EAST[7]

THE VOICE OF
HOUSING IN THE
EAST OF ENGLAND

Build East - The Future of Housing in the East of England

Summary report, May 2016

savills

ABOUT EAST 7

East 7 is an informal alliance of the largest developing housing associations based across the East of England, committed to providing a range of housing that meets the needs and ambitions of our divergent communities.

Collectively East 7 directly employs more than 5,000 people, manages more than 150,000 properties and houses over 350,000 people.

Our members are bpha Ltd, Circle, Cross Keys Homes, Estuary Housing Association, Flagship Group, Grand Union, Hightown Praetorian & Churches Housing Association, and North Hertfordshire Homes.

By examining the pressures on the housing market and providing analysis of the types of housing needed to meet current and future demand in the East of England, this report will assist member organisations and the wider sector in their delivery ambitions for the future.

The full report is available at east7.co.uk

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1. EXECUTIVE SUMMARY

The East as a microcosm of the national housing market: All of the national housing concerns, ranging from affordability to lack of housebuilding to pressure on the private rented sector, are present across the region. Within the region clear patterns emerge, enabling local authorities with similar issues to be grouped together, e.g. commuter belt and rural hinterland.

Identifying the need for 'sub-market' housing: Out of estimated annual housing need for 31,000 households across the region, we have calculated that 8,000 are likely to be unable to access market-priced homes. The income profile of this group varies by location and one size doesn't fit all in terms or product or tenure. 81% of this group (equivalent to over 6,000 newly-formed households per year) have an annual household income below £20,000, so homeownership is out of reach.

Moving towards a two-tier market: Recent price growth has been limited to the strongest markets and most desirable locations, and the trend could continue. This is expected to lead to a widening gap between the housing haves and have nots across the region, with acute issues around access to homeownership among younger generations in some of the higher value markets.

Private renting is getting stretched at both ends of the market: The private rented sector has more than doubled in size over the past decade. In affluent commuter locations, high rents mean that two incomes are often necessary to afford an average property, and are a barrier to aspiring first time buyers saving up for a deposit. In low value urban areas the pressure comes in the form of low income groups unable to access social housing with a reliance on housing benefit.

Current housebuilding rates will not meet need: Projecting forward the current gap between housebuilding and household formation over ten years results in a shortfall of over 84,000 homes across the region, equivalent to a city the size of Peterborough. Well-capitalised housing associations are well placed to make up some of this gap.

Delivering across a range of tenures: Shared ownership, with low deposits and small first tranches, should work in high value locations where buyers are priced out of full ownership, even with Help to Buy. But for households with low or unstable incomes or unable to raise the deposit required to access the schemes, housing issues persist. There remains a need to deliver traditional affordable rented housing for this group.

Dealing with the demographics: Housing equity is increasingly held by the older generations. Families and affluent young professionals are being increasingly confined to the private rented sector, so understanding the local nature of rental demand is key to successfully developing new rented housing. 20% of the region's over 65s are not owner occupiers, and providing for their housing needs is likely to be a growing challenge.

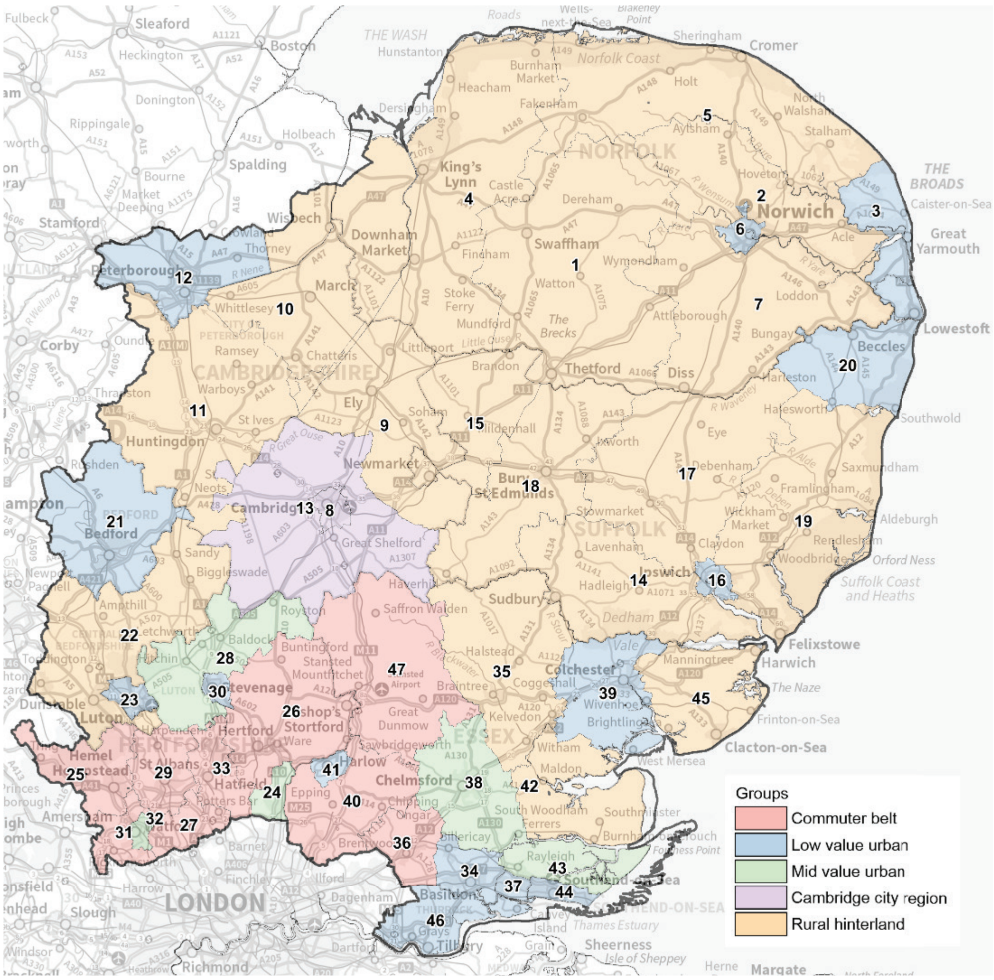
2. INTRODUCTION

The UK housing market is complex and made up of an interconnected network of various different issues, and in the East of England this is no different. There are significant contrasts between:

- Affluent, high value, urban commuter markets such as St Albans and Hertsmere;
- Lower value regional cities with high levels of deprivation, such as Peterborough and Norwich;
- A large, rural and coastal hinterland of low to mid value markets including Fenland and Breckland.

Each of the individual areas shown below in Figure 1 faces its own housing challenges. Indeed, all of the national housing concerns, ranging from affordability to lack of housebuilding to pressure on the private rented sector, are present across the region to varying degrees.

Figure 1 - Key to local authorities of the East*



1	Breckland
2	Broadland
3	Great Yarmouth
4	Kings Lynn and West Norfolk
5	North Norfolk
6	Norwich
7	South Norfolk
8	Cambridge
9	East Cambridgeshire
10	Fenland
11	Huntingdonshire
12	Peterborough
13	South Cambridgeshire
14	Babergh
15	Forest Heath
16	Ipswich
17	Mid Suffolk
18	St Edmundsbury
19	Suffolk Coastal
20	Waveney
21	Bedford
22	Central Bedfordshire
23	Luton
24	Broxbourne
25	Dacorum
26	East Hertfordshire
27	Hertsmere
28	North Hertfordshire
29	St Albans
30	Stevenage
31	Three Rivers
32	Watford
33	Welwyn Hatfield
34	Basildon
35	Braintree
36	Brentwood
37	Castle Point
38	Chelmsford
39	Colchester
40	Epping Forest
41	Harlow
42	Maldon
43	Rochford
44	Southend-on-Sea
45	Tendring
46	Thurrock
47	Uttlesford

* Source: OS Open Data

3. HOUSING AFFORDABILITY

Homeownership

House prices in the region have diverged strongly over the past ten years with more affluent areas showing significantly higher price growth over the period. Cambridge stands out as the strongest market in terms of price growth, with values almost doubling in the past ten years and currently sitting almost 50% above their 2008 peak. By contrast, values in nearby Peterborough have only grown by 13% over the same period and have not yet returned to their previous peak.

This contrasts significantly with the previous ten year period, when more valuable markets performed strongly initially and lower value markets then caught up later in the cycle. This is due to a national 'ripple effect', where equity from London homeowners, and London wages, moves out into the commuter belt once the value gap becomes very large. Towards the end of a cycle, the wealth continues to ripple out to secondary locations as affordability becomes stretched in the stronger markets: lower value Great Yarmouth had the most house price growth in the region between 2000 and 2005.

Back then this was enabled in part by a large increase in the availability of mortgages for buyers on lower incomes, which is unlikely to be repeated in the current financial environment.

The implication is that we may be moving towards a more permanent two-tier market, with growth limited to the strongest and most desirable locations. This is expected to lead to a widening gap between the housing haves and have nots across the region, with acute issues around access to homeownership among younger generations in some of the higher value markets.

Renting

Across the region median monthly private sector rents for a two bedroom property range from £1,281 in Hertsmere to £560 in Waveney. But to get a better measure of relative affordability it is important to compare this to incomes. The resulting rental affordability ratio for both one and two median earners is shown in Figure 3. In general spending 30% of gross income on housing costs is deemed the limit of affordability, and the chart shows that is not achievable anywhere for a median single earner household, making private renting of a two bed or larger property often dependent on having dual household incomes.

The least affordable markets on this measure are generally in the commuter belt. Even a household with two median earners in these locations would struggle to save towards a deposit in order to buy a house while meeting these rental costs.

In lower value rental markets such as South Norfolk and Suffolk Coastal these pressures are less acute, but our analysis shows that these areas have higher proportions of less affluent private renters, leading to a different set of affordability pressures.

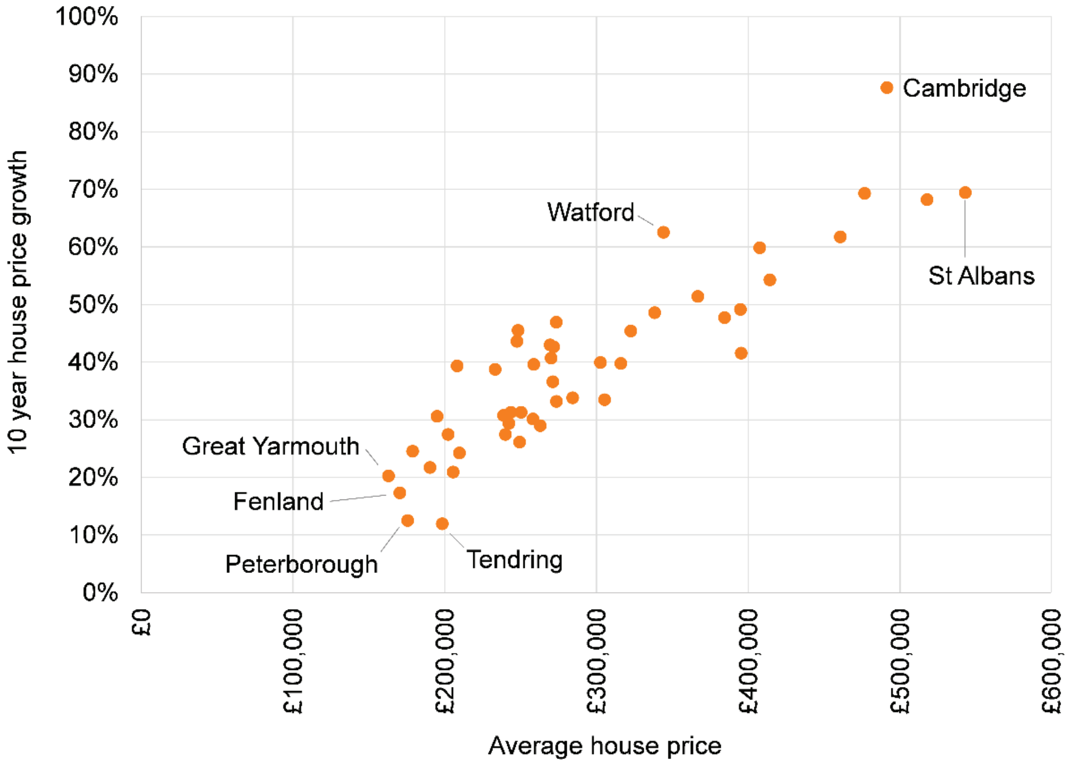
This has typically arisen due to a lack of access to social housing, pushing more low earning households into the private rented sector. Areas where this could be a major issue are those with both a large gap between private and social rents, and a high proportion of less affluent renters, including the likes of Peterborough, Luton and Southend. Whilst presenting significant challenges, these markets offer opportunities for housing associations to offer a more affordable, more secure alternative to private renting. More analysis of the demographic pressures facing the rental markets is detailed later in the report.

Excluded households

Having regard to the distribution of household incomes and private housing costs, we estimated that across the East of England 8,000 out of around 31,000 total new households each year will be unable to access market-priced housing. The income profile of this group varies by location and one size doesn't fit all in terms of product or tenure, but at a regional level 81% of these emerging households have a total annual income below £20,000 meaning that homeownership is not a viable option.

The average social rent in the region is around £450 per month, which would take up around 40% of the group's median household income of £13,000. This is also unaffordable and shows that housing benefit will continue to play an important role in funding housing for low income households.

Figure 2 - Average house prices (12 months to February 2016) and 10 year growth*



*Source: Land Registry

Figure 3 - Rental affordability ratios - median 2 bed private rent as proportion of income*

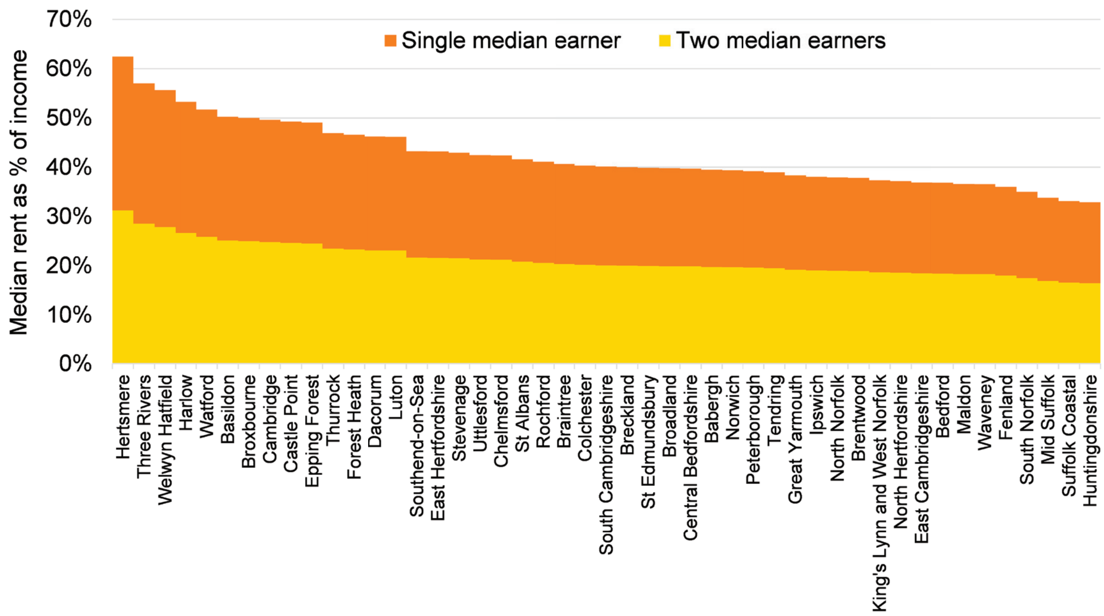
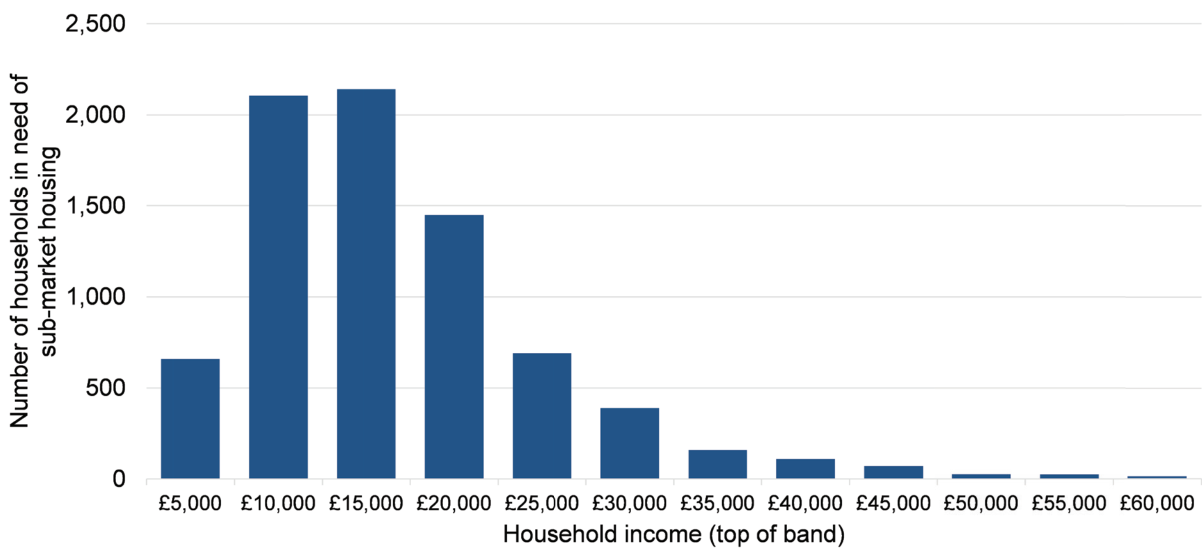


Figure 4 - The range of incomes for households in need of sub-market housing**



*Source: Rightmove, ASHE
**Source: Savills using CACI, Land Registry, Rightmove, 2011 Census and Holmans for TCPA

4. HOUSEBUILDING

Lack of supply

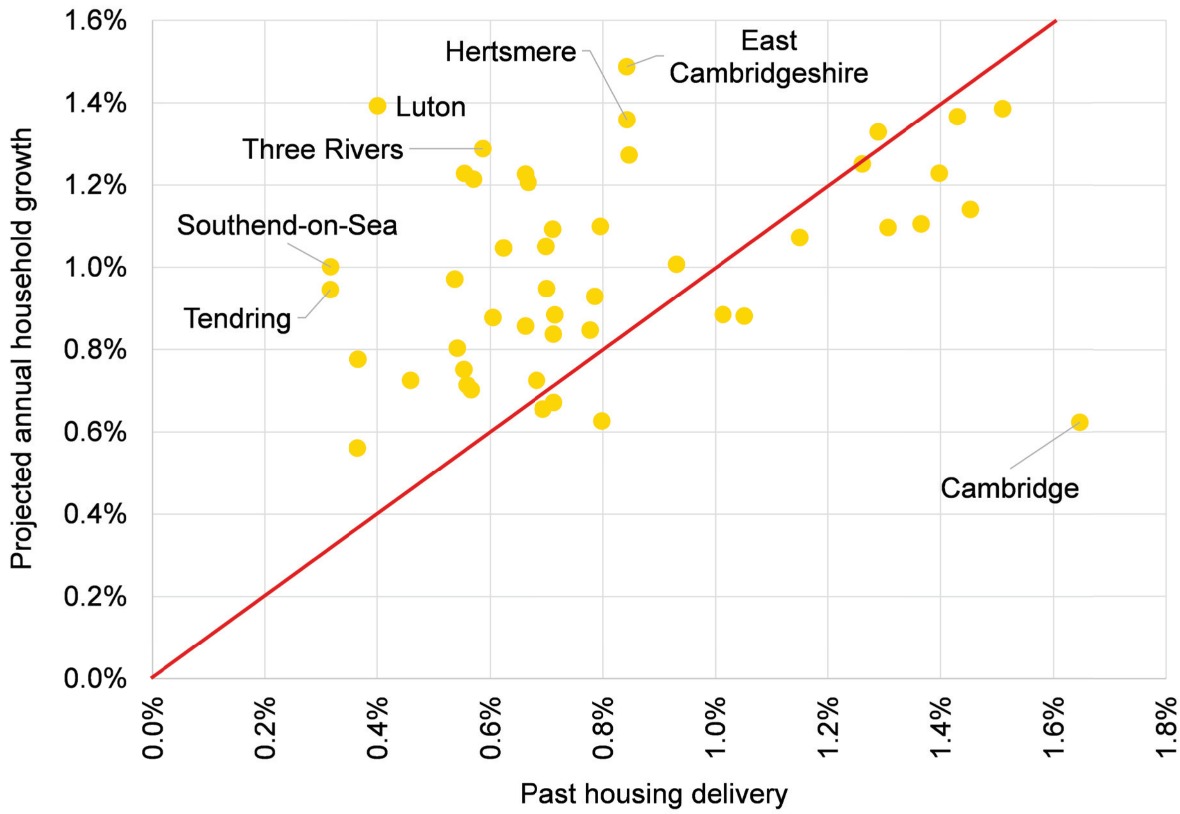
The East contains some markets that have historically delivered high levels of new homes. Many have not however, due to relatively weak sales markets in a period of greater mortgage regulation and/or environmental constraints.

Figure 5 shows average delivery from 2011 to 2015 and projected household growth as proportions of existing stock. Cambridge has delivered the most at 1.6% per annum, Tendring the least at 0.3%. In general the low delivery locations are either in the London Green Belt or in coastal areas.

The chart shows that most locations are the 'wrong' side of the line, so will need to increase delivery levels to keep pace with the required volumes of homes. If we project forward these recent delivery rates over ten years there would be a shortfall of over 84,000 homes across the region, equivalent to a city the size of Peterborough.

Although many major national housebuilders have plans to increase their output, there are limits to how quickly they can achieve this. Well-capitalised housing associations are therefore well placed to make up some of this gap, particularly in locations where the major housebuilders are less active.

Figure 5 – Average annual delivery of new homes (2011-2015) vs. projected annual growth in households (2012-2037), both as % of existing stock*



*Source: DCLG

Government schemes

Schemes such as shared ownership and Help to Buy Equity Loan aim to help with the upfront cost of accessing home ownership by reducing the deposit required. But these both apply to new homes only so are supply limited, meaning that in areas with low levels of housebuilding aspiring buyers' options are more limited.

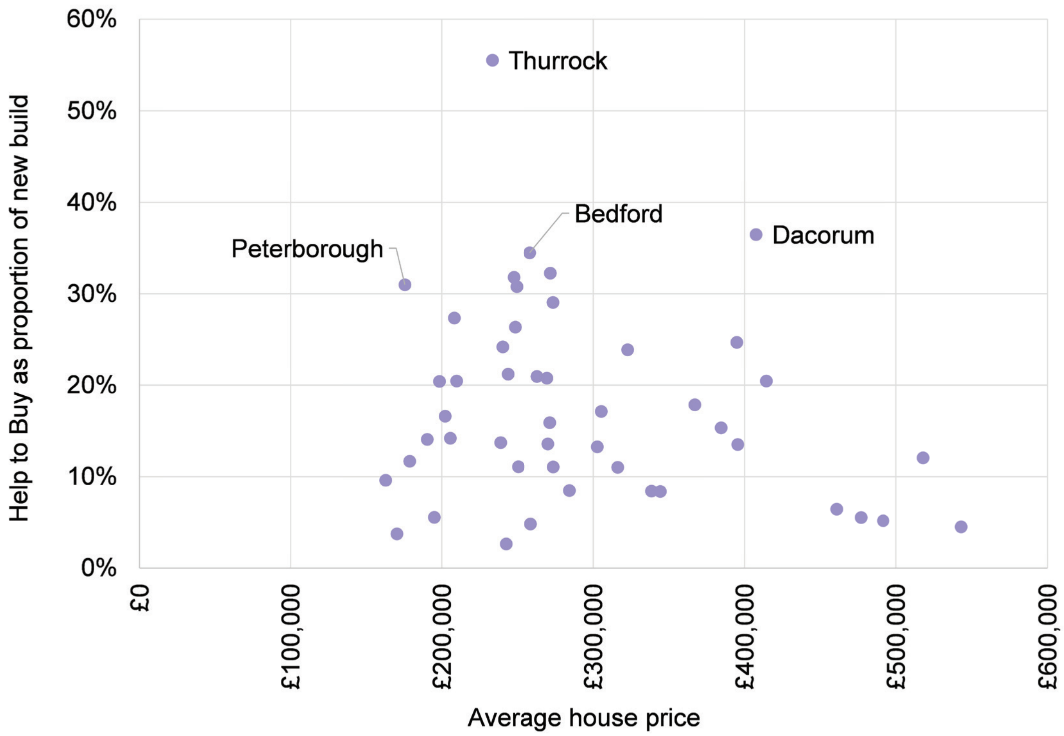
Figure 6 shows that most of the higher value markets, where one might expect the greatest demand for products which lower the barriers to homeownership, have in fact seen low take up of Help to Buy. This suggests that deposit-constrained buyers simply find these locations too expensive, even with the assistance of Help to Buy. The scheme is therefore only helping a narrow band of reasonably affluent buyers, in high delivery, relatively affordable markets. This reinforces our view that we need new housing supply across a wider range of tenures.

Developing affordable housing

Shared ownership, with low deposits and small first tranches, should work in the locations where Help to Buy is too expensive. But for households with low or unstable incomes or unable to raise the deposit required to access such schemes, housing issues persist.

There remains a need to deliver traditional affordable rented housing for this group. Without Government funding the challenge for housing associations will be to fund this through cross-subsidy from other schemes without overexposing themselves to the cyclical nature of the housing market. Housing associations do have some competitive advantages in this regard: large balance sheets; access to low cost capital; and experience in delivering and managing homes of different tenures.

Figure 6 – Take up of Help to Buy Equity Loan (since launch, as % of all new build) vs. average house price (12 months to February 2016)*



*Source: Land Registry, DCLG

Example: Scheme comparison

For a typical £200,000 new home we have compared the different options for buying under the various Government schemes to a 'standard' first time buyer purchase, summarised in Table 1. The results show that, compared to a normal unassisted purchase, the schemes do reduce the deposit required significantly, with the monthly cost sensitive to mortgage rate but still competitive with the standard purchase.

Importantly, assuming a 5% yield, a £200,000 home would cost £833 per month to rent, more expensive than the monthly payments under any of the options. Clearly deposit affordability is a major barrier to homeownership, and the schemes go some way to addressing this.

Table 1 - Comparing home purchase options - Costs to buyers*

£200,000 home	Deposit	Mortgage	Typical interest rate (2 year fix)	Monthly repayments
'Average' First time Buyer (18% deposit)	£36,000	£164,000	1.6%	£664
Help to Buy Equity Loan ** (20% equity loan, 5% deposit)	£10,000	£150,000	2%	£636
Starter home*** (20% discount, 5% deposit)	£8,000	£152,000	3%	£721
Shared ownership (35% share, 10% deposit)	£7,000	£63,000	2.5%	(£283 mortgage + £298 rent) £581 total

** interest becomes payable after 5 years, loan must be repaid on sale or after 25 years
***deposit requirements and mortgage rates estimated as scheme details not finalised

*Source: Savills Research, CML

5. DEMOGRAPHICS

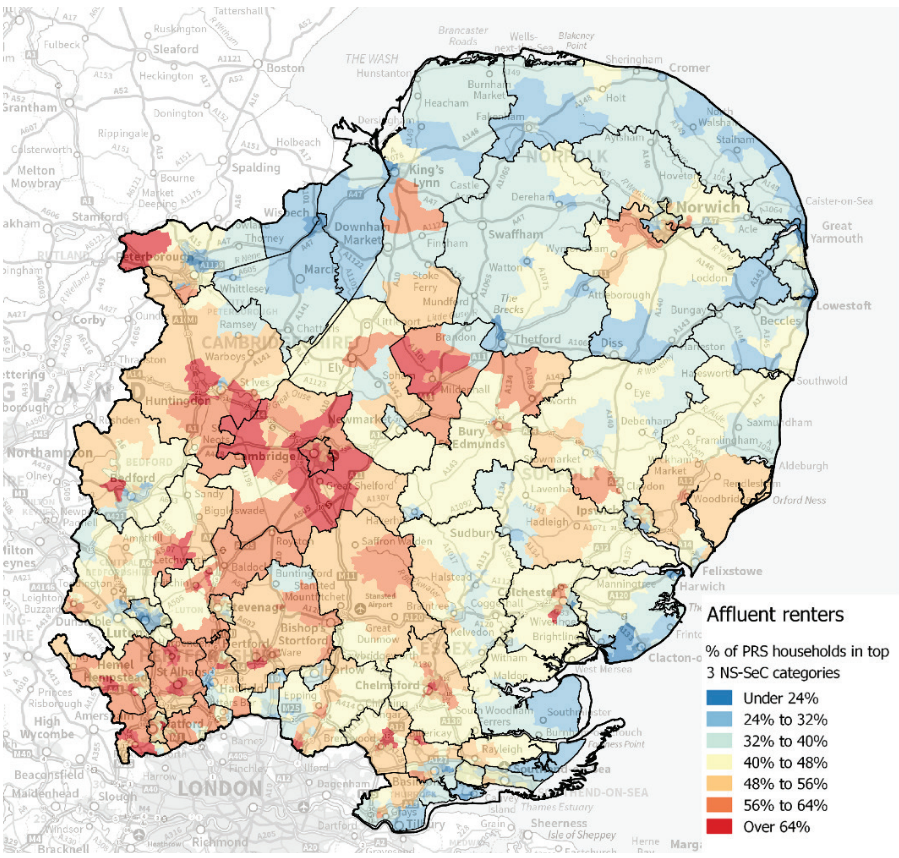
According to Census data, in the East the number of PRS households grew by 111% between 2001 and 2011. By contrast the number of households in the social rented sector only grew by 3%. Evidence from the English Housing Survey suggests that these trends have continued over the past five years, with increasingly affluent households confined to the private rented sector

Affluent renters

Figure 7 shows the proportion of PRS households in the top three (out of eight) socio-economic groups, with yellow areas being around the average (of 44%) for the region, red being higher and blue being lower. The map shows a clear hotspot around Cambridge, which is likely to be partly down to high house prices but also the more transient nature of employment in academia and research which are major sectors in the area. Closer to London there is also a large ‘above average’ area, particularly covering the high value commuter markets in and around Hertfordshire.

Housing associations have expertise in developing and managing large rented developments and portfolios, so providing market rented units at scale could be a useful way to generate additional funds to subsidise other tenures. By tapping into this market there is also the opportunity for Housing Associations to cross-subsidise the much needed delivery of more affordable homes. This requires an understanding of the changing nature of PRS demand at a local level.

Figure 7 - Affluence of households in PRS, 2011*



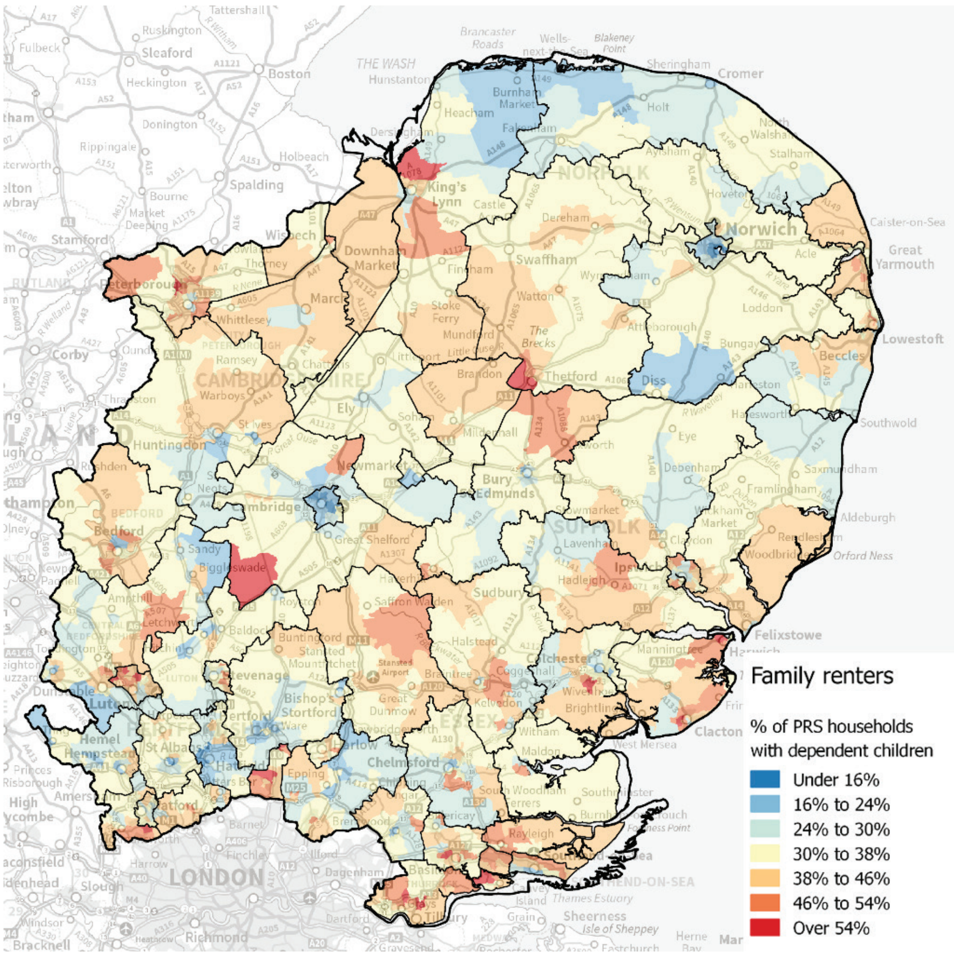
*Source: 2011 Census

Families in the PRS

In this respect the prevalence of families in private rented accommodation has also increased in recent times. Figure 8 is a map of the proportion of households in the PRS with dependent children. Again yellow areas are around the average (of 34%) for the region, red are higher and blue lower.

The map shows that major urban areas tend to be lower on the scale, suggesting that these rental markets are currently dominated instead by young professional renters. This indicates a growing need for privately rented family housing in a series of rural and suburban markets across the region.

Figure 8 - Families in the PRS, 2011*



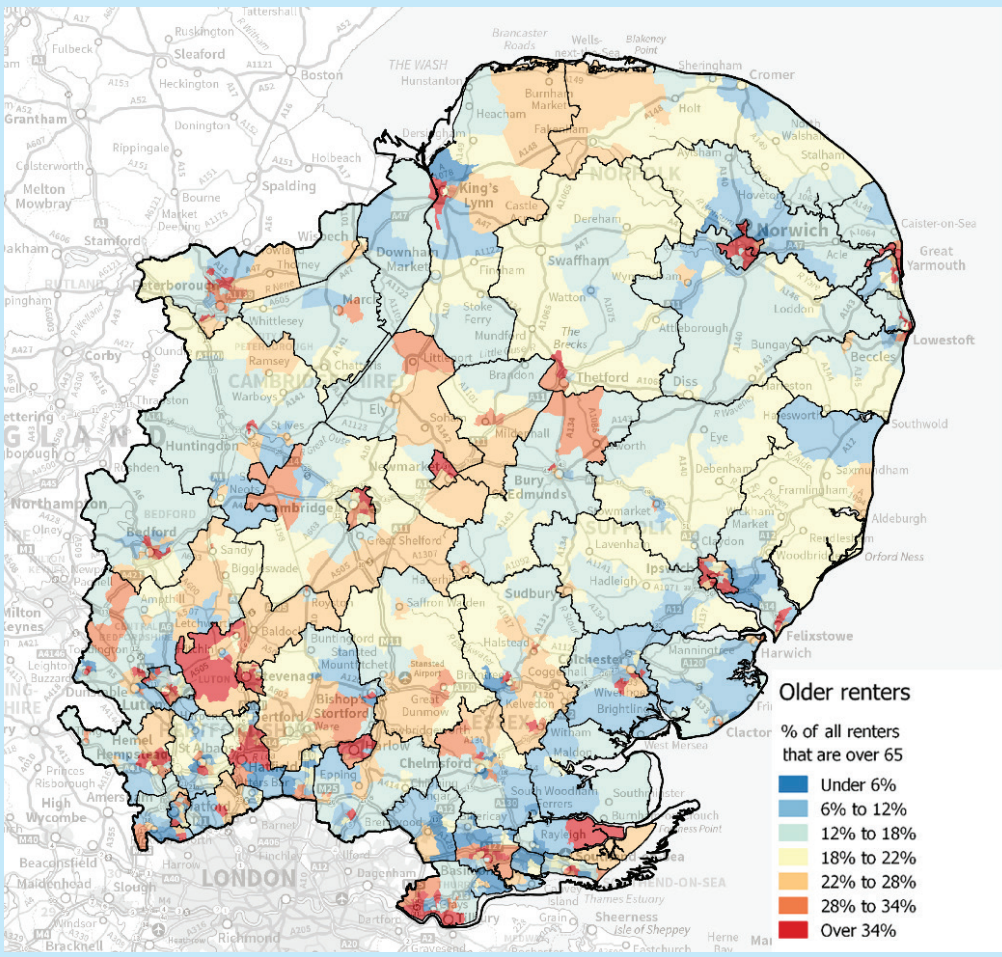
*Source: 2011 Census

Housing an ageing population

The ageing population is often cited as a looming demographic issue, but in terms of housing a majority of older people are already homeowners, often owning outright without a mortgage. Figure 9 shows the proportion of the 65 and over population who do not own their home. Once more the yellow areas are around the average (20%) for the region, red being higher and blue being lower.

The map shows that urban areas such as Norwich, Ipswich and Cambridge tend to have higher proportions of renters over the age of 65 than rural locations. At local authority level the highest proportion is 42% in Norwich, and the lowest is 9% in Castle Point. Outside these locations the pattern is more mixed but given the household projections and the generally increasing proportion of renters, providing for the housing needs of older people who are not homeowners will be a growing challenge.

Figure 9 - Proportion of renting population that is 65 years of age or older, 2011*



6. CHALLENGES AND OPPORTUNITIES FOR THE SECTOR

At a regional level

Although there are a range of challenges facing the sector, there is demand for housing at a range of price points and tenures, across all locations in the East. The specific local challenges and opportunities, and how housing associations might be best able to meet them, are detailed below.

Commuter belt

In the affluent commuter belt market, values are high and have been outpacing both local wages and other Eastern markets, supported by 'London wages' and equity-rich buyers moving out of the capital in search of better value. A key challenge here is delivering affordable homeownership options to aspiring local buyers despite a land market with high values, strong competition, and limited choice due to Green Belt and environmental constraints.

But overall this area offers a good opportunity for housing associations, as the households whose needs are not currently being met by the market are relatively far up the income distribution and could provide demand for shared ownership, affordable market sale homes, and market rented properties.

Mid value urban

These might look like commuter belt locations based on geography, but the proportion of workers commuting to central London is lower compared to the group above, and values and price growth have reflected this. As affordability becomes increasingly stretched in the most desirable locations, demand is likely to ripple out to secondary areas. Development opportunities may be unlocked by infrastructure upgrades, with opportunities to capture value uplift by buying into such locations at an early stage. Housing associations are well placed to take on a longer term investment role thanks to their large balance sheets and access to patient capital.

Low value urban

This is a geographically diverse set of towns and cities, with relatively high levels of deprivation and correspondingly weaker housing markets. The challenge for the housing sector is at the lower end of the market, with a high proportion of the private rented sector consisting of lower socio-economic groups who in the past would have had access to social housing and are unable to afford homeownership, even under schemes such as starter homes or shared ownership.

Despite low values, some locations have seen high levels of housebuilding, with a lot of activity from the major housebuilders in places including Peterborough and Colchester. Partnering with public sector landowners or private developers to regenerate sites may be a route for housing associations to get involved in these areas, using value uplift to fund discounted rental homes.

Rural hinterland

The rural markets cover a huge area – the majority of Cambridgeshire, Norfolk and Suffolk – and quite a variety in terms of house prices and levels of affluence and deprivation. On the whole, a large majority of households are owner occupiers, and rental affordability is reasonable, so what's the problem?

One issue is that the housing wealth is concentrated in older generations. Providing new housing for local workers, particularly younger ones on low incomes, is a challenge. In addition, supporting the growth of neighbouring cities can add pressure in terms of housing targets and delivery.

Cambridge 'City Region'

Cambridge has stood out in the region in terms of price growth, and this has largely been due to local and international demand rather than any strong link to London. Levels of development have been very high but the supply has not met demand and prices have kept rising. Values in South Cambridgeshire have also grown strongly due to a local ripple effect.

Given the economic strength of the area, the specific local challenge is to provide for growth while still offering affordable housing choices for local workers. This should include a mix of discounted rental homes in the city and affordable homeownership options in the lower value satellite towns (including both existing and planned new settlements) with good transport links.

BUILDING THE FUTURE

This report has given East 7 members a great deal to think about. We will publish an action plan within the next 12 months, addressing the challenges and opportunities identified in the report.

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