

April 2009

2008 London Strategic Housing Market Assessment

Executive Summary



MAYOR OF LONDON

**Greater London Authority
April 2009**

Published by
Greater London Authority
City Hall
The Queen's Walk
More London
London SE1 2AA

www.london.gov.uk

enquiries 020 7983 4100

minicom 020 7983 4458

ISBN **978-1-84781-229-2**

Copies of this report are available from
www.london.gov.uk

Background

1. This report is an executive summary of the 2008 London Strategic Housing Market Assessment (SHMA). The full technical report is available to view on the Greater London Authority website www.london.gov.uk
2. The SHMA produces results at the regional level only; in line with the two-track approach to housing market assessment in London agreed by the Greater London Authority, the Government Office for London and London Councils, London boroughs are encouraged to work together on a sub-regional basis to carry out housing market assessments. The results of the SHMA should therefore not be interpreted as implying that housing requirements are uniform across London; instead, there may be considerable local variation.
3. Strategic Housing Market Assessments (SHMAs) were established by government through Planning Policy Statement 3 (Housing). They are an important part of the evidence base for making local and regional housing and planning policy, and have been or are being undertaken in all the other English regions (often on a sub-regional rather than regional basis). SHMA findings provide part of the wider evidence base that should be taken into account when determining policies such as the amount and mix of housing provision, but its findings alone do not constitute housing targets.
4. When developing policy and setting housing targets, the Mayor will also need to take into account a range of other factors, including those set out in PPS3. This includes the available capacity for new housing, the objective of creating mixed and balanced communities, the need to ensure an economically viable private sector housebuilding industry in London, and the Government's overall ambitions for affordability and increasing housing supply.
5. The supply of affordable housing in particular is also heavily dependent on the availability of sufficient funding, which currently is largely in the form of grant from the Homes and Communities Agency.

The SHMA method

6. A SHMA is defined by both its outputs and the process followed in arriving at them. PPS3 requires that a SHMA produce estimates of future housing requirements in the area (in this case, the Greater London region) by tenure. In the case of affordable housing (comprised of social housing and intermediate housing, that is sub market rent and low cost home ownership products) these requirements must be broken down by the size of accommodation required.
7. PPS3 also specifies that the SHMA should be carried out in partnership with key stakeholders such as local authorities, housing developers and community groups. The GLA established a steering

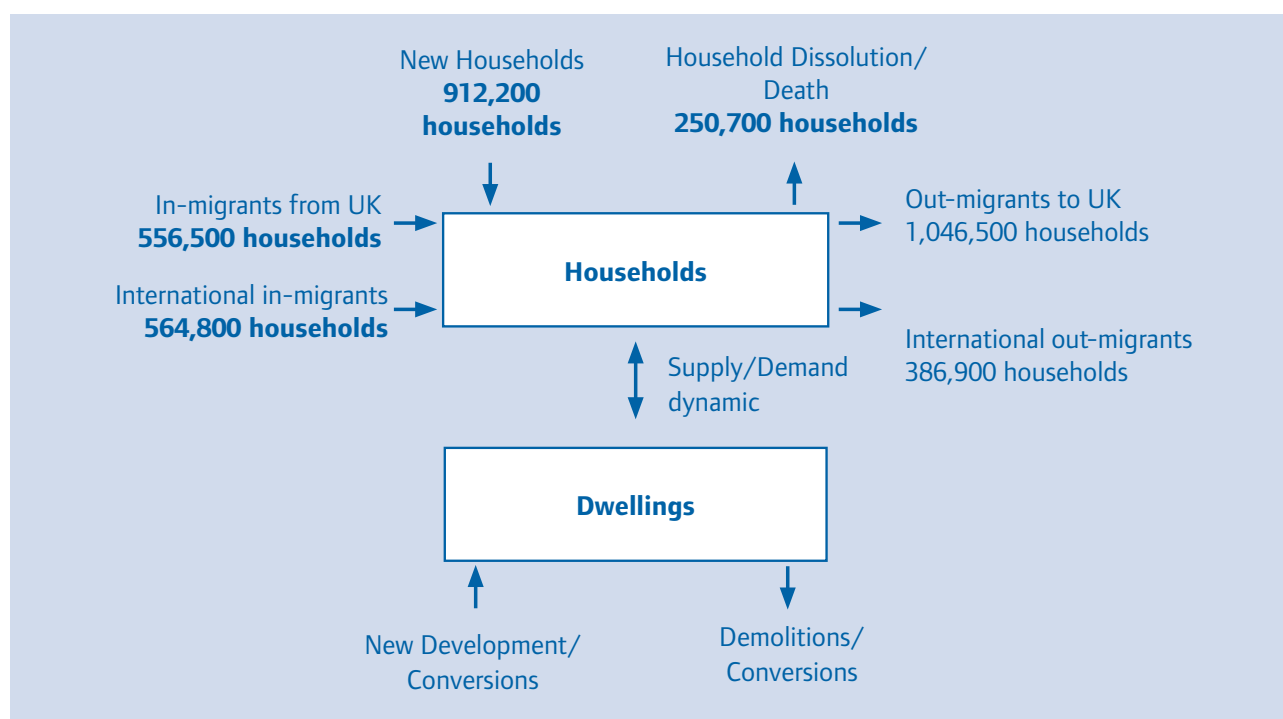
group to advise on the methods used, to suggest topics to cover and to comment on the emerging findings. The main report was written by consultants from Opinion Research Services, who also produced the 2004 HRS and who have a wide range of experience in carrying out SHMAs to a high standard around the country. Chapter 1 of this report provides full details of the process followed and the membership of the steering group.

8. The analysis in this report estimates housing requirements in London by calculating the net flows of households in and out of London's housing stock. Households are constantly forming in London or

moving in from elsewhere, just as others are leaving or dissolving (through death or relationship breakdown), and it is the balance or imbalance of requirements and supply for each type and size of home in London that we are concerned with. Figure 1 below summarises the main external flows (movement within London is not shown).

9. The analysis recognises the obvious but critically important fact that when a household moves to a new home, its previous home is freed up for another household to move into. This becomes particularly significant when households are moving within London from one size or tenure of home to another. For example,

Figure 1: Ten year requirement/supply flow analysis, 2007-2017



meeting the needs of one household currently living in unsuitable market housing by providing an affordable home will at the same time free up their current home for another household to move into.

10. The affordability of housing is another crucial consideration. Government guidance on SHMAs specifies the maximum proportion of its income that a household should be spending on its housing costs. Households paying above the threshold for market housing may require affordable housing, but (again in line with government guidance) the threshold for the affordability of market housing is set in relation to private rents as well as house prices. This means that the recent fall in house prices may not by have reduced the requirement for affordable housing if not accompanied by a fall in rents.
11. It is important to note that the net flows approach can identify notional 'surpluses' of particular kinds of housing when the number of households who are expected to require these homes is less than the number expected to become available. In contrast to the approach taken in the 2004 HRS, this report takes a pragmatic approach and attempts to predict the likely response to these surpluses, since it is unrealistic to assume that a 'surplus' of one type of housing would remain without being used to meet the requirements of other households. For example, a notional surplus of 3-bedroom social rented homes would probably be filled by a combination of allocations to smaller households, conversion into larger units, and allocations to households able to afford more than a social rent.
12. The 2008 SHMA provides a comparison of the assumptions made in the 2004 HRS with the actual trends in London's housing market and housing requirements since then. Whereas the 2004 HRS assumed that the use of private sector leased accommodation (PSL) for the homeless would decline over time as the backlog of homelessness was cleared, since the study there has been a large increase in both the total number of homeless households in London, and the number accommodated in PSL. This has had significant knock-on effects for the calculation of housing requirements by tenure. Other departures from assumptions used in the 2004 study include a lower level of net international in-migration than expected, and a strong growth in the size of the private rented sector, partly driven by the growth of the Buy to Let sector.
13. There are also important factors which have changed very little, however. In particular, the backlog of housing need (largely comprising households who are homeless, overcrowded or who live in housing unsuited to their needs) remains very large, and translates into a high requirement for social housing.

Results

14. The main outputs of the SHMA analysis are presented below, in two tables. In both cases the results are presented as ten-year totals (from 2007 to 2017) of net requirements by tenure and size of home required.
15. Table 1 sets out the results of the main scenario, which assumes that housing supply does not exceed the requirements identified, and that the backlog of existing housing need is cleared over ten years (so that after ten years there would be no more cases of homelessness, overcrowding or other types of housing need in London). These results also take into account a variety of adjustments based on likely responses to notional surpluses of particular kinds of housing (see paragraph 11 above).

Chart 1: Housing requirements, 2007 to 2017

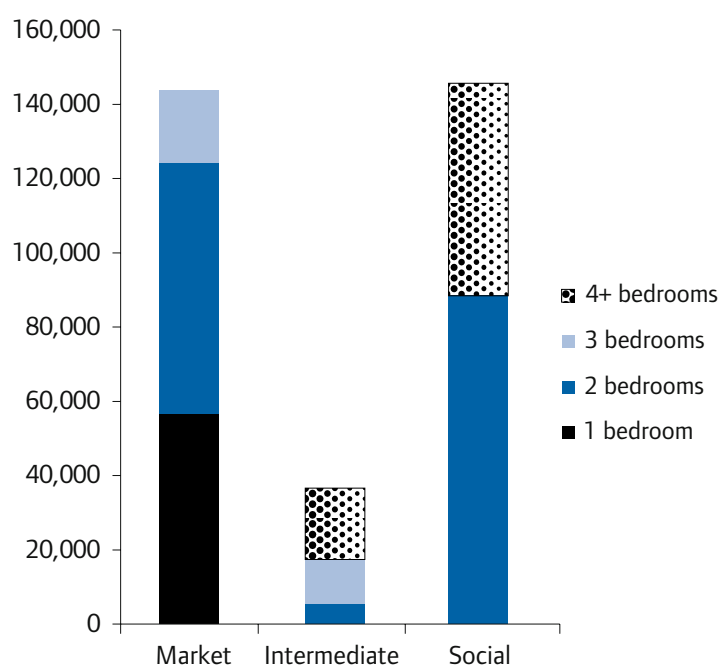


Table 1: Housing requirements, 2007 to 2017 – Main scenario

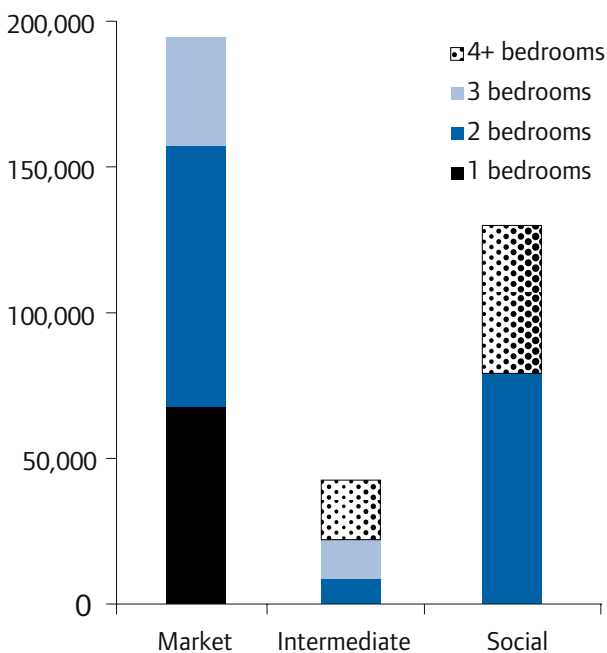
Size	Housing tenure			All tenures
	Market	Intermediate	Social	
1 bedroom	56,500	-	-	56,400
2 bedrooms	67,800	5,300	88,400	161,500
3 bedrooms	19,400	12,000	-	31,300
4+ bedrooms	-	19,300	57,200	76,500
Total	143,600	36,500	145,600	325,800

Note: a dash indicates no net requirement or surplus as requirements and supply are in balance.
Totals may not sum due to rounding

16. The zero figures in some categories do not mean that no such properties should be supplied in London; as already stated, the regional averages will by definition hide local variation which may in some cases justify provision of, for example, some three-bedroom social rented homes in place of two- or four-bedroom homes.
17. A second scenario considers the effects on the mix of requirements of an overall rise in supply roughly in line with the upper end of the supply range recently proposed by the National Housing and Planning Advice Unit. The NHPAU have used a different methodology to that of the SHMA to estimate the housing supply levels which would be required to stabilise affordability and address demographic pressures in each English region.
18. The analysis of this scenario makes the assumption that if these additional homes are built in London they will not stand empty; instead, the higher supply will most likely result in lower net out-migration from London to the rest of the UK. In contrast to domestic migration, international migration is mainly determined by the relative strength of the UK economy, and household formation is driven by relatively fixed demographic factors. As the households who leave London tend to have relatively high incomes, lower net out-migration means that more London households are able to afford market housing, and the market requirement therefore rises in comparison to the requirement for affordable housing.
19. As with the first scenario, a number of adjustments are made on the basis of assumptions about the likely distribution of any initial surpluses, which taken together have the effect of reducing the total requirement in this scenario from an initial 382,000 over ten years to 366,800. Finally, this scenario also assumes that the backlog of existing housing need is cleared over a 20-year timeframe, as this may be considered more realistic in light of London's persistently high housing need than the ten years to clear the backlog used in the baseline requirements.
20. The results of this scenario are set out in Table 2 below. It is important to note here that this exercise is simply intended to estimate the impact on the mix of requirements of raising overall supply to a level approximating the top of the range proposed by NHPAU.

Table 2: Housing requirements, 2007 to 2017, assuming higher rate of overall delivery

Size	Housing tenure			All tenures
	Market	Intermediate	Social	
1 bedroom	67,600	-	-	67,600
2 bedrooms	89,700	8,600	79,100	177,400
3 bedrooms	37,300	13,400	-	50,700
4+ bedrooms	-	20,500	50,700	71,100
Total	194,600	42,400	129,800	366,800

Chart 2: Housing requirements, 2007 to 2017, assuming higher rate of overall delivery

Discussion of results

20. Although a number of further scenarios are run on the core outputs based on plausible future trends in demographics and market conditions tested (the results of which are presented in appendix B to the main report), some key results consistently stand out:

- Overall housing requirements in London remain high in comparison to identified capacity to accommodate new homes (305,000 from 2007/08 to 2016/17 in the London Plan, 2008).
- The need for affordable housing (particularly social housing) is high due to the continuing problems of affordability, homelessness and overcrowding in London.
- Larger homes (four bedrooms or more) constitute a high proportion of the social housing requirement, again due mostly to the high levels of overcrowding in London.

21. Some of the results may, however, require more explanation. Firstly, the baseline scenario results reach a lower total (around 32,600 homes a year) than the 2004 HRS (35,400 a year). This is largely due to the fact that net international in-migration has been significantly lower in London than was expected at the time of the 2004 study, and this lower level is projected to continue.
22. Secondly, there is no identified requirement for the larger homes in the market sector, i.e. those with 4 bedrooms or more. This is because the supply that becomes available as existing large market homes are vacated by their current occupiers is greater than the 'effective demand' for such properties, which is reduced because they have become so expensive to buy or rent in London. According to the government's definitions, many of the households who seek to buy or rent in the market can only really afford intermediate accommodation.
23. Because this study is an objective assessment of housing requirements, it does not take into account potential policy objectives such as trying to retain more families in London, or the choices sometimes made in the market to over- or under-occupy a home. These or other policy considerations could lead to different approaches towards the provision of new family-sized market housing.
24. The prohibitive cost of larger market homes feeds into the identified requirement for large numbers of family-sized intermediate housing but relatively few small units. The market, in particular the private rented sector, is very well supplied with small, relatively cheap homes at present, which means that many households in the intermediate bracket are currently having their needs met in the private rented sector. The appropriate policy response may however again diverge from what the findings may appear to dictate, particularly if there is an objective of helping younger households get a foot on the housing ladder through low cost home ownership options.
25. The SHMA report also sets out a number of other findings. In particular, the report discusses the characteristics and housing requirements of various 'sub-groups', such as older people, key workers and students. These findings are set out in Chapter 6 of the main report.
26. Appendix B of the report sets out the results of a variety of scenario tests, including the impact of changes in the housing market from the March 2007 baseline, such as a significant fall in house prices of the kind currently occurring. The results show that changes in house prices have little or no effect on their own on housing requirements, mainly because the threshold for 'market' affordability is set by the lower of house prices or private rents, and the latter are usually much lower for any given type or location of home.

Other formats and languages

For a large print, Braille, disc, sign language video or audio-tape version of this document, please contact us at the address below:

Public Liaison Unit

Greater London Authority
City Hall
The Queen's Walk
More London
London SE1 2AA

Telephone **020 7983 4100**
Minicom **020 7983 4458**
www.london.gov.uk

You will need to supply your name, your postal address and state the format and title of the publication you require.

If you would like a summary of this document in your language, please phone the number or contact us at the address above.

Chinese

如果需要您母語版本的此文件，
請致電以下號碼或與下列地址聯絡

Vietnamese

Nếu bạn muốn có văn bản tài liệu này bằng ngôn ngữ của mình, hãy liên hệ theo số điện thoại hoặc địa chỉ dưới đây.

Greek

Αν θέλετε να αποκτήσετε αντίγραφο του παρόντος εγγράφου στη δική σας γλώσσα, παρακαλείστε να επικοινωνήσετε τηλεφωνικά στον αριθμό αυτό ή ταχυδρομικά στην παρακάτω διεύθυνση.

Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız veya adrese başvurunuz.

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Hindi

यदि आप इस दस्तावेज़ की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دئے گئے پتے پر رابطہ کریں

Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.