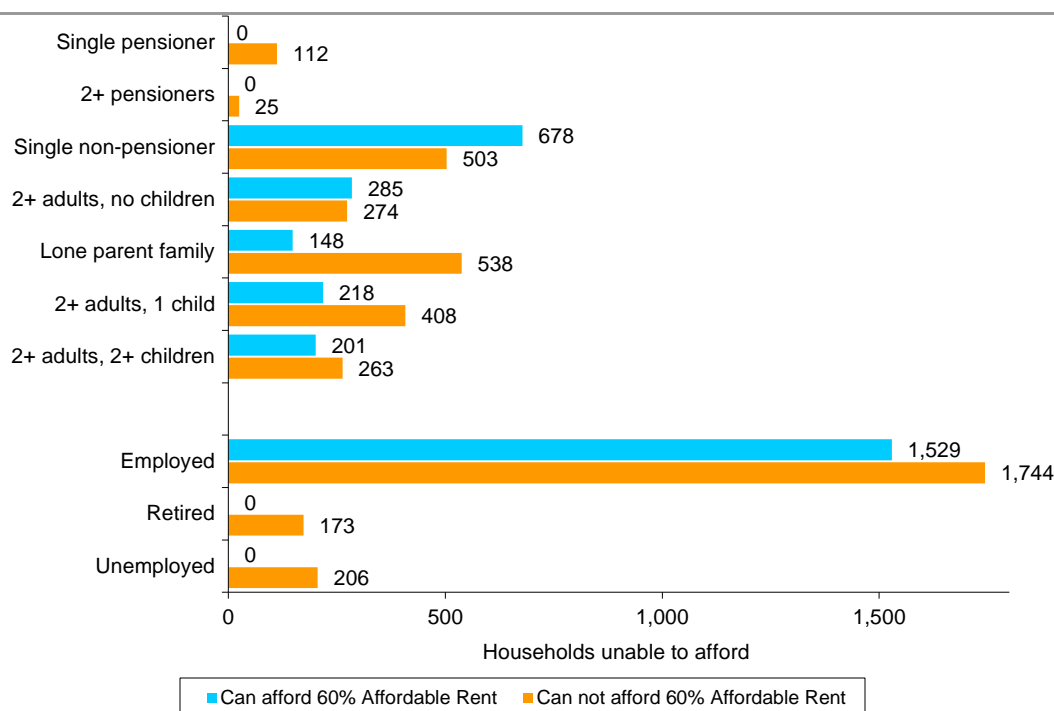
**Figure 8.1 Proportion of households in need in Sutton,
by tenure – those who can/cannot afford 60% Affordable Rent**



Source: Sutton Housing Needs Assessment Update 2011

8.23 The figure below displays the household groups and employment status of households in need by what they can afford. It shows that neither unemployed households, retired households nor pensioner households in need are able to afford Affordable Rent. The household type most likely to afford Affordable Rent housing was single non-pensioner households.

Figure 8.2 Households in need by household type and employment status – comparing households ability to 60% afford Affordable Rent



Source: Sutton Housing Needs Assessment Update 2011

8.24 The table below shows that around a quarter (26.5%) of households in need of affordable housing and unable to afford Affordable Rent housing contain someone with a support need.

Table 8.11 Support needs household by need

<i>Need group</i>	<i>H'holds with support needs</i>	<i>H'holds without support needs</i>	<i>% of h'holds with support need</i>
In need: able to afford 60% Affordable Rent	108	1,421	7.6%
In need: not able to afford 60% Affordable Rent	444	1,679	26.5%
All households	10,303	69,996	14.7%

Source: Sutton Housing Needs Assessment Update 2011

9. Generating new affordable dwellings vs. meeting need

Summary

- i) This chapter has considered the financing of Affordable Rent. It shows that the level of discount below market median rent is critical to profitability, and to avoiding a claim on scarce HCA grant. If the Affordable Rent were set below 60% of market median, it would require grant as the extra finance enabled by the Affordable Rent would not make up the shortfall.
- ii) Fortunately the analysis in Chapter 8 suggests that a 60% level of discount for Affordable Rent would be adequate to fill the available vacancies created by new build and relets. Hence 60% of market rent across the board appears to be the best level for Sutton, though this is a matter for the Council to decide.

Introduction

- 9.1 One of the key aims of the Coalition Government's policy on affordable housing is to make the much reduced HCA budget go further. Thus Affordable Rent is expected to yield almost 1.5 times the number of new affordable units as compared with social renting. That is because the higher Affordable Rents will, when the rent streams are used to raise capital funding through borrowing or securitisation, generate more finance, which can then be used to build more affordable units.
- 9.2 However, there is a trade-off. Although it is desirable, in order to meet housing need, that the Affordable Rent level should be set below 80%, this means that the rent flow available to the housing association or developer to secure additional borrowing or funding is restricted.

Background

- 9.3 When Grant Shapps, the Housing Minister, announced the introduction of Flexible Tenancies and Affordable Rents on the 12th December 2010 he said:

Housing **associations** will be able to let an Affordable Rent property (whether a converted void or newbuild) at up to 80 per cent of market rent for an equivalent property for that size and location.

- 9.4 The reason for this was the massive cuts in the HCA's budget. It has declined from over £8.4 billion to less than £2.5 billion over the last two spending review periods. The hope and objective of Affordable

Rent is that by charging higher rents for the affordable housing developers would require less grant and subsidy and thus the development of affordable housing would effectively fund itself, the theory being that if the developer could charge a higher rent then it can borrow more money to finance the construction and development process.

- 9.5 Much of the rest of this report covers the question of whether Affordable Rent has a place in meeting the housing requirements of those households in housing need and on the Housing Register. However, it is useful to consider some of the financial issues behind development and look at how high the Affordable Rent actually has to be to make up the shortfall in grant due to the cutting of the HCA budget.
- 9.6 Affordable Rent will be able to be set for more than just newbuild properties. Some of the relets of existing social rented stock will be able to be at Affordable Rents rather than social rents. The extra income (i.e. that income over and above the social rent) from the relets would fund further development of affordable housing.
- 9.7 These changes have caused considerable uncertainty within the affordable housing sector. The lack of grant – and the fact that there is little prospect of grant being available in significant amounts for the foreseeable future – means that some housing associations are now considering Stock Market listings. Traditionally the development of affordable housing has been dominated by not-for-profit organisations and grant has been restricted to them. The HCA is now encouraging a greater diversity of providers – including conventional ‘for profit’ developers.

Current Grant Funding

- 9.8 For many years the HCA and Local Planning Authorities (LPAs) have aspired to ensure that affordable housing is delivered without grant. When LPAs have negotiated with developers during the planning process about the number and type of affordable housing to be provided through s106 agreements and planning conditions, the initial basis of those discussions has usually been that the affordable units would be made available without any grant.
- 9.9 The reality has been rather different, particularly in London, with the developer either transferring the serviced land for affordable housing to the private Registered Provider (RP) for no cost or the RP purchasing the completed units from the developer with grant assistance from the HCA.
- 9.10 The amount of grant paid by the HCA has been assessed project by project depending on that site’s financial characteristics. Typically the grant within London is about £65,000 per unit. Outside London it is about £35,000 per unit and in the rural areas where the costs of development tend to be higher around £42,000.
- 9.11 The aim of the extra income from Affordable Rents is to replace this grant. The RP will be able to service new borrowings to make up the gap in grant. The funding available to subsidise affordable

housing is going to be massively reduced and restricted to very few schemes – Affordable Rents are the ‘only show in town’ for now. The limited grant that is going to be available will be restricted to those high priority sites where Affordable Rent does not improve the viability (such as in low rent areas) or where there is still a funding gap after the extra Affordable Rent has been allowed for.

Development economics of Affordable Rents

- 9.12 The economics of development is very simple. Either the income from a development exceeds the costs and a profit is generated or the costs exceed the income and a loss arises. The equations is:

Gross Development Value
(The combined value of the complete development)

LESS

Cost of creating the asset, including a profit margin
(land + construction + fees + finance charges)

=

(Additional) Profit or Loss

- 9.13 In the development of affordable housing for rent, the value of the development is the worth of the income that the completed let unit will produce. This is the amount an investor or another RP would pay for the completed unit. This will depend on the amount of the rent, the cost of managing the property (letting, voids, rent collection, repairs etc.) and other uses to which it may be able to be put to at some time in the future. If, for example, the unit could be sold on the open market in the future then a buyer may be willing to pay more to take into account the long term value (known by valuers as the reversion).
- 9.14 The HCA’s publication ‘2011-15 Affordable Homes Programme – Framework’ contains the ‘rules’ and guidance around Flexible Tenancies and Affordable Rents. It is quite a brief document so some areas are not perfectly clear. It says:

3.24 There will be a presumption that new Affordable Rent properties which receive funding under the new programme **will be permanently available for letting**. Flexible tenancies have been *introduced* to meet the differing needs of prospective tenants – but the homes themselves are expected to be available to meet need over the long-term, and it is on that basis that funding will be made available. We recognise that circumstances may change over time and any future disposal of properties will require TSA consent in the usual way, including consultation with the relevant local authority.

- 9.15 Based on this we know that the reversionary period is worth no more as the new property can only be used for Affordable Rent. This only appears to apply to new properties and not relets.

- 9.16 What is the rental stream worth – either to the RP or to somebody else? There are two aspects to this.
- i) How much additional borrowing the additional income from the Affordable Rent income will support.
 - ii) What a unit let on Affordable Rent is actually worth.
- 9.17 This figure depends, in a large part, on the level at which Affordable Rent is set, the terms of the lease and the tenant (will they pay their rent?).
- 9.18 We have next to consider how RPs raise their money for their capita: programs of construction and refurbishments. RPs operate in the commercial borrowing markets. They have two main sources of finance. They can issue a bond or they borrow conventionally.
- 9.19 When an organisation issues a bond it borrows a large amount of money for a fixed period of time and at a fixed interest rate. Housing associations that are RPs are registered with the HCA and one has never been allowed to fail – they are in effect guaranteed by the State (although their borrowings do not appear on the national balance sheet). That is to say, if they were to fail the Government would step in and make good the losses. The bond is normally secured on an income stream from a portfolio of social rented properties or similar. Traditionally RPs have been well regarded in the financial markets and have been able borrow relatively inexpensively.
- 9.20 Only the larger housing associations are able to issue bonds (due to the cost associated with the process) – although there is a movement towards smaller organisations clubbing together to issuing a joint bond.
- 9.21 The conventional borrowing route is simpler and works in the same way as for any commercial organisation trying to borrow money. The financial institution will consider the merits and risks of the project, the income and the security on offer. It will then set the terms to reflect that.
- 9.22 With both the bond and the conventional borrowing the actual interest rate will depend on the prevailing interest rates in the capital markets, base rates and the individual circumstances. Typically interest rates are between 5% and 7.5%. The table below illustrates how much income in terms of additional rent per week is required to finance the gap left for new development by the major cuts in HCA grant funding for various interest rates.

Table 9.1 Borrowing leveraged by additional rent

Interest Rate	6.50%													
Additional rent per week (£)	1	7.5	15	22.5	30	37.5	45	52.5	60	67.5	75	82.5	90	100
Additional rent per year (£)	52	390	780	1,170	1,560	1,950	2,340	2,730	3,120	3,510	3,900	4,290	4,680	5,200
Additional Borrowing (£)	800	6,000	12,000	18,000	24,000	30,000	36,000	42,000	48,000	54,000	60,000	66,000	72,000	80,000
Interest Rate	7.00%													
Additional rent per week (£)	1	7.5	15	22.5	30	37.5	45	52.5	60	67.5	75	82.5	90	100
Additional rent per year (£)	52	390	780	1,170	1,560	1,950	2,340	2,730	3,120	3,510	3,900	4,290	4,680	5,200
Additional Borrowing (£)	743	5,571	11,143	16,714	22,286	27,857	33,429	39,000	44,571	50,143	55,714	61,286	66,857	74,286
Interest Rate	7.50%													
Additional rent per week (£)	1	7.5	15	22.5	30	37.5	45	52.5	60	67.5	75	82.5	90	100
Additional rent per year (£)	52	390	780	1,170	1,560	1,950	2,340	2,730	3,120	3,510	3,900	4,290	4,680	5,200
Additional Borrowing (£)	693	5,200	10,400	15,600	20,800	26,000	31,200	36,400	41,600	46,800	52,000	57,200	62,400	69,333

Sutton Housing Needs Assessment Update, 2011

- 9.23 In preparing these figures it has been assumed that there will be no additional costs associated with Flexible Tenancies and Affordable Rents relative to social rents, and that all the additional rent over and above the social rent can be used to secure extra borrowing to fund development. This may not in fact be the case as Flexible Tenancies will be for a fixed period (as little as two years) so may be subject to voids between tenancies. This reduces revenue and increases costs.
- 9.24 Looking at the 5.5% interest rate (which is a rate close to where financially sound RPs can borrow) it can be seen that to make up a shortfall of £60,000 additional rent of a little under £65 per week is required, to make up a shortfall of £35,000 additional rent of about £37.50 is needed and in the rural situation to make up a shortfall of £42,000 about £45 per week is needed. To set this in context the social rent on the property would probably be about £80 per week.
- 9.25 Clearly not all this additional rent needs to come from the home being developed. Some could come from the additional rent generated by relets (potentially with stock in parts of the country supporting the delivery of new stock elsewhere). If the additional rent from, say, two relets and one newly developed home were combined, then only a third of the weekly increase would be required. Each developer will have to consider its own situation and the locality (i.e. the need and demand for housing and different rental levels) when deciding how to proceed with developments.

Value of Affordable Rented homes: an illustrative approach

- 9.26 Regardless of how much additional borrowing an Affordable Rented property is able to fund in terms of interest payments it is unlikely that any financial institution would lend more than the property in question is actually worth. But what is worth? As no Flexible Tenancies have yet been granted and no Affordable Rent charged there is no established market. It is therefore not possible to say with any certainty how the market will approach the valuation of homes subject to this new tenure.
- 9.27 The value can, however, be considered in the wider context. There are a number of factors that will affect the value. The amount and security of rent, the costs of managing the home and the returns sought by investors and property owners in the wider market.
- 9.28 The initial rent is important – but so is the way that it changes over time. The HCA's '2011-15 Affordable Homes Programme – Framework' says:

3.9 In order to provide protection and certainty for tenants, providers and funders, the maximum annual rent increase on an Affordable Rent property will be Retail Price Index (RPI) + 0.5%. RPI will be taken as at September of the previous year. Additionally there will be a requirement to rebase the rent on each occasion that a new Affordable Rent tenancy is issued (or renewed) for that property to ensure that the rent remains at no more than 80% of market rent (inclusive of service charges) – this requirement overrides the RPI + 0.5% limit.

- 9.29 At first sight this appears attractive to the property owner as the rent will always increase a little faster than inflation. This means that even if rents in the private rental market are going down the Affordable Rents will go up. The exception is when the home is relet when the rent will be rebased to a maximum of 80% of the Open Market Rent.
- 9.30 It is likely that the market will consider Affordable Rents to be a product somewhere between social rent and Open Market Rent. When considering the worth of assets producing an income, valuers commonly use Year's Purchase (YP) to capitalise the rents – i.e. to work out the capital value of an income stream. The capitalisation of rents using the yields and Year's Purchase is widely used by chartered surveyors and others. The Year's Purchase is the factor by which the rent is multiplied to calculate the capital value (calculated at $1 \div \text{yield}$). The lower the yield the more attractive the investment and the higher the value as the income is considered to be of higher quality so an investor is willing to pay more for less income.
- 9.31 Typically, currently in the market, privately rented investments have YP of 12.5 or so (Yield of 8%). Social rented units tend to have a lower yield and a YP of 18 or so (Yield of 5.5%). This means that £1,000 of income from a privately rented homes is worth about £12,500 ($£1000 \times (1 \div 8\%)$) whilst from social rented homes is worth £18,000 ($£1,000 \times (1 \div 5.5\%)$) or so – some £5,500 ($£18,000 - £12,500$) more – although it must be noted that the rent on a single privately rented unit will be higher than on a social rented unit making the worth of that privately rented unit higher as well – this is illustrated in table 9.2. Investors perceive the social rent to be more secure and attractive. The rent is quite low and defaults and voids are less than in the private rented market – hence the willingness to pay more.
- 9.32 It is likely that the closer the rent is to a social rent then the lower the yield will be and the higher the rent the higher the yield. It will be interesting to see how this is actually treated by the market but there is certainly a logic to this approach. The following table shows how values may vary as rents vary and impact on the YP.

Table 9.2 Variation in the worth of different income levels in Sutton (per 3 Bedroom unit)							
	Open Market Rent	Affordable Rent	Affordable Rent	Affordable Rent	Affordable Rent	Affordable Rent	Social rent
		80%	70%	65%	60%	50%	
Open Market Rent (£/pcm)	1,050	1,125					
Affordable Rent (pcm)		900	788	731	675	563	
Social rent (pcm)							461
Annual Income	12,600	10,800	9,450	8,775	8,100	6,750	5,532
Yield	8.00%	7.00%	6.50%	6.25%	6.25%	6.00%	5.50%
Years Purchase	12.5	14.29	15.38	16	16	16.67	18.18
Capitalised Rent (Annual Income x YP)	157,500	154,286	145,385	140,400	129,600	112,500	100,582

Source: Sutton Housing Needs Assessment Update 2011

- 9.33 It is assumed that as the typical new Affordable Rent unit will be new and built to the HCA's standards that it will command a premium Open Market Rent over and above the equivalent private rented sector accommodation. Clearly the setting of Affordable Rents is going to be sensitive – not only to meeting the need for affordable housing but also relative to its value.

The viability of affordable tenures in Sutton

- 9.34 In order to explore the implications for Sutton we have considered the economics of developing different types of tenure and constructed the following diagrams. They show the range development surpluses (profit or loss) of different tenures. In preparing these we have assumed the cost of developing these units is about £115,000 before the cost of land. The cost of development land in Sutton is high at about £4,000,000 per ha (about £150,000 per market unit and £50,000 per affordable unit).
- 9.35 The Valuation Office Agency (VOA) collects and publishes figures for residential land in the Property Market Report. These cover areas which generate sufficient activity to discern a market pattern. That means locally we have figures for Outer London as a whole and major locations within Outer London – but no information for individual locations.
- 9.36 These values can, in any case, only provide broad guidance because it is likely that the figures will, to some degree, be net of allowances for developer contributions and/or affordable housing requirements. They can therefore be only indicative, and it may be that values for 'oven ready' land (i.e. land ready for immediate building) with no affordable provision or other contribution, or servicing requirement, are in fact higher.

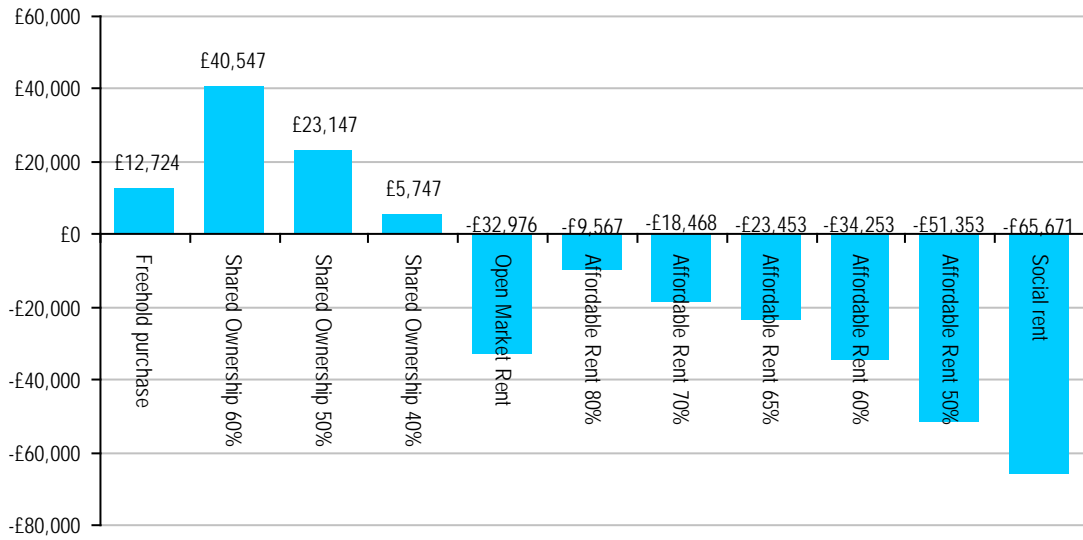
Table 9.3 Residential land values half year to July 2009

Area	Land value £m per acre (hectare)		
	Small sites (< 5 dwgs)	Bulk sites (> 2 ha)	Land for apartments
Ealing (Hanwell)	£5,530,000	£5,530,000	£6,250,000
Ruislip	£4,850,000	£5,100,000	£5,500,000
Greenwich – Bexley	£4,500,000	£4,250,000	£4,500,000
Sutton	£4,150,000	£4,250,000	£4,225,000
Morden (Wimbledon)	£4,590,000	£4,225,000	£4,975,000

Source: VOA Property Market Report July 2010

- 9.37 With the decline in the market and general economic conditions these values may now be rather historic – hence our using the figure of £4,000,000 per ha.
- 9.38 This reflects that in practice land costs are not likely to be allocated equally across all tenures: land used for freehold purchase land tends to cost more than that the affordable tenures. When considering and bidding for a site, there is an implied cost per dwelling, and we have for this analysis taken it to involve a constant land (per plot) across the tenures.
- 9.39 Figure 9.1 shows the notional development surplus for a three bedroomed unit. This is probably the most representative of Sutton. As can be seen, owner-occupation makes a surplus, but shared ownership makes a bigger one (due to paying less for the land as it is affordable housing). Open market rent loses money, which is confirmed by the fact that developers do not build for rent at present. Social rent makes the greatest loss, and requires the most grant, as would be expected. Affordable Rent makes a greater loss as the percentage of market median rent falls.
- 9.40 There are of course other tenures, models and structures for delivering market and affordable housing. For example some market housing is delivered as common hold or under long leaseholds. We have not included all these options as the development returns are broadly similar to that of freehold purchase.

Figure 9.1 Development Surplus by Tenure (3 Bedroom): variable land prices



The price assumed per plot for Freehold market housing was £150k per unit; for PRS it was £80k per unit and for Affordable Rent was £50k per unit
 Source: Sutton Housing Needs Assessment Update 2011

9.41 The following diagram shows the effect of taking a fixed value across all the land used for the various tenures. It has the effect of wiping out the surplus for all but freehold.

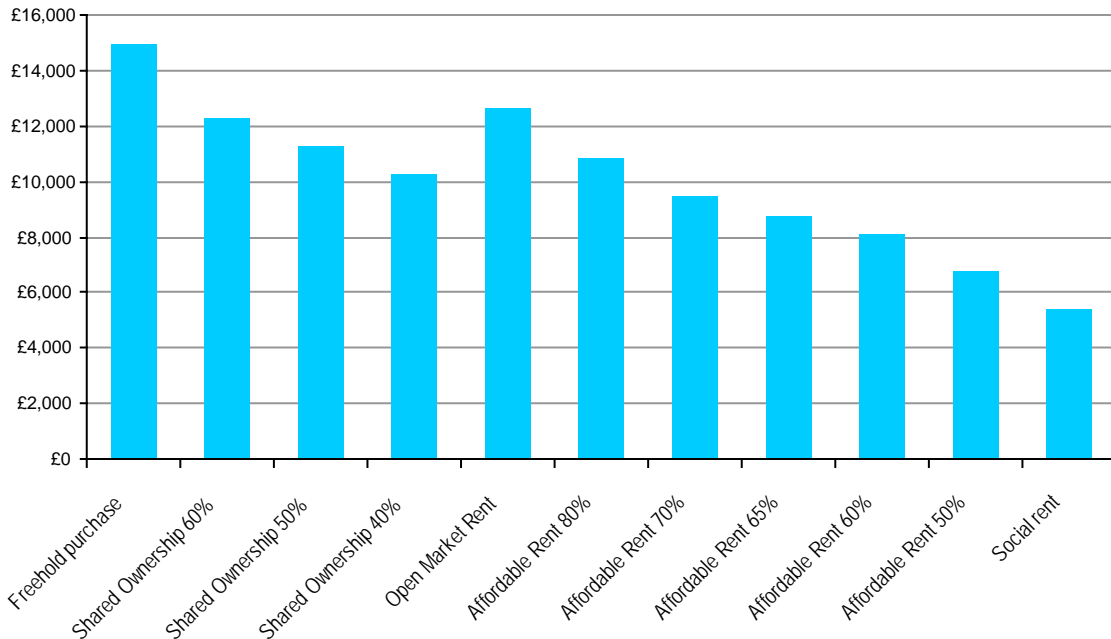
Figure 9.2 Development Surplus by Tenure (3 Bedroom); land at a fixed £100k per plot



Source: Sutton Housing Needs Assessment Update 2011

9.42 Another dimension worth noting is the relative costs of occupation of each tenure (shown in Figure 9.3 below), which is independent of land value.

Figure 9.3 Annual Costs of occupation of each tenure (3 Bedroom)



Source: Sutton Housing Needs Assessment Update 2011

9.43 Perhaps the most notable feature of this figure is that shared ownership at 50% equity, the most common format, is more or less the same cost of Affordable Rent at 80%. This emphasises the cost of Affordable Rent. In practice, the borrowing requirements involved in shared ownership may mean that some households who technically can afford shared ownership cannot in fact access that tenure.

Table 9.4 Requirement for grant	
Tenure status	Level of subsidy (£)
Affordable Rent at 80% OMR	9,567
Affordable Rent at 70% OMR	18,468
Affordable Rent at 65% OMR	23,453
Affordable Rent at 60% OMR	34,253
Affordable Rent at 50% OMR	51,353
Social rent	65,671

Source: Sutton Housing Needs Assessment Update 2011

9.44 The figures in Table 9.4 are derived from looking at the development of new units in isolation. As mentioned earlier in this chapter, it is clear from the HCA Framework that RPs will be expected to relet some existing social rented units at Affordable Rent and use that additional income to leverage additional finance for the delivery of affordable housing. It is therefore interesting to consider how many relets are actually required to 'fill the funding gap' that has arisen due to the withdrawal of grant.

9.45 In the following table we have looked at various options to see how many existing social rented houses need to be re-let at Affordable Rent to fill the funding gap. We have added the extra borrowing that the RP may be able to make (Capitalised Additional Rent) to the development deficit (being the requirement for grant shown in Table 9.4).

Table 9.5 Alternative Newbuild / Relet Mixes						
New Affordable Rent Units			Social rent Relets at Affordable Rent			Balance (£)
Number	% OMR	Surplus / Deficit (£)	Number	% OMR	Capitalised Additional Rent (£)	
5	80%	-47,835	1	80%	56,104	8,269
2	70%	-36,936	1	70%	47,203	10,267
1	65%	-23,453	1	65%	42,218	18,766
1	60%	-34,253	2	60%	62,836	28,584
1	50%	-51,353	4	50%	57,273	5,920

Source: Sutton Housing Needs Assessment Update 2011

9.46 One social rent re-let at 80% of market rent is needed to make up the shortfall in funding on the development of five new Affordable Rent homes let at 80% rents. However if new build Affordable Rents were set at 50% of market rents then four social rent relets at 50% of open market rent would be required to finance each newly built Affordable Rent. The middle row of the table shows that, when looked at together, one relet and one new Affordable Rent home, each at 65% of market rents will be self-financing.

9.47 It is important to stress that the Affordable Rents are set property by property so whilst the above figures are broadly indicative the specific circumstances of the new homes and relets will need to be considered carefully.

What level should the Affordable Rent be set at?

9.48 It will be recalled from the previous chapter that we have recommended that Affordable Rents should be close to 60% due to the need for affordable housing and the relationship with shared ownership. The analysis of the surplus generated by the discounts suggests that 65% is the appropriate level at which to set the discount in terms of the economics of delivery.

10. Improving market balance over the longer term

Summary

- i) The Long Term Balancing Housing Markets Model (LTBHM) predicts what housing will be required in Sutton in 2026 and compares this to the current stock of housing in the borough. It offers an alternative to the CLG housing need stock based model by providing a long term forecast (more suitable to housing policy) that is more robust.
- ii) The model identifies households in the dataset that are inadequately housed and alters their circumstances to remove this inadequacy. It then uses household and population projections to predict the housing stock that would be required in Sutton in 2026 in order for all households to be adequately housed.
- iii) It is estimated that some 6.0% of households are classified as inadequately housed currently. Lone parent households are the household group least likely to reside in adequate accommodation, with single pensioner households the most likely.
- iv) The LTBHM modelling has been carried out under three different scenarios using the GLA 2008-based projections and using two different build targets: 345 new dwellings per annum, according to the previous London Plan and of 210 new dwellings per annum, according to the new (2011) Plan.
- v) Under all scenarios around 65% of all new dwellings required should be affordable and the remaining 35% market accommodation. Within affordable accommodation most of the requirement is for one and two bedroom units whilst for market accommodation the requirement is for two and three bedroom homes.
- vi) Scenario three is the favoured scenario for the Council to consider in terms of planning policy as takes into account the Council's current London Plan housing target of 210 additional dwellings per annum.

Introduction

- 10.1 This chapter uses the Long-Term Balancing Housing Markets (LTBHM) model to estimate the future housing stock required in Sutton under three different scenarios. It combines local population and household projections with the household survey data to predict what type and amounts of housing would be suitable for Sutton in 2026. This is then compared to the current housing stock to identify what new accommodation is required to adequately house the future population in the borough and ensure that the housing market is balanced.

The purpose of the LTBHM model

- 10.2 This LTBHM approach has an advantage over alternative models as its use of a long-term timescale corresponds better with the time frame used by planners – there is a lag in the planning system, which means that it is not possible to respond immediately to imbalances between the nature of accommodation required and the stock currently available. It is therefore useful to consider the intervention required to the housing stock over the long-term to enable future action to be planned effectively.
- 10.3 In essence, the model has two main stages:
- Firstly, the housing circumstances of households in the dataset that are inadequately housed (see table 10.1) are altered to remove this inadequacy (for example an overcrowded household will be changed to a larger property etc.). This creates a dataset in which all households are adequately housed.
 - Secondly, household and population projections are used to create a new ‘future’ weight which is applied to the dataset. This predicts the entire household population in Sutton in 2026 and their housing requirements.
- 10.4 The model therefore projects how the housing stock in Sutton would need to be in 2026 in order for all households to be adequately housed. This can then be compared to the housing stock in 2011 to inform planning policy.
- 10.5 It avoids dealing in an ‘ideal’ allocation of housing to households. It incorporates the results of existing ‘inefficiencies’ in the market or allocation system (e.g. under-occupation by households whose children have left home) and assumes that these trends will remain largely unchanged into the future. There are some exceptions to this, intended to reduce the proportion of the population living in housing inadequate for their needs, as explained later in this chapter.

Stock vs. flow models of future housing change

- 10.6 The LTBHM is a ‘stock’ model rather than a ‘flow’ model. Fordham Research had developed both, but the stock version is the more robust. The stock emphasis means that it deals in totals rather than differences. The outcome is that its results are more accurate than flow based models. It does not take into account the likelihood that an individual household will move, or consider supply from turnover.
- 10.7 Instead, it considers the total stock in the area, and matches this to the stock that would be needed to house every household in the area adequately. It is assumed that the market (and social housing allocation system) will continue to function as now to allocate housing to the appropriate households.
- 10.8 The whole stock approach offers considerable advantages in terms of robustness and statistical reliability over flow-based models (such as the CLG net-need calculation) which attempts to estimate

both likely demand and likely supply. Whether a household will move in the future (even in the short-term) is always subject to uncertainty, particularly in the current, rapidly changing, housing market; considering the stock as a whole leaves less room for error.

- 10.9 The LTBHM model also fully integrates future expected demographic changes into the outputs; this is an advantage because when planning newbuild housing it is important to ensure that it is useful not just now but well into the future. Flow models can only predict future household moves for two or three years in advance, and may be heavily influenced by recent short-term trends. By incorporating the best estimates of future household growth for the area from population and household projections, the model here gives the Council an insight into the types of housing that could be useful to residents in the long-term.
- 10.10 It is worth noting that, in the interests of simplicity, and unlike the CLG Housing Needs model (CLG Practice Guidance 2007 Chapter 5) this model does not subtract any estimate of likely newbuild property. As a result, any newbuild housing that is to be (or has already been) constructed from the base date of the research (May 2011 forward) can be counted as contributing to the total requirements produced by the model.
- 10.11 The CLG model and the LTBHM use very different methodologies and produce outputs that cannot be directly compared: the former provides an annual need target for the next five years whilst the latter estimates the desired housing stock in 2026. This chapter therefore proceeds only with discussion of the LTBHM. The concluding chapter discusses both approaches and their implications for housing and planning policy in Sutton.

The meaning of LTBHM model outputs

- 10.12 The results of the model show the additional types and sizes of housing required by 2026. They focus on the mix of housing that would be required in 2026 assuming that the population projections used in each scenario are correct, and that households continue to require similar types of housing to what they require now. This seems reasonable: tastes change, but households of given size and financial capacity require much the same type of housing as they did 15 years ago, and we are forecasting the position 15 years hence.
- 10.13 The outputs presented here are not policy recommendations in themselves; but an intermediate stage on the way to policy. For policy purposes they must be viewed in conjunction with other information. Due to economic constraints, it is not always possible to address housing problems immediately short-term priorities may sometimes differ from long-term aspirations.
- 10.14 The model provides longer term objectives as to mix of tenure and size of dwelling. The analysis is carried out at the borough level. Clearly there are many neighbourhoods within any area which require different treatment. This has to be borne in mind when considering the figures which follow: they are broad brush ones at the borough level, rather than a template for more specific localities within it. It is

also worth pointing out that negative figures in a given cell do not imply a requirement for demolition. All that they mean is that there is a surplus of that particular type and size of dwelling.

Adequacy of the housing stock

- 10.15 For the purpose of LTBHM, the housing market is considered 'balanced' if the local population (now or in the future) is adequately accommodated. It is therefore initially appropriate to assess the adequacy of the current accommodation to house the residents of Sutton. This is determined through responses to the household survey. The procedure is summarised in the table below:

Table 10.1 Basis for assessment of the suitability of housing

A household is considered adequately housed currently unless:

- (i) They are in unsuitable housing (as defined by CLG Guidance) and cannot resolve this unsuitability without moving to a different property.
- (ii) Their property is overcrowded (according to the bedroom standard).
- (iii) They are living in ordinary housing when they state that they need to live in sheltered, supported, extra care or other similar specialist housing.

In each of these cases the household is allocated to a property with characteristics more suitable for their needs, of a different size, type or tenure.

Also if a household plans to move soon because it is unsuitably housed (for reasons of size, cost, type or tenure) it is 'moved' to a dwelling that would remove the problem.

Some further adjustments are also made to remove over the long-term any undesirable elements of market imbalance that exist currently:

- (iv) Households living in social rented accommodation that can afford market or intermediate accommodation are re-allocated to these tenures to ensure that the stock is being most appropriately and efficiently used.
- (v) Households resident in the private rented sector on Local Housing Allowance (LHA) are assumed to move into the form of affordable accommodation that they can afford (intermediate or social rented) without the support of housing related benefits. The private rented sector on LHA is not considered an adequate long-term equivalent to affordable housing. There is not the same security of tenure or, as survey data shows, quality of housing within the private rented stock as within most of the social rented sector.

It should be noted that adjustment number (v) counts toward the inadequate housing totals. Because of the inclusion of this additional group (and those needing to move from ordinary to sheltered or other specialist accommodation) the numbers are higher than those considered in housing need or in (more narrowly defined) unsuitable housing by the CLG model. The difference between the housing need figure and the LTBHM one based on inadequate housing does not in general require newbuild housing: there should be little difference in that respect. The difference is in the need to adapt or improve the existing housing stock.

10.16 The table below shows the proportion of each household type currently requiring alternative accommodation in order to be adequately housed. The table shows that some 6.0% of households are classified as inadequately housed currently. Lone parent households are the household group least likely to reside in adequate accommodation, with single pensioner households the most likely.

Table 10.2 Types of households inadequately housed currently			
<i>Household type</i>	<i>Number inadequately housed</i>	<i>All households</i>	<i>Proportion inadequately housed</i>
Single pensioners	103	10,669	1.0%
2+ pensioners	112	5,872	1.9%
Single non-pensioners	424	18,247	2.3%
2+ adults, no children	1,403	23,194	6.0%
Lone parent	897	4,714	19.0%
2+ adults, 1 child	1,160	8,752	13.3%
2+ adults, 2+ children	745	8,851	8.4%
Total	4,843	80,299	6.0%

Source: Sutton Housing Needs Assessment Update 2011

LTBHM base data

- 10.17 The data used in the report thus far are estimates of the housing stock in 2011 which weights the results of the 2007 household survey using the Census data and GLA projections to represent the current housing stock in Sutton. This is the 'base' stock level used in the scenarios which are compared to the projected housing stock in 2026. The Table below shows the number of households that occupy the current types of tenure in the borough (which excludes Affordable Rent). Those shown to be in social rented are those households in the social rented stock and can afford it without housing benefit or LHA. Those households in receipt of Housing Benefit or LHA are housed either in the social rented sector or, because there is insufficient stock, in the private rented sector where they receive assistance with their rent. In this context Market Housing is all housing that is not affordable housing (as defined by PPS3) that households can afford in the open market and without recourse to benefits or affordable housing.

Table 10.3 Current 2011 tenure profile		
<i>Tenure</i>	<i>Number of households</i>	<i>Percentage of households</i>
Market	66,236	82.5%
Shared Ownership	833	1.0%
Social rented (not in receipt of housing benefit)	4,176	5.2%
Households reliant on housing benefit / LHA	9,055	11.3%
<i>of which live in private rented housing</i>	2,410	8.3%
<i>of which live in social rented housing</i>	6,645	3.0%
Total	80,299	100.0%

Source: Sutton Housing Needs Assessment Update 2011

- 10.18 The LTBHM tables under the 3 scenarios below assess affordability and place households currently in unsuitable housing into an appropriate tenure and bedroom size (living the in most expensive tenure

that they are able to afford). Where the households cannot afford any tenure without subsidy they are put under the general group of 'requires financial support'. However, should enough housing related benefit be provided, the households that are not able to afford any housing without support from housing related benefits could live in social, affordable or private rent properties.

- 10.19 It should be noted that the delivery mechanism for the provision of affordable housing is being altered from a system where the developers (RPs) receive subsidy to the new Affordable Rent tenure and the higher rents associated with that. This is discussed in detail in Chapter 8 of this report. It is therefore unlikely that many new social rented units will be provided in the future. The additional units required to house the households in receipt of Housing Benefit or LHA are likely to be within the private rented sector or the households will be housed in Affordable Rent units and receive assistance with their rents.
- 10.20 The tenure requirements for 2026 are discussed in the following section. The tables show that in 2011 there is a stock of social rented housing and there are also a group of households who require housing related benefits to afford anything. In the 2026 classification these groups have been merged into one group. This is because according to CLG policy no new social rented housing will become available. This means that there cannot be an increase in the stock of social rented houses therefore the social rented stock will remain the same; however, there will still be a need for new homes to house households that require housing related benefits to afford anything. As mentioned above, if enough housing related benefit is provided then this additional need could be redistributed to any tenure group.

LTBHM scenarios

- 10.21 The LTBHM model is run under three different growth scenarios in Sutton in 2026. These are:
- i) Scenario 1: Housing to meet 2008-based GLA projections
 - ii) Scenario 2: Housing to meet 2008-based GLA projections capped at 345 new units per annum
 - iii) Scenario 3: Housing to meet 2008-based GLA projections capped at 210 new units per annum
- 10.22 The scenarios use the 2008-based population and household projections by the GLA. This first scenario assumes that all the homes required will be built. This is unlikely to be achieved (Sutton is already a densely populated urban place with considerable constraints on development).
- 10.23 The second and third scenarios also use the GLA projections but place a constraint on the number of new homes to be built in Sutton that is based on the borough's own housing and planning strategies. This is required as the GLA projections estimate the future number of households using a range of statistical techniques but does not take into account the capacity to supply housing within an area. Therefore the number of households as projected by the GLA is somewhat larger than the target number of homes in the borough (based on new build targets).

- 10.24 This combination of build targets and population projections will allow for comparison, and thorough analysis of the implications of each scenario for the Council to develop appropriate policies in terms of tenure, type and size.

GLA projections

- 10.25 As discussed in Chapter 3 the scenarios here also use the GLA's 2008-based projections.

Housebuilding Targets

- 10.26 Sutton Council has been set two housing targets in recent years through the London Plan. The first (in the 2004 London Plan, as amended in 2008) set the borough an annual net dwelling completions target of 345 per annum. However, subsequently, the 2011 London Plan sets a borough target of 210 net residential dwellings per year. Both of these targets will be applied in the LTBHM scenarios.

Allocation of Housing Tenures

- 10.27 The current reforms to the funding and tenure of affordable housing mean that we must make some assumptions about the tenures and type of housing that households use. In the following analysis and tables we have assumed that the Market Housing, Shared Ownership Housing and Affordable Rent Housing are occupied by people that can afford those tenures without recourse to Housing Benefit and Local Housing Allowance. In this analysis we have assumed affordable rent at 80% of open market rent. We have grouped together those households that can only afford Social Rented Housing or need financial assistance with their housing costs. Under the current system these households that can only afford Social Rented Housing or need financial assistance with their housing costs can be housed in Social Rented Housing, or in the private rented sector or in the new Affordable Rent tenure where they would receive assistance with their housing costs.
- 10.28 When considering the interventions and policies that are informed by this evidence the Council will need to consider how these households that can only afford Social Rented Housing or need financial assistance with their housing can be best assisted.

Scenario 1: 2008-based projections – unconstrained

- 10.29 Table 10.4 sets out the results for the ideal tenure profile in Sutton under the GLA 2008-based projections. Under this scenario it is estimated that there will be 87,626 households in Sutton in 2026. This high additional requirement for new homes occurred because the growth in the number of households corresponds to the GLA forecasts regardless of the building capacity within the borough. In this scenario there is a requirement for 7,327 more homes by 2026 (488 per year). In order to provide suitable housing in 2026 the model shows that just over a third (35.3%) of new units should be market accommodation. In terms of non-market accommodation, it shows that just over a fifth of new housing required housing will be for those households reliant on housing benefit or LHA and the remaining should be Affordable Rent or shared ownership accommodation.

Table 10.4 Tenure of new accommodation required in Sutton over the next 15 years (to 2026): Scenario 1

<i>Tenure</i>	<i>Current tenure profile</i>	<i>Tenure profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
Market	66,236	68,821	2,585	35.3%
Shared Ownership	833	1,911	1,078	14.7%
Affordable Rent	0	2,536	2,536	34.6%
Social rented	4,176	14,359	1,128	15.4%
Requires financial support*	9,055			
Total	80,299	87,626	7,327	100.0%

Source: Sutton Housing Needs Assessment Update 2011

*Requires some kind of housing related benefit in order to afford housing

10.30 The following four tables set out property size requirements for each tenure type in Scenario 1. For market accommodation (Table 10.5) the greatest demand is expected to be for two and three bedroom properties. For households dependent on housing related benefits (Table 10.8) the greatest increase required is for four bedroom properties. However, this is probably to do with the small supply of four bedroom social rented properties in the borough in 2011.

Table 10.5 Size of new market accommodation required in Sutton over the next 15 years (to 2026): Scenario 1

<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	8,882	8,168	-714	0.0%
Two bedrooms	19,671	20,827	1,156	35.0%
Three bedrooms	25,638	27,075	1,437	43.6%
Four or more bedrooms	12,045	12,751	706	21.4%
Total	66,236	68,821	2,585	100.0%

Source: Sutton Housing Needs Assessment Update 2011

Table 10.6 Size of new shared ownership accommodation required in Sutton over the next 15 years (to 2026): Scenario 1

<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	220	867	647	60.0%
Two bedrooms	335	657	322	29.9%
Three bedrooms	230	326	96	8.9%
Four or more bedrooms	47	60	13	1.2%
Total	833	1,911	1,078	100.0%

Source: Sutton Housing Needs Assessment Update 2011

Table 10.7 Size of new Affordable Rent homes required in Sutton over the next 15 years (to 2026): Scenario 1

<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	0	1,433	1,433	56.5%
Two bedrooms	0	940	940	37.1%
Three bedrooms	0	96	96	3.8%
Four or more bedrooms	0	66	66	2.6%
Total	0	2,536	2,536	100.0%

Source: Sutton Housing Needs Assessment Update 2011

Table 10.8 Size of new accommodation required for households dependent on housing benefit or LHA required in Sutton over the next 15 years (to 2026): Scenario 1

<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	4,399	4,771	372	29.8%
Two bedrooms	5,197	5,533	336	26.9%
Three bedrooms	3,257	3,137	-120	0.0%
Four or more bedrooms	377	917	540	43.3%
Total	13,231	14,359	1,128	100.0%

Source: Sutton Housing Needs Assessment Update 2011

- 10.31 The above tables set out the mix and type of new housing that our analysis suggests should be built to balance the housing market over the period to 2026 to meet the housing requirements of Sutton. It shows that 7,327 new homes should be built in that period – which is several times the London Plan target for that period. As it is likely that the number of homes that will be built in the borough will be less than this amount, decisions will need to be made as to which different groups are given priority. The Council may also decide, for reasons of political priority and with regard to the Council's wider policies, to prioritise specific tenures and sizes.
- 10.32 It should be stressed that this advice is based on the assumption that all those people in receipt of housing related benefit should be accommodated in new housing, when in fact many of these can (under the current 'rules') be accommodated in the private rented sector and receive assistance with the rent. This would result in increased pressure on the private rented sector but it is a route to meeting the needs of this group.

Scenario 2: 2008-based projection constrained to 345 units per year

- 10.33 Table 10.14 sets out the results for the ideal tenure profile in Sutton under the 2008-based GLA projections alongside a build rate of 345 homes per year. Under these conditions there will be 85,474

households in Sutton in 2026, an increase of 5,175 units (345 per year). In order to provide suitable housing in 2026 the model shows that just over a third (35.3%) of new units should be market accommodation. In terms of non-market accommodation, it shows that just over a fifth of new housing required housing should be associated with housing related benefits and the remaining should be Affordable Rent or shared ownership accommodation. It shows that the proportion of newbuild properties to be built in each tenure type is the same as under Scenario 1 (because the growth conditions are the same, except that the total number of households has been constrained).

**Table 10.10 Tenure of new accommodation required in Sutton
over the next 15 years (to 2026): Scenario 2**

<i>Tenure</i>	<i>Current tenure profile</i>	<i>Tenure profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
Market	66,236	68,062	1,826	35.3%
Shared Ownership	833	1,595	762	14.7%
Affordable Rent	0	1,791	1,791	34.6%
Social rented	4,176	14,027	796	15.4%
Requires financial support*	9,055			
Total	80,299	85,474	5,175	100.0%

Source: Sutton Housing Needs Assessment Update 2011

*Requires some kind of housing related benefit in order to afford housing

- 10.34 The following four tables set out property size requirements for each tenure type in Scenario 2. Table 10.11 shows that there is expected to be a fall in the demand for one bedroom market accommodation by 2026. However, table 10.14 also shows that there will be a need for LHA subsidised one bedroom properties. In addition, in both Affordable Rent and shared ownership (tables 10.12 and 10.13) the majority of properties required will be one bedroom properties.

**Table 10.11 Size of new market accommodation required in Sutton
over the next 15 years (to 2026): Scenario 2**

<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	8,882	8,378	-504	0.0%
Two bedrooms	19,671	20,488	817	35.0%
Three bedrooms	25,638	26,653	1,015	43.6%
Four or more bedrooms	12,045	12,544	499	21.4%
Total	66,236	68,062	1,826	100.0%

Source: Sutton Housing Needs Assessment Update 2011

Table 10.12 Size of new shared ownership accommodation required in Sutton over the next 15 years (to 2026): Scenario 2				
<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	220	677	457	60.0%
Two bedrooms	335	563	228	29.9%
Three bedrooms	230	298	68	8.9%
Four or more bedrooms	47	56	9	1.2%
Total	833	1,595	762	100.0%

Source: Sutton Housing Needs Assessment Update 2011

Table 10.13 Size of new Affordable Rent homes required in Sutton over the next 15 years (to 2026): Scenario 2				
<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	0	1,012	1,012	56.5%
Two bedrooms	0	664	664	37.1%
Three bedrooms	0	68	68	3.8%
Four or more bedrooms	0	47	47	2.6%
Total	0	1,791	1,791	100.0%

Source: Sutton Housing Needs Assessment Update 2011

Table 10.14 Size of new accommodation for households dependent on housing benefit or LHA required in Sutton over the next 15 years (to 2026): Scenario 2				
<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	4,399	4,661	262	29.8%
Two bedrooms	5,197	5,434	237	26.9%
Three bedrooms	3,257	3,172	-85	0.0%
Four or more bedrooms	377	759	382	43.3%
Total	13,231	14,027	796	100.0%

Source: Sutton Housing Needs Assessment Update 2011

10.35 The above tables set out the tenure and size of new housing that our analysis suggests should be built to balance the housing market over the period to 2026 to meet the housing requirements of Sutton based on the assumption that 5,175 new houses should be built in that period (345 per year). This is less than the total (7,327) requirement found in Scenario 1 above. The Council may decide, for reasons of political priority and with regard to the Council's wider policies, to prioritise specific groups and housing types and build a different mix of housing.

- 10.36 It should be stressed that this analysis is based on the assumption that all those people in receipt of housing related benefit should be accommodated in new housing, when in fact many of these households can (under the current 'rules') be accommodated in the private rented sector and receive assistance with the rent. This would result in increased pressure on the private rented sector but it is a route to meeting the needs of this group.

Scenario 3: 2008-based projection constrained to 210 units per year

- 10.37 Table 10.15 sets out the results for the ideal tenure profile in Sutton under the 2008-based GLA projections alongside a build rate of 210 homes per year. It shows that under these build limits there will be 83,449 households in Sutton in 2026, an increase of 3,150 units (210 per year). This is the lowest growth forecast of the scenarios. In order to provide suitable housing in 2026 the model shows that just over a third (35.3%) of new units should be market accommodation. In terms of non-market accommodation, it shows that just over a fifth of new housing required should be associated with housing related benefits around a half should be Affordable Rent and the remaining shared ownership accommodation.

Table 10.15 Tenure of new accommodation required in Sutton over the next 15 years (to 2026): Scenario 3				
Tenure	Current tenure profile	Tenure profile 2026	Change required	% of change required
Market	66,236	67,348	1,112	35.3%
Shared Ownership	833	1,296	463	14.7%
Affordable Rent	0	1,090	1090	34.6%
Social rented	4,176	13,716	485	15.4%
Requires financial support*	9,055			
Total	80,299	83,449	3150	100.0%

Source: Sutton Housing Needs Assessment Update 2011

*Requires some kind of housing related benefit in order to afford housing

- 10.38 The following four tables set out property size requirements for each tenure type in Scenario 3. It shows for affordable accommodation new dwellings should be mostly one or two bedroom accommodation. In terms of market accommodation the requirement is mostly for two and three bedroom requirement. Of all tenures, new dwellings for those requiring housing related benefits, the most likely need is for be four bedroom accommodation (around a quarter).
- 10.39 It should be noted that it is proposed that from January 2012 payments of LHA will be restricted for some younger households (under 35) without children to a shared accommodation rate.

**Table 10.16 Size of new market accommodation required in Sutton
over the next 15 years (to 2026): Scenario 3**

<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	8,882	8,575	-307	0.0%
Two bedrooms	19,671	20,168	497	35.0%
Three bedrooms	25,638	26,256	618	43.6%
Four or more bedrooms	12,045	12,349	304	21.4%
Total	66,236	67,348	1,112	100.0%

Source: Sutton Housing Needs Assessment Update 2011

**Table 10.17 Size of new shared ownership accommodation required in Sutton
over the next 15 years (to 2026): Scenario 3**

<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	220	498	278	60.0%
Two bedrooms	335	473	138	29.9%
Three bedrooms	230	271	41	8.9%
Four or more bedrooms	47	53	6	1.2%
Total	833	1,296	463	100.0%

Source: Sutton Housing Needs Assessment Update 2011

**Table 10.18 Size of new Affordable Rent homes required in Sutton
over the next 15 years (to 2026): Scenario 3**

<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	0	616	616	56.5%
Two bedrooms	0	404	404	37.1%
Three bedrooms	0	41	41	3.8%
Four or more bedrooms	0	28	28	2.6%
Total	0	1,090	1,090	100.0%

Source: Sutton Housing Needs Assessment Update 2011

Table 10.19 Size of new accommodation for households dependent on housing benefit or LHA required in Sutton over the next 15 years (to 2026): Scenario 3

<i>Dwelling size</i>	<i>Current size profile</i>	<i>Size profile 2026</i>	<i>Change required</i>	<i>% of change required</i>
One bedroom	4,399	4,559	160	29.8%
Two bedrooms	5,197	5,341	144	26.9%
Three bedrooms	3,257	3,205	-52	0.0%
Four or more bedrooms	377	609	232	43.3%
Total	13,231	13,716	485	100.0%

Source: Sutton Housing Needs Assessment Update 2011

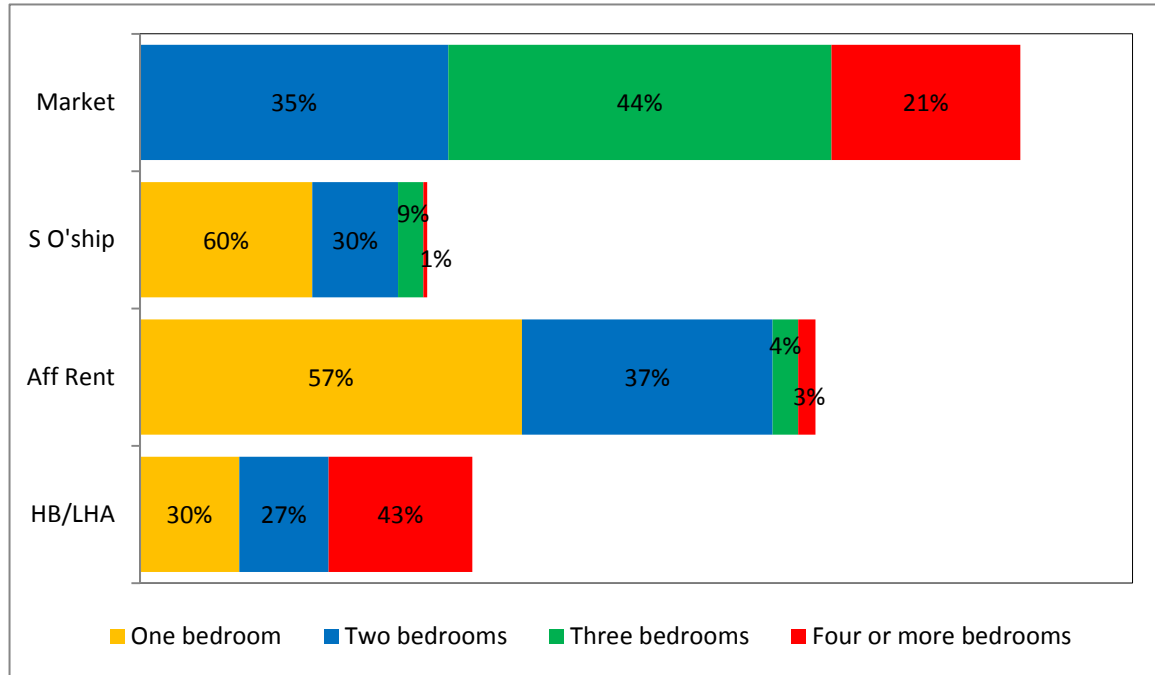
- 10.40 The above tables set out the mix and type of new housing that our analysis suggests should be built to balance the housing market over the period to 2026 to meet the housing requirements of Sutton based on the assumption that 3,150 new homes should be built in that period (210 per year). This is about half of the total (7,327) requirement found in Scenario 1 above. As stated under the previous scenario, the Council may decide, for reasons of political priority and with regard to the it's wider policies, to prioritise specific groups and housing types and build a different mix of housing.
- 10.41 Again it should be stressed that this analysis is based on the assumption that all those people in receipt of housing related benefit should be accommodated in new housing, when in fact many of these can be accommodated in the private rented sector and receive assistance with the rent.

Recommended scenario

- 10.42 Whilst all of the above scenarios provide useful information on the required housing stock in Sutton under different conditions, we recommend that policy makers take Scenario 3 (2008-based projection with a build target of 210 units per year) as the most likely. This is summarised in Figure 10.3. This is because it uses the population projections that match parallel strategies for the borough and it includes the build target that the Council are currently pursuing. However, should the build target increase or the household growth be greater than expected, the outputs from the alternative scenarios can be considered. It should be noted that whilst the numbers of units change between scenarios, the proportions of the different tenures and sizes remain the same across all of the scenarios . The figure below gives a breakdown of the housing stock and building requirements of households in Sutton in 2026 under the favoured third scenario.

Figure 10.3 Summary of Scenario 3.

Accommodation required to be built to balance the housing market in the period to 2026 (210 new homes per year under GLA 2008 based population projections)



Those households in receipt of Housing Benefit or LHA are housed either in the social rented sector or, because there is insufficient stock, in the private rented sector where they receive assistance with their rent. In this context Market Housing is all housing that is not affordable housing (as defined by PPS3) that households can afford in the open market and without recourse to benefits or affordable housing.

Source: Sutton Housing Needs Assessment Update 2011

11. Conclusions and policy implications

Introduction

- 11.1 The original 2008 report set out a series of suggestions about possible policy responses in light of the findings of the HNA. In this chapter we briefly review these suggestions and comment on where these should be revised as a result of the updated findings.

Policy changes

- 11.2 At the time of the original HNA the GLA had set a target that 50% of all new housing in London should be affordable; of which 70% should be social rented accommodation and 30% intermediate housing. Since then a number of policy changes have been introduced:
- The London Plan requires that the affordable housing split should be 60% social rented and 40% intermediate housing.
 - LHA caps have been lowered from the 50th percentile of private sector rents to the 30th percentile.
 - A new affordable tenure has been introduced 'Affordable Rent' charging a proportion of the market value of the property. It is intended to replace social rented tenure.

Affordable housing targets: CLG model

- 11.3 The 2008 HNA report used the net annual housing need requirement of 1,047 affordable homes per annum, alongside evidence of custom and practice elsewhere to propose a target of 50% of housing as affordable on appropriate sites.
- 11.4 This requirement, produced using the CLG model as outlined in Strategic Housing Market Assessment Practice Guidance (August 2007) and described in Chapter 6 of this report, has now increased significantly, to 2,558 per year. This is partly due to the decreasing ability of younger low income households to afford private sector rents in Sutton, usually the most accessible private tenure. It is also somewhat related to the increase in the types of households that face a higher risk of falling into need.
- 11.5 Sutton Council's Housing Strategy (2011/12) reports a borough minimum target of 210 net new residential dwellings per annum should be built in Sutton (a figure that is taken from the July 2011 London Plan). Given that the requirement for new affordable housing generated by the model greatly exceeds the rate of building of houses, clearly it is not appropriate to base policy directly on the model.

- 11.6 The analysis has shown that the level of need is impacted by the types of households resident in an area and that it would be valuable to reflect on the level of need once the 2011 Census data becomes available. However, given the high level of need, the recent decline in the total stock of affordable housing available and the limited capacity to build affordable housing, such a revaluation is unlikely to have an impact on the overall situation in Sutton.

Affordable housing targets: Market Balance Model

- 11.7 The Market Balance Model, described in Chapter 10 of this report, models the estimated household growth in Sutton using GLA projections to 2026. It suggests that, in order to balance the market in the long-term (over 15 years), about two thirds of newbuild housing would need to be affordable (Figure 10.3). However, this target could fall to 50% if the 15% of households in need that are unable to afford any housing without some kind of subsidy were enabled to live in the private rented sector.
- 11.8 The 66% target affordable housing target suggested by scenario three of the market balance model (Table 10.15) is largely a reflection of the high level of housing need and supports maintaining a high target for the construction of affordable housing if possible.

Affordable housing targets: Summary

- 11.9 Taking the evidence from the two models together, it is clear that in terms of the proportion of affordable housing to be provided, purely on the basis of housing need, a high target could be justified. As some of this need has been caused by increased private sector rents, if incomes rise relative to rents there could be a reduction in the affordable housing requirement. However, this is not expected to occur in the foreseeable future.
- 11.10 In addition, under the current tenure profile, an estimated 18.2% of households receiving assistance through housing benefit or LHA currently live in the private rented sector. If this level was sustained then the affordable build target would reduce to 48% (with 18% of households living in the private rented sector and receiving LHA).
- 11.11 The council's adopted Core Strategy seeks to meet an overall borough-wide target that 50% of all new housing from all sources is affordable, of which 70% should be for social rent and 30% intermediate provision in accordance with the London Plan (2008). To help achieve this target, emerging Site Development Policies DPD (Policy DM25) seeks the maximum reasonable amount of affordable housing on each site capable of achieving 10 or more residential units.

Intermediate housing

- 11.12 Table 10.15 shows that of the 16,102 affordable housing (including LHA subsidised market housing) units required in 2026, 1,296 (8%) are intermediate (shared ownership) units. There are currently 833 such units, so by 2026 there will be a shortfall of 463 shared ownership units, which represents 22.7%

of the total affordable housing required. This suggests that the Mayor's London Plan (2011) target for 40% of all affordable properties being intermediate properties may be too high in Sutton.

- 11.13 However, the analysis in Chapter 8 shows that, in terms of repayment costs, shared ownership can be as affordable as Affordable Rent. Comparing Table 8.2 and Table 8.3 it can be seen that the 1,314 households in need that can afford Affordable Rent set at 60% of market rent can also afford shared ownership.
- 11.14 Part of the reason that the outputs in Chapter 8 differ to those in Chapter 10 is because the former does not take into account households' ability to afford a deposit whilst the latter does. This suggests that the main limitation for households in need to affording an intermediate product is their ability to afford the deposit. Therefore, it may be feasible for Sutton to pursue the Mayor's policy of 40% of all newbuild affordable housing being intermediate products if support can be provided to households for the deposit.

Affordable/social housing

- 11.15 An objective of this HNA update was to understand the impact of the introduction of the Affordable Rent tenure in Sutton and its suitability as an affordable tenure for meeting housing need. The analysis has shown that there is a large gap between the cost of social rented accommodation and private sector rents, suggesting that Affordable Rent would be a suitable option in Sutton to bridge the gap. However, it was found that the cost of living in the Affordable Rent tenure set at the level of 80% and of 70% market rents cost more than shared ownership tenures at 25% equity or more (not including the cost of the deposit).
- 11.16 Therefore we suggest that Sutton adopt the Affordable Rent tenure at the level of 60% of market value this is suitable in Sutton for three reasons:
- 60% is the highest level it can be set at whilst costing less than shared ownership properties
 - 60% is the lowest level it can be set at whilst costing more than social rented properties
 - at the 60% level the grant requirement for provision is much reduced (see Chapter 9).

The place of the evidence base

- 11.17 The findings in this report form part of the evidence base to inform the officers and members of the Council in the development of policy. Evidence does not determine policy in isolation, as the opinions of local people and political priorities will influence the decisions taken. This advice should be considered with other evidence (such as viability, and the Strategic Housing Land Availability Assessment (SHLAA) when formulating policy.

Glossary

Affordability

Affordability (or ability to afford) is a measure of whether households can access and sustain the cost of private sector housing. This can be assessed via mortgage or rental costs. The measure of mortgage affordability used in the model is based on Strategic Housing Assessments Practice Guidance (August 2007), usually using a standard mortgage multiplier of 3.5 times income. Rental affordability is defined as the total weekly outlay less than 25% of the household's gross weekly income, although this percentage may be varied.

Affordable housing

The formal definition of affordable housing is contained in PPS3. Affordable housing includes social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. The definition is in the process of being altered to include Affordable Rent and is expected to be as follows.

Affordable Housing

Affordable housing includes social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Affordable housing 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*
- *Include provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision.*

Social rented housing is:

Rented housing owned and managed by local authorities and registered social landlords, for which guideline target rents are determined through the national rent regime. The proposals set out in the Three Year Review of Rent Restructuring (July 2004) were implemented as policy in April 2006. It may also include rented housing owned or managed by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency as a condition of grant.

Affordable rented housing is:

Rented housing provided by registered providers of social housing, that has the same characteristics as social rented housing except that it is outside the national rent regime, but is subject to other rent controls that require it to be offered to eligible households at a rent of up to 80 per cent of local market rents.

Intermediate affordable housing is:

Housing at prices and rents above those of social rent, but below market price or rents, and which meet the criteria set out above. These can include shared equity products (e.g. HomeBuy), other low cost homes for sale and intermediate rent but does not include affordable rented housing.

Affordable housing should be at a cost which is below that of housing typically available in the open market and should be available at a sub-market price in perpetuity. This may include some shared ownership housing, but such schemes are not by definition affordable, since their overall cost to the purchaser is frequently above market entry level.

There is an ambiguity in PPS3; intermediate housing is defined as being 'below market price or rents', while 'affordable housing' is defined with reference to 'local house prices'. In principle, however, the Strategic Housing Assessments Practice Guidance (August 2007) defines affordable housing as being targeted at those households 'whose needs are not met by the market', and rationally speaking, this would suggest that all affordable and intermediate housing should be below the overall market entry level, including private rent.

Affordable rent

See definition of affordable housing above.

Annual need

The combination of the net future need plus an allowance to deal progressively with part of the net current need (the backlog of need).

Average

The term 'average' when used in this report is taken to be a mean value unless otherwise stated.

Bedroom standard

The bedroom standard is that used by the ONS General Household Survey, and is calculated as follows: a separate bedroom is allocated to each cohabiting couple, any other person aged 21 or over, each pair of young persons aged 10-20 of the same sex, and each pair of children under 10 (regardless of sex). Unpaired young persons aged 10-20 are paired with a child under 10 of the same sex or, if possible, allocated a separate bedroom. Any remaining unpaired children under 10 are also allocated a separate bedroom. The calculated standard for the household is then compared with the actual number of bedrooms available for its sole use to indicate deficiencies or excesses. Bedrooms include bed-sitters, box rooms and bedrooms which are identified as such by respondents even though they may not be in use as such.

Concealed household

A household that currently lives within another household, but which has a preference to live independently.

Current need

Households in current need are those whose current housing circumstances fall below accepted minimum standards. This would include households living in overcrowded conditions, in unfit or seriously defective housing, families sharing, and homeless people living in temporary accommodation or sharing with others.

Demand

This refers to market demand for housing, rather than simply aspirations. For the purposes of this study, a household is only considered able to create demand for housing if they have both the aspiration to buy or rent that type of housing and the financial capacity to do so.

Entry Level Prices and Entry Level Rents

In the context of Housing Need (and Strategic Housing Market Assessments generally) the entry level price or rent is considered to be the lower quartile of the market. In other words, a quarter of properties (either to buy or rent) will have a lower cost than this figure.

This approach is endorsed by Guidance (SHMA Practice Guidance Version 2, CLG August 2007, pp. 27), since the very lowest cost properties in the market may be low in price because they are not suitable for all households, or may require additional expenditure on renovation.

Financial capacity

This is defined as 3.5 times household income, plus savings and equity (the value of the property owned by owner-occupiers, typically the family home, net of mortgage). This provides an indication of the amount which the household concerned could afford to pay for housing.

Grossing up

Converting the numbers of actual responses in a social survey to an estimate of the number for the whole population. This normally involves dividing the expected number in a group by the number of responses in the survey.

Household and Head of Household

A household is defined as either one person living alone, or a group of people who have the address as their only or main residence, and who either share one meal a day or share a living room. The household head, when derived from survey data, is taken to be the first adult (person aged 18 or over) detailed by the respondent on the survey form, except in cases where no-one in the household is aged 18 or over. In this case the household head is taken to be the first person listed aged 16 or over.

Household formation

The process whereby individuals in the population form separate households. 'Gross' or 'new' household formation refers to households which form over a period of time, conventionally one year. This is equal to the number of households existing at the end of the year which did not exist as separate households at the beginning of the year (not counting 'successor' households, when the former head of household dies or departs).

Housing Market Area

The geographical area in which a substantial majority of the employed population both live and work, and where most of those changing home without changing employment choose to stay.

Housing need

A household in housing need is defined as a household that lacks their own housing or lives in unsuitable housing and who cannot afford to meet their housing needs in the market, therefore requiring affordable housing.

Housing Register

A database of all individuals or households who have applied to a local authority or an RSL for a social tenancy or for access to some other form of affordable housing. Housing Registers, often called waiting lists, may include not only people with general needs but people with support needs or requiring access because of special circumstances, including homelessness.

Housing type

Refers to the physical built form of a dwelling, for example, a flat or a terraced house.

Income

The term 'income' can be taken to refer to gross household income exclusive of any housing-related benefits (but inclusive of all other benefits, pensions, dividends etc.) unless otherwise qualified.

Intermediate housing

PPS3 defines intermediate housing as '*housing at prices and rents above those of social rent but below market prices or rents and which meet the criteria set out above. These can include shared equity products, other low cost homes for sale and intermediate rent.*' It should be noted, however, that a shared equity product (such as Low Cost Home Ownership) does not automatically become intermediate housing since it is possible for the cost of that product to be higher than entry level market rent.

Key workers

Nationally, key workers are usually defined as individuals in specific occupations considered critical for the smooth running of local infrastructure. Usually these are public sector workers, especially those in the emergency services, although there is no standard or universally agreed definition.

Low Cost Market Housing

Newbuild housing offered for sale as owner-occupied to a specific group of households at a subsidised rate. This would not normally qualify as 'affordable' housing, since it is likely to be above market entry level in terms of cost. While it offers a discount on the usual price of a newly built property, it will usually still be considerably more expensive than private renting, and depending on local market circumstances may sometimes be more expensive than buying a similar second hand property on the open market.

Lower quartile

The value below which one quarter of the cases in question fall. In relation to house prices, it means the price of the house that is one-quarter of the way up the ranking from the cheapest to the most expensive available in an area.

Mean

The mean is the most common form of average used. It is calculated by dividing the sum of a distribution by the number of incidents in the distribution.

Median

The median is an alternative way of calculating the average. It is the middle value of the distribution when the distribution is sorted in ascending or descending order.

Migration

The movement of people between geographical areas, usually measured as an annual number of households, living in one area at a point in time, who were not resident in that area one year earlier.

Net need

The difference between gross need and the expected supply of available affordable housing units (e.g. from the turnover of existing dwellings).

Newly arising need

Need generated by new households which are expected to form over a period of time and are likely to require some form of assistance to gain suitable housing, taken together with need generated by other existing households whose circumstances change over the period so as to place them in a situation of need (e.g. households losing accommodation because of loss of income, relationship breakdown, eviction, or some other emergency).

Overcrowding

An overcrowded dwelling for the purposes of this study is one which has fewer rooms than are required for the occupants according to the Bedroom Standard (see above).

Planning Policy Statement (PPS)

Planning Policy Statements (PPSs) are prepared by the Government after public consultation to explain statutory provisions and provide guidance to local authorities and others on planning policy and the operation of the planning system. They also explain the relationship between planning policies and other policies which have an important bearing on issues of development and land use.

Local authorities must take their contents into account in preparing their development plan documents. The guidance may also be relevant to decisions on individual planning applications and appeals.

Primary data

Information that is collected from a bespoke data collection exercise (e.g. surveys, focus groups or interviews) carried out for this study.

Priority housing need

Although this term may have a wide variety of meanings in other contexts, in this report it has been used solely with reference to the market balance model, to refer to the prioritisation within the model of certain types of household in housing need (older person households and those with children) for allocation of affordable housing.

Random sample

A sample in which each member of the population has an equal chance of selection.

Relets

Social rented housing units which are vacated during a period and become potentially available for letting to new tenants.

Rounding error

Totals in tables may differ by small amounts (typically one) due to the fact that fractions have been added together differently. Thus a table total may say 2011, and if the individual cell figures are added the total may come to 2012. This is quite normal and is a result of the method of calculation; results are weighted to fit the estimated population and therefore an individual response to the survey will not normally be taken to represent an exact number of whole households. The usual practice is to use the stated total (in the above case 2011) rather than the figure of 2012 to which the individual figures sum. That is because the total will have resulted from a rounding after all the fractions are taken fully into account.

Sample survey

Collects information from a known proportion of a population, normally selected at random, in order to estimate the characteristics of the population as a whole.

Sampling frame

The complete list of addresses or other population units within the survey area which are the subject of the survey.

Secondary data

Existing information that has been collected for a different study or different purpose. For example, data from administrative systems and some research projects are made available for others to summarise and analyse for their own purposes (e.g. Census, Annual Business Enquiry).

SHMA (Strategic Housing Market Assessment)

The term SHMA derives from Government Guidance suggesting that the 'evidence base' required for the good planning of an area should be the product of a process rather than a technical exercise.

SHLAA (Strategic Housing Land Availability Assessment)

The SHLAA is a technical assessment of the number of homes that could potentially be built on identified sites. It aims to: identify sites with a potential for housing, to assess their housing potential; and assess when they are likely to be developed and thus enable the Council to plan the delivery of new homes. A SHLAA forms part of the LDF evidence base.

Social rented housing

PPS3 defines social rented housing as '*rented housing owned by local authorities and Registered Social Landlords, for which guideline target rents are determined through the national rent regime, the proposals set out in the Three Year review of Rent Restructuring (July 2004) were implemented in policy in April 2006. It may also include rented housing owned or managed by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Housing Corporation as a condition of grant.*'

Specialist housing

This term is used in this report, in the context of the market balance model, to cover all forms of purpose-designed or communal housing such as sheltered, supported or extra care housing which caters to those (irrespective of age) who are unable to live independently in ordinary housing. It does not include ordinary housing which has had adaptations fitted (such as handrails) or receives services (for example meals on wheels) which may enable someone with support needs to live independently. It also does not include housing targeted at a specific market (for example older people generally) but which is not intended for those unable to live independently in normal housing.

Stratified sample

A sample where the population or area is divided into a number of separate sub-sectors ('strata') according to known characteristics based, for example, on sub-areas and applying a different sampling fraction to each sub-sector.

Specialised housing

Refers to specially designed housing (such as mobility or wheelchair accommodation, hostels or group homes) or housing specifically designated for particular groups (such as retirement housing).

Support needs

Relating to people who have specific additional housing needs, for example associated with a disability or long term illness.

Under-occupation

An under-occupied dwelling, for the purposes of this report, is one which exceeds the number of bedrooms required for the household according to the Bedroom Standard (see above) by two or more bedrooms.

Unsuitable housing

Housing inhabited by a household for which it is deemed unsuitable due to a set of fixed criteria taking into account its size, type, design, location, condition or cost. An individual household can have more than one reason for being in unsuitable housing. A household in unsuitable housing is not considered to be in housing need unless it is also found to be unable to afford suitable housing in the market either to buy or to rent.

Usefully affordable point

The 'usefully affordable point' in the context of this study refers to the mid-point between the cost of social rented housing and the cost of entry-level market housing. It represents a cost at which intermediate housing will be affordable to a reasonable proportion of households unable to access the market, therefore providing a genuine step on the housing ladder. This approach is consistent with that used in the original SHMA report.

Abbreviations

ABI	Annual Business Inquiry
ASHE	Annual Survey of Hours and Earnings
BHM	Balancing Housing Markets model
BME	Black or Minority Ethnic
CLG	Communities and Local Government (Government Department)
CORE	Continuous Recording System (provided by the Tenant Services Authority)
HMRI	Housing Market Renewal Initiative
HSSA	Housing Strategy Statistical Appendix
LHA	Local Housing Allowance
NOMIS	National Online Manpower Information System
ONS	Office for National Statistics
PPS12	Planning Policy Statement 12: Local Spatial Planning
PPS3	Planning Policy Statement 3: Housing
RSL	Registered Social Landlord
RSS	Regional Spatial Strategy (e.g. North West of England Plan)
SEH	Survey of English Housing
SHLAA	Strategic Housing Land Availability Assessment
SHMA	Strategic Housing Market Assessment
VAT	Value Added Tax