

Report for:

**New Forest
District Council**

**Housing
Affordability**

Final Report

August 2017

Contents

Executive Summary	1
Summary	3
1. Introduction and Background.....	13
2. Housing Costs and Income Requirements.....	19
3. Affordability.....	35
4. Housing Mix (Size of Homes Needed).....	43
5. Living Rents	51

Executive Summary

This study seeks to consider the affordability of housing options in the New Forest to inform the emerging housing strategy and Local Plan. A particular focus of the analysis is to consider the (wider) proposed definition of affordable housing in the Housing White Paper (HWP) of February 2017 (including proposals to introduce a 'policy expectation' that at least 10% of new homes are in an 'affordable home ownership' tenure).

The table below provides a summary of estimated income requirements to access a range of different property sizes and tenures. This clearly identifies that affordable home ownership with 'standard' discounts would still require an income that is above the income needed to access private rented accommodation. This means that such housing is not technically affordable; however, it needs to be noted that the figures below are based on a specific set of assumptions; the affordability of any particular dwelling could vary depending on the open market value and the individual circumstances of prospective purchasers.

Additionally, the options that Help to Buy South offer in purchasing a share (for shared ownership) may make such housing affordable for the applicant, and would therefore make this a viable and affordable home ownership option. Overall, the analysis would support shared ownership as the most affordable form of affordable home ownership that can be promoted by the Council.

Indicative affordability (income) thresholds for different tenures of housing – by size				
	1-bedroom	2-bedrooms	3-bedrooms	4-bedrooms
Lower Quartile purchase	£28,125	£42,750	£65,250	£94,500
Discounted market	£25,875	£39,330	£60,030	£86,940
Starter Home	£25,875	£39,330	£56,250	£56,250
Shared ownership (50% equity share)	£22,641	£34,414	£52,526	£76,073
Lower Quartile private rent	£21,938	£27,188	£32,813	£46,875
Affordable rented	£18,720	£23,200	£28,000	£40,000
Social rented	£17,143	£19,757	£21,343	£23,743

As well as looking at indicative housing costs, the analysis in the full report also considers incomes (and affordability) as well as looking at the mix of housing likely to be needed. The main conclusions are however about the types of affordable housing and these are summarised below:

- The Council should consider seeking 10% of all housing to be affordable home ownership (as set out in the HWP). The Council's current policy seeks 15% of housing as intermediate housing; whilst this is higher than the 10% in the HWP, it is considered that the 15% figure is reasonable and could be continued;
- The bulk of the affordable home ownership should be shared ownership – this is the most affordable of the home ownership options;
- The Council could also consider other forms of affordable home ownership (such as Starter Homes). This could be in addition to the affordable housing and could form part of the market housing; and
- Subject to viability, in addition to the affordable home ownership, the Council should be seeking to provide additional rented housing. Analysis in the report suggests that rented housing should be split broadly equally between social and affordable rented.

Overall, it needs to be recognised that there are a series of choices to be made with regard to the provision of new affordable housing; essentially a trade-off between the affordability of accommodation and the number of homes that can viably be provided. However, if the Council's current policy is delivering affordable housing, there is nothing in the evidence base in this study to suggest that any radically different approach needs to be taken.

Summary

Introduction

1. This study seeks to consider the range of affordable housing options in the New Forest and to help establish if the cost of housing and affordable housing is achievable to households in the area (both market and affordable housing). This includes both the National Park (where this is within the District boundary) and the planning authority area, along with an indication of how affordability varies in different parts of the District. A particular focus of the analysis is to consider the (wider) proposed definition of affordable housing in the Housing White Paper (HWP) of February 2017.
2. The Council's Strategic Housing Market Assessment (SHMA) of 2014 identifies a high need for affordable housing in the District (525 affordable homes per annum) and the Council's current affordable housing policy generally seeks for between 40% and 50% of homes on residential sites to be affordable housing. The Council also set out a tenure mix of 35% social rented housing and 15% intermediate housing where 50% is applicable and 25%:15% where a 40% target is sought.
3. Much of the analysis focusses on District-wide affordability, although some distinction is made between four sub-areas of the District. The remainder of the summary (and report) is structured to consider a range of issues about the affordability of housing in the District. The Sections to follow are:
 - Housing Costs and Income Requirements – looks at the likely cost to access a range of owner-occupied and rented housing, and the income levels likely to be needed to make such housing affordable;
 - Affordability – develops the housing costs/income analysis to look at local incomes, and hence the proportion of households likely to be able to afford different housing options (by both size of accommodation and location);
 - Housing Mix (Size of Homes Needed) – considers what the mix (by size) of properties should be in different tenures. This in particular includes analysis of low-cost home ownership, the HWP looking to introduce a 'policy expectation' that at least 10% of new homes are in this broad tenure; and
 - Living Rents – a short section looking at an alternative method for setting local affordable rent levels. This draws of Joseph Rowntree Foundation (JRF) research which seeks to more closely align rent levels to local incomes, rather than local housing costs.

Housing Costs and Income Requirements

4. The cost of housing to buy in New Forest District is relatively expensive compared with national data. A lower quartile terraced home (regardless of size) is estimated to cost around £208,000, whilst a lower quartile two-bedroom home is estimated to be around £190,000. To access a 2-bedroom home (assuming a 10% deposit and a four times income multiple) a household would need an income of around £42,800.

5. The cost of private rented accommodation is somewhat more expensive than seen nationally. A lower quartile 2-bedroom home costs around £725 per month, and the income needed to access this accommodation (assuming that around a third of income could reasonably be spent on housing) would be around £27,200. The amount of Housing Benefit that can be claimed is generally lower than lower quartile market rents, meaning that benefit dependent households could find it difficult to access market housing (without having to top-up the rent to be paid).
6. The cost of affordable rented housing (at 80% of market rents) looks likely to have a cost at or below the maximum Housing Benefit levels, and hence can be considered as an affordable product likely to be available to most households. However, for households requiring larger homes, it is possible that the benefit cap would make it difficult to access this form of affordable housing. Social rents are notably cheaper than private or affordable rents and are the most affordable form of accommodation.
7. Analysis has been carried out to look at the potential cost of a range of affordable home ownership options. Key forms of affordable home ownership set out in the HWP (e.g. Starter Homes or Discounted Market Sale) also have the potential to be expensive relative to the income requirements for private rented accommodation. If such homes were sold at a 20% discount to Open Market Value (OMV) then they would not be meeting affordable need (i.e. those able to afford such accommodation could also afford to rent privately without any subsidy). To make home ownership as affordable as the private rented sector, discounts on OMV of well in excess of 20% would be needed (for a 2-bedroom home a discount of 44% is estimated as being necessary).
8. Turning to shared ownership, this tenure would sit at an effective cost somewhere between the cost of outright ownership and renting privately (potentially cheaper than privately renting if the equity share is as low as 25% for 1- and 2-bedroom homes). Hence, this type of accommodation is in some instances not affordable in terms of the definitions in the NPPF (and reaffirmed in the HWP). However, this analysis is based on a specific set of assumptions; the affordability of any particular dwelling could vary depending on the OMV and the individual circumstances of prospective purchasers. Additionally, the options that Help to Buy South¹ offer in purchasing a share may make such housing affordable for the applicant, and would therefore make this a viable and affordable home ownership option.
9. It is clear from the analysis that shared ownership is likely to be the most affordable home ownership option available and should ideally be included in the mix of housing where an affordable home ownership element is to be included (which is likely to be necessary if the suggestions in the HWP are followed through).
10. The range of analysis around the cost of housing (including affordable housing) does provide the Council with a series of choices. The analysis clearly identifies a need for affordable housing based on the current NPPF definition (as seen in the 2014 SHMA), as well as a potential role of affordable home ownership (although it is recognised that this may not meet 'needs' as currently defined, it is the case that such housing would sit in the gap between privately renting and home ownership).

¹ <https://www.help Tobyouth.co.uk/>

11. There are clear overlaps between different 'affordable' products, with the analysis only able to provide a broad overview; for example, shared ownership could be provided with different equity shares to that assumed in this study, whilst Starter Homes could be provided with a greater discount than 20% on open market value.
12. The table below provides a summary of estimated income requirements to access a range of different property sizes and tenures. This clearly identifies that affordable home ownership with 'standard' discounts would still require an income that is above the income needed to access private rented accommodation. This means that such housing is not technically affordable; however, inclusion of affordable home ownership products as part of the mix of housing would enable some households to move out of private rented accommodation, as well as fulfilling the Government desire to increase home ownership.

	1-bedroom	2-bedrooms	3-bedrooms	4-bedrooms
Lower Quartile purchase	£28,125	£42,750	£65,250	£94,500
Discounted market	£25,875	£39,330	£60,030	£86,940
Starter Home	£25,875	£39,330	£56,250	£56,250
Shared ownership (50% equity share)	£22,641	£34,414	£52,526	£76,073
Lower Quartile private rent	£21,938	£27,188	£32,813	£46,875
Affordable rented	£18,720	£23,200	£28,000	£40,000
Social rented	£17,143	£19,757	£21,343	£23,743

Affordability

13. Overall, analysis estimated that over a third of households (based solely on incomes) cannot afford market housing; this is based on accessing a lower quartile private rented home. Additionally, there looks to be a reasonably sizeable gap between accessing private rented accommodation and social rented housing (around half of those unable to afford are estimated to fall into this 'gap' which in NPPF terms could also be termed intermediate housing). Much of this 'gap' would however be picked up as affordable rented housing rather than equity-based forms of intermediate housing.
14. There is also a clear and sizeable gap between the incomes required to access open market housing to buy and the private rented sector with around a quarter of households falling into this gap. This does not however mean that a quarter of new homes should be priced in this band, as there will already be a sizeable amount of housing available (including a quarter of open market sales and likely to be much of the private rented sector). Any housing provided in the gap between private rents and the market would not be technically affordable, but could help some households to move out of private renting and into home ownership (which is a key aim of the Government as set out in the HWP). Hence, it is arguable that some housing could be provided as forms of low-cost home ownership.
15. Additionally, greater provision of home ownership options would allow some households to move out of private rented accommodation, and this housing would then potentially be available for use by another household (and on this point it should be noted that the HWP is also suggesting including some forms of private renting within the definition of affordable housing).

16. It is therefore suggested that the Council should consider seeking 10% of all housing to be affordable home ownership (as set out in the HWP). There will be decisions to make about the form such housing takes. The analysis is clear that a 20% discount from OMV will not make housing affordable, but higher discounts will impact on viability, with the possibility that such housing still does not meet an ideal target audience (e.g. if households with relatively high incomes are able to access such housing). Hence any policy to include the 10% should be carefully thought through. Furthermore, it is not considered that there is any basis (in affordability terms) to increase the provision of affordable home ownership above the 10% figure currently suggested in the HWP.
17. The Council will also need to consider what forms of affordable home ownership are most appropriate in local circumstances. The discussion when looking at different tenures within this broad 'affordable home ownership' category clearly points towards shared ownership as being the most affordable option; the Council should therefore focus on this tenure as a start point, with other options potentially being considered where viability is a concern.
18. The Council could also consider other forms of affordable home ownership over and above the typical social;intermediate split currently sought in policy. This could be in addition to the affordable housing and could form part of the market housing.
19. Subject to viability, in addition to 10% of affordable home ownership, the Council should be seeking to provide additional rented housing (given the analysis of affordability and the level of affordable need shown in the 2014 SHMA); the provision of such housing should be maximised where opportunities arise. Analysis in this report suggests that rented housing should be split broadly equally between social and affordable rented, although the amount of affordable rent could be increased as long as the rent level does not fall above LHA limits (and also being mindful of the impact of benefit caps for larger households).
20. When looking at the sub-areas, there is some argument that a slightly different mix of affordable housing might be appropriate (most notably the South Coastal Towns and National Park areas have larger 'gaps' in the cost between open market purchase and the cost of private rented housing). However, these areas also show high proportions unable to afford the market generally, which would point towards a need for rented housing. Hence on balance, it is not considered that any different area approach would be appropriate.
21. In terms of the choices, the delivery of affordable housing will be limited by the finance available to provide such housing, and this will need to be balanced against the need for different types of accommodation. For example, the analysis clearly shows the main need to be for social and affordable rented homes, however, social rent is typically less viable to provide than say shared ownership (or indeed affordable rents) – therefore fewer social rented homes would be able to be provided than homes of other tenures.
22. Additionally, low-cost home ownership may not meet the current NPPF definitions of affordable housing, however all planning authorities in England are under a general duty to promote the supply of Starter Homes, with the HWP looking to include a 'policy expectation' that 10% of all new homes will be some form of affordable home ownership. Hence, there will be further choices to make regarding the provision of affordable home ownership and this will include consideration of issues such as the discount on OMV.

23. There are further considerations when looking at the tenures of affordable homes to be provided. This includes the cost to the public purse of Housing Benefit and also the extent to which households might get caught in a benefit trap if rent levels are too high (which could act as a disincentive to seek employment). Differences in the pricing and availability of housing in different areas will also be a consideration when deciding what mix of housing is most appropriate (e.g. rural housing is more expensive, and these areas typically have a lower proportion of social rented homes currently).
24. The analysis in this report broadly supports the Council's current approach to affordable provision when negotiating with developers (on Section 106 sites); this approach is to seek a 35%:15% or 25%:15% split between social rented and intermediate housing.
25. Overall, whilst this report provides an evidence base about different types/tenures of housing, it remains the case that the local authority will need to recognise that there are a series of choices to be made with regard to the provision of new affordable housing; essentially a trade-off between the affordability of accommodation and the number of homes that can viably be provided. However, if the Council's current policy is delivering affordable housing, there is nothing in the evidence base in this report to suggest that any radically different approach needs to be taken.

Housing Mix (Size of Homes Needed)

26. There are a range of factors which will influence demand for different sizes of homes, including demographic changes; future growth in real earnings and households' ability to save; economic performance and housing affordability. The analysis linked to long-term (20-year) demographic change concludes that the following represents an appropriate mix of affordable and market homes.

Figure 2: Suggested mix of housing (by size and broad tenure)

	1-bed	2-bed	3-bed	4+ bed
Market	0-5%	30-35%	40-45%	20-25%
Low-cost home ownership	15-20%	40-45%	30-35%	5-10%
Affordable housing (rented)	30-35%	30-35%	25-30%	5-10%

27. The strategic conclusions in the affordable sector recognise the role which delivery of larger family homes can play in releasing supply of smaller properties for other households; together with the limited flexibility which one-bed properties offer to changing household circumstances which feed through into higher turnover and management issues. The analysis also takes account of the fact that rented affordable housing would tend to be allocated on the basis of a bedroom standard (which for example would see a childless couple having a need for a one-bedroom home), whilst it is expected that accessing low-cost (affordable) home ownership would have more flexibility (and that this tenure is in part designed to allow households in the private rented sector to buy their own home).
28. The mix identified above should inform strategic policies. In applying these to individual development sites regard should be had to the nature of the development site and character of the area, and to up-to-date evidence of need as well as the existing mix and turnover of properties at the local level.

29. Based on the evidence, it is expected that the focus of new market housing provision will be on two- and three-bed properties. Continued demand for family housing can be expected from newly forming households. There may also be some demand for two and three bedroom properties from older households downsizing and looking to release equity in existing homes, but still retain flexibility for friends and family to come and stay.
30. The analysis of an appropriate mix of dwellings could also inform the 'portfolio' of sites which are considered by the local authority through its local plan process. Equally it will be of relevance to affordable housing negotiations.
31. The analysis also looked at the housing mix in each of the four sub-areas. Whilst there were differences between locations, it is not considered that these are so great as to point towards a different profile of new housing being needed when compared to District level findings.

Living Rents

32. Generally, looking at the cost of housing (including affordable housing) has been based on consideration of how much housing in an area costs to buy or rent. The Living Rent model provides an alternative to setting affordable rents. Under this model, affordable rents are set in relation to local earnings and incomes rather than in relation to market rents.
33. This report essentially draws on a study by the Joseph Rowntree Foundation and National Housing Federation, undertaken by Savills. This developed an approach with the aim of *'re-establishing the link between housing and the labour market and between rents and the ability of low income households to afford them.'* (JRF, NHF by Savills (June 2015) Living Rents – A New Development Framework for Affordable Housing). The principles of the Living Rents approach are that:
- Rents reflect the type of households accessing social housing.
 - Rent levels are affordable for households with individuals in full time employment, working average hours each week, earning the minimum wage.
 - Earnings are indexed and use an equivalence scale to allow for household income and property size.
34. The data used is publicly available and uses a transparent methodology for converting local individual earnings into household incomes. The advantage of this approach from a practical perspective is that the Council would be able to update local earnings and income data each year and review affordable or 'Living Rents' accordingly
35. One additional advantage of considering 'Living Rents' is that they can provide an indication of what is likely to be affordable to those on low incomes and in housing need because they relate to incomes these households can expect to receive. They are designed to be affordable to those on low incomes in work, those reliant on benefits, and households who work but have their incomes topped up through benefits.

36. The analysis in this report about the likely costs of Living Rents does however suggest that there is not likely to be a substantial difference between Living Rents and current social rents; it may therefore not currently be appropriate to consider Living Rents in any rent setting policy. It does remain the case that the Council could monitor Living Rents as well as using this analysis to consider what tenure split is appropriate for new rented housing (i.e. what proportions of social and affordable housing).

Overall Conclusions

37. Arguably, the analysis in this report highlights more potential issues than it provides solutions, and it is clear that in using the information, there are a number of choices to be made by the local authority when looking at housing affordability. The sections below discuss the key tenures and a summary of the report's findings.

Market Housing

38. Market housing (whether to buy or rent) in New Forest District is relatively expensive when compared to the costs nationally. Local income data suggests that many households are unable to rent privately and that many more will be unable to buy a home (these conclusions are based on looking at local income data, and will largely reflect the position of first-time buyers rather than existing owners who may have current equity which would be used towards the purchase of a different home).
39. There is not much the Council can do to influence housing costs in the open market and the key message should be that there is a notable gap between the income required to access private rented housing and that needed for owner-occupation (for a 2-bedroom home this gap is estimated to be between £27,000 and £43,000 (gross household income per annum)). Clearly any housing provided at a cost between owner-occupation and private renting would potentially allow for households to move out of rented accommodation, but caution would need to be exercised if such housing included any degree of subsidy or discount, as it would not directly meet an affordable need and would potentially reduce the viability of providing other forms of affordable housing.

Affordable Home Ownership

40. This is the most difficult tenure to provide conclusions about. The HWP has expanded the definition of affordable housing to include a range of home ownership tenures (including discounted market sales and Starter Homes) as well as suggesting a 'policy expectation' that 10% of all new homes would be in the affordable home ownership category (this category is taken to also include more traditional equity-based housing such as shared ownership).
41. The difficulty in this tenure is that the HWP does not change the definition of who affordable housing is for (it is still for those whose needs are not met by the market). Hence a household who can reasonably be expected to be able to afford a private rented tenancy would not have a need for affordable housing. Yet, the HWP states that discounted market sales (for example) would be sold with at least a 20% discount below market value. In the New Forest, a 20% discount would still require an income above that needed to access private rented housing (i.e. the market).

42. Additional discounts could be provided (for a 2-bedroom home it is estimated that a 44% discount would be needed to bring the income level in-line with that needed to access private rented accommodation) but then this would need to be balanced against viability issues; a 44% discount (or whatever level is needed) would reduce the amount of funding available for other types of affordable housing (such as social/affordable rented housing).
43. There is also a potential issue with affordable home ownership in that it may not be possible to 'allocate' homes, and therefore it would not necessarily be possible to ensure that the housing is made available to those with the greatest need. That said, the Council do currently request that priority is given to households with a local connection (e.g. for Starter Homes) whilst there are some strict eligibility criteria for shared ownership. This would point towards shared ownership being the most suitable form of affordable home ownership for the Council to seek.
44. It is clear that the Government is wishing to promote affordable home ownership, and this should not be ignored by the Council. The analysis of affordability does highlight that a substantial proportion of households are likely to have an income in the gap between buying and renting. This tenure can clearly assist in broadening access to home ownership.
45. Overall, it is considered that the Council should think about policies for 10% of all new housing to be affordable home ownership. In affordability terms, there is no evidence that the figure should be any higher than 10% (although a higher figure might be prudent due to viability considerations). The level of discount to be provided on such accommodation should be tested through viability with the key being the potential losses of other (more affordable) tenures if high discounts are available. To some extent the discounts will also be a political decision which is beyond the scope of this report.
46. Additionally, the analysis is clear that shared ownership is the most 'affordable' home ownership option (and as noted could be made more affordable with different equity shares and additional funding available (e.g. from Help to Buy South)). It is therefore suggested that shared ownership should be the focus of any intermediate housing (or affordable home ownership). Developing shared ownership would offer a home ownership option and also some cross-subsidy for Registered Providers (RP) to provide rented units. On S106 schemes, RPs don't receive HCA grant funding and are likely to need a rent/shared ownership mix to make development stack up financially. In addition, shared ownership will tend to remain an affordable tenure, if the property is sold on, it is first offered to the RP to buy back.

Social/affordable rented housing

47. The final tenure discussed is social and affordable rented housing. From the analysis it is clear that these two tenures will both come in at a cost below privately renting and are also likely to be at a cost below the maximum level of Local Housing Allowance (LHA) – although this latter point should be monitored moving forward by reference to current rent levels and Valuation Office Agency data about LHA rates. There are some concerns about the cost of affordable rented housing for households impacted by benefit caps – this is particularly the case for larger households needing 3+ bedroom accommodation.

48. This report does not form a view about what proportion of housing should be social/affordable rented (unlike the 10% affordable home ownership) as this should be determined through viability testing. It is noted that there is a high need for affordable housing in the District (as evidenced in the 2014 SHMA) and the amount of rented housing that can be delivered will also be influenced by any decisions about the levels of subsidy on affordable home ownership.
49. However, within any target for social/affordable rented housing, it is suggested that a split of 50:50 between social and affordable rented housing might be appropriate. This is partly based on affordability analysis, but also takes account of the analysis of Living Rents (which are focused on low-paid working households). This type of split should again be tested through viability analysis and theoretically the council could choose a different level of affordable rented housing.
50. In principal, given current housing costs and LHA levels, it would not be unreasonable for the Council to only seek affordable rented housing, and in doing this the overall delivery of affordable housing is likely to be enhanced. However, such decisions would need to consider the cost to the public purse of Housing Benefit and also the extent to which households might get caught in a benefit trap if rent levels are too high (which could act as a disincentive to seek employment).

1. Introduction and Background

Introduction

- 1.1 This study seeks to consider the range of affordable housing options in the New Forest and to help establish if the cost of housing and affordable housing is achievable to households in the area (both market and affordable housing). This includes both the National Park (where this is within the District boundary) and the planning authority area, along with an indication of how affordability varies in different parts of the District.
- 1.2 The work was commissioned by New Forest District Council (NFDC) to feed into their Local Plan Review (covering the area outside the National Park); and the emerging NFDC Housing Strategy (which will cover the areas of the National Park within New Forest District). The National Park area is covered by a separate Local Plan. The National Park includes land within Test Valley and Wiltshire Council areas; where reference is made in this report to the National Park, this is reference to the New Forest District part of the National Park unless otherwise stated.
- 1.3 The aim is for the analysis to inform affordable housing planning policy and provide the opportunity to influence new housing development to offer a range of tenure options that meet the needs of a broad spectrum of households. A particular focus of the analysis is to consider the (wider) proposed definition of affordable housing in the Housing White Paper (HWP) of February 2017 and to consider alternative method of rent setting in the local area (specifically to understand 'Living Rents' as proposed by the Joseph Rowntree Foundation (JRF) in 2015).

National Planning Policy Framework (NPPF) and HWP definitions of affordable housing

- 1.4 Affordable housing is currently defined in national policy (National Planning Policy Framework (NPPF), Annex 2: Glossary) as follows:

Affordable housing: Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.

Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned 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.

Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.

Homes that do not meet the above definition of affordable housing, such as “low cost market” housing, may not be considered as affordable housing for planning purposes.

- 1.5 The HWP proposes amending the definition of affordable housing to include starter homes and ‘affordable private rent’. The proposed new definition of affordable housing in the HWP is as follows:

Affordable housing: *housing that is provided for sale or rent to those whose needs are not met by the market (this can include housing that provides a subsidised route to home ownership), and which meets the criteria for one of the models set out below.*

Social rented and affordable rented housing: eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.

Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the Government’s rent policy. It may also be owned 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.

Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

Starter homes is housing as defined in Sections 2 and 3 of the Housing and Planning Act 2016 and any subsequent secondary legislation made under these sections. The definition of a starter home should reflect the meaning set out in statute at the time of plan-preparation or decision-taking. Local planning authorities should also include income restrictions which limit a person’s eligibility to purchase a starter home to those who have maximum household incomes of £80,000 a year or less (or £90,000 a year or less in Greater London).

Discounted market sales housing is housing that is sold at a discount of at least 20 per cent below local market value. Eligibility is determined with regard to local incomes and local house prices. It should include provisions to remain at a discount for future eligible households.

Affordable private rent housing is housing that is made available for rent at a level which is at least 20 per cent below local market rent. Eligibility is determined with regard to local incomes and local house prices. Provision should be made to ensure that affordable private rent housing remains available for rent at a discount for future eligible households or for alternative affordable housing provision to be made if the discount is withdrawn. Affordable private rented housing is particularly suited to the provision of affordable housing as part of Build to Rent Schemes.

Intermediate housing is discount market sales and affordable private rent housing and other housing that meets the following criteria: housing that is provided for sale and rent at a cost above social rent, but below market levels. Eligibility is determined with regard to local incomes and local house prices. It should also include provisions to remain at an affordable price for future eligible households or for any receipts to be recycled for alternative affordable housing provision, or refunded to Government or the relevant authority specified in the funding agreement. These can include Shared Ownership, equity loans, other low cost homes for sale and intermediate rent (including Rent to Buy housing).

Initial Discussion of Proposed Changes to Definition of Affordable Housing

- 1.6 The HWP proposals are interesting in that the basic definition of who affordable housing is for does not change (households whose needs are not met by the market) but at the same time a series of additional options for meeting affordable need are suggested. In particular, some of the home ownership options (such as Starter Homes) might arguably be seen as unaffordable when looking at access to the housing market generally (i.e. to include the private rented sector). However, Central Government is clear in its desire to see more home ownership options being made available, stating that *'to promote delivery of affordable homes to buy, we propose to make it clear in national planning policy that local authorities should seek to ensure that a minimum of 10% of all homes on individual sites are affordable home ownership products'*. The figure of 10% is considered to provide a balance between renting and home ownership.
- 1.7 Whilst home ownership options may not be affordable in the traditional sense of the term (i.e. to only apply to those who cannot afford any form of market housing), it is clear that enabling additional households to access home ownership will release other forms of housing for use by other households – this will particularly be in the private rented sector, and it is noteworthy that the HWP now includes a form of private renting within the affordable definition.
- 1.8 Looking more closely at some of the individual forms of affordable housing in the HWP, there appears to be some degree of similarity. For example, both affordable rented and affordable private rent are said to be based on a discount from market costs of 20% - hence in cost terms they are arguably identical. However, the difference is that affordable private rent is seen to be a suitable tenure on Build to Rent schemes, whereas affordable rented housing would be let by local authorities or Registered Providers. The difference is therefore partly how housing might be allocated and hence the eligibility criteria; this would make a difference to the size profile of such housing (particularly as affordable private rent would be expected to be *'physically indistinguishable'* from other types of housing in a development).
- 1.9 This discussion is designed to show that the widening range of affordable options within the HWP would not necessarily lend itself to a straight suggestion of different percentages of delivery of different types of housing. For example, affordable private rent (given that this is seen as most suitable on Build to Rent schemes) might arguably not have any target, but could be provided should an appropriate scheme come forward. Additionally, some home ownership schemes might not be affordable in a traditional sense (depending on the cost of other forms of housing) but might be considered suitable to allow households to move out of private rented accommodation and to meet the 10% provision level suggested in the HWP. All of these issues are discussed in more detail in the analysis to follow.

Evidence of the need for affordable housing

- 1.10 The need for affordable housing has been established in the Strategic Housing Market Assessment (SHMA) of September 2014. Table 49 of this document identified a net need for 525 dwellings per annum to be provided to meet both current and future needs. A need for affordable housing was identified in all parts of the Council area.

Area	Current need	Newly forming households	Existing households falling into need	Total Need	Supply	Net Need
Totton & Waterside	18	257	96	372	163	209
Southern Coastal	18	175	68	262	109	153
National Park	8	90	22	120	36	84
Ringwood & West	8	90	30	128	49	79
District	53	612	216	881	356	525

Source: New Forest SHMA, Table 49 (September 2014)

- 1.11 This report has not sought to update the analysis of affordable housing need, but it seems likely that there will still be a significant need to provide additional affordable housing. The emerging Local Plan (Local Plan Review 2016-2036 Part One: Planning Strategy) clearly identifies the need for affordable housing and notes that any targets for affordable housing will need to be supported by a viability assessment, but that targets need to be flexible in relation to any specific site conditions. The draft plan also highlights the possibility of 20% of new homes being Starter Homes, although this requirement looks to have been dropped in the HWP (which is now seeking 10% of homes to be some form of affordable home ownership units (which could include Starter Homes, but also other forms of affordable home ownership).

New Forest current affordable housing policy

- 1.12 The Council's current policy for the delivery of affordable housing on residential developments can be found in an Advisory Note of November 2012². The note provides guidance on the implementation of Policy CS15 of the adopted New Forest District outside the National Park Core Strategy, and relates to proposals that are expected to include an element of affordable housing as part of their development.
- 1.13 The document notes that most residential developments are required to include provision for affordable housing. The level of affordable housing requirement is typically either 50% or 40% depending on the location and site size (higher proportions are typically sought on sites described as '*additional housing development to meet a local housing need*' and covered by Policy CS12).

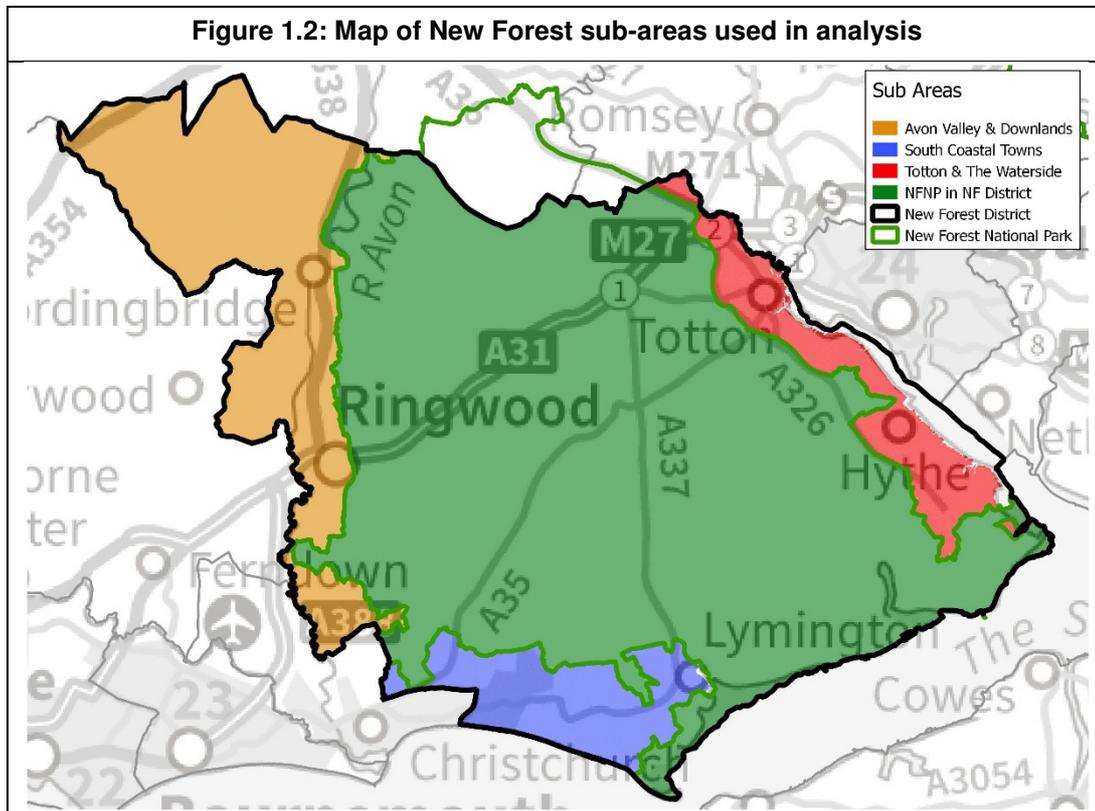
² Advisory Note on the Implementation of Core Strategy Policy CS15 The Delivery of Affordable Housing (on Development Sites) through the Planning Process

- 1.14 On sites where a 50% contribution is sought, the Council seeks a 35%:15% split between social rents and intermediate housing. Where a 40% target is set, this split becomes 25%:15%. Intermediate housing is defined as in Annex 2 of the NPPF.

Sub-areas

- 1.15 Most of the analysis in this report focusses on data and conclusions for the District as a whole (including the National Park area). Additionally, however, some analysis is provided for four sub-areas of the District. The map below shows the geographical extent of the study area and the four sub-areas (the first three of which are within the planning authority area). For clarity, the four sub-areas used in analysis are:

- Avon Valley & Downlands
- South Coastal Towns
- Totton & the Waterside
- New Forest National Park



Report Structure

1.16 The remainder of this report is structured to consider a range of issues about the affordability of housing in the District. The Sections to follow are:

- Housing Costs and Income Requirements – looks at the likely cost to access a range of owner-occupied and rented housing, and the income levels likely to be needed to make such housing affordable;
- Affordability – develops the housing costs/income analysis to look at local incomes, and hence the proportions of households likely to be able to afford different housing options (by both size of accommodation and location);
- Housing Mix (Size of Homes Needed) – considers what the mix (by size) of properties should be in different tenures. This in particular includes analysis of low-cost home ownership, the HWP looking to introduce a 'policy expectation' that at least 10% of new homes are in this broad tenure; and
- Living Rents – a short section looking at an alternative method for setting local affordable rent levels. This draws of Joseph Rowntree Foundation (JRF) research which seeks to more closely align rent levels to local incomes, rather than local housing costs.

2. Housing Costs and Income Requirements

Introduction

- 2.1 This section looks at the cost of housing of different tenures, and seeks to understand what this might mean in terms of an income required to access such housing. The analysis looks at both market housing and the full range of affordable housing options set out in the HWP.

Owner-occupied housing

- 2.2 Data from the Land Registry for the year to March 2017 (i.e. Q2-Q4 of 2016 and Q1 of 2017) shows that the average (mean) cost of housing in the District was £370,000, with a median cost of £300,000. When looking at the bottom end of the market (traditionally viewed by reference to lower quartile house prices) it can be seen that the 'average' cost is £225,000.

	Lower quartile	Median	Mean
Flat/maisonette	£138,250	£182,000	£205,126
Terraced	£208,000	£230,000	£256,708
Semi-detached	£245,000	£275,000	£299,857
Detached	£330,000	£407,500	£483,202
All dwellings	£225,000	£300,000	£352,670

Source: Land Registry

- 2.3 To put the data for New Forest into context, it is possible to compare figures with other areas; this is shown in the table below (just for median prices). This shows that prices in the District are generally similar to those seen across Hampshire and slightly below equivalent figures for the South East (when looking at individual built forms). Compared with England & Wales as a whole, it is however clear that prices are relatively high.

	New Forest	Hampshire	South East	England & Wales
Flat/maisonette	£182,000	£179,950	£200,000	£201,000
Terraced	£230,000	£248,750	£265,000	£170,000
Semi-detached	£275,000	£293,000	£320,000	£189,950
Detached	£407,500	£435,000	£473,500	£310,000
All dwellings	£300,000	£290,000	£300,000	£215,000

Source: Land Registry

2.4 The data above is from actual sales and split by the built form of properties, however in analysis of affordability, and to be consistent with analysis for other tenures of housing, it is more useful to consider the cost of housing in terms of the number of bedroom. The Land Registry analysis has therefore been supplemented by a search of homes for sale in the District with the table below showing estimated lower quartile prices by size. In this case it is estimated that housing costs would vary from about £125,000 for a one-bedroom homes and up to £450,000 for four bedrooms. It should be noted that some caution should be exercised when considering the one-bedroom figures, this is due to the inclusion of a number of Park Homes and retirement properties, such homes may not be available to all cohorts of the population (i.e. there may be age restrictions).

	Lower quartile
1-bedroom	£125,000
2-bedroom	£190,000
3-bedroom	£290,000
4-bedroom	£420,000

Source: Internet price search (June 2017)

2.5 To complete the initial analysis of owner-occupied housing, it is of interest to look at the cost of new homes compared with second-hand properties. The analysis below is taken from Land Registry (and hence looks at built form) and is for a median property in each case.

2.6 The analysis shows a wide variation in the costs of new and second-hand housing depending on the type of home. For all dwelling types, a new home is more expensive than a second-hand one, although the overall (all dwellings) average for second-hand homes is actually higher, this suggests that the mix of new homes is somewhat different to the mix of second-hand homes and is in some cases based on very small numbers of sales, hence caution should be exercised in interpreting this analysis (for example the newbuild terraced house figure is based on just two sales).

	New home	Second-hand	Difference
Flat/maisonette	£213,486	£175,750	£37,736
Terraced	£415,000	£230,000	£185,000
Semi-detached	£278,998	£275,000	£3,998
Detached	£476,248	£405,000	£71,248
All dwellings	£276,950	£300,000	-£23,050

Source: Land Registry

- 2.7 Overall, the analysis would suggest that new homes are more expensive than second-hand homes, but that it is difficult to be precise about the difference. This is not least as new and second-hand homes will in many cases not be readily comparable (e.g. a newbuild 3-bedroom semi-detached homes will be different to a 3-bedroom semi-detached home in the resale market). At a national level, it is estimated that newbuild homes are around 15% more expensive than the equivalent all property figure. It should be noted that this is a best estimate, as previously noted it is difficult to get a direct comparison between new and second-hand homes.

Private rented housing

- 2.8 The table below sets out the cost of renting a property on the open market in New Forest by size of property. Average rents start at around £625 per calendar month for a 1 bedroom property, rising to £1,450 for a 4 bedroom family sized home. For comparison, lower quartile rents are also presented in the figure below along with the local housing allowance (LHA) available to those receiving housing benefit.
- 2.9 The figure below shows local housing allowance rates for Southampton. Much of the District, is covered by the Southampton Broad Rental Market Area (BRMA), although some parts of the District are in other BRMAs (Ringwood for example is in the Bournemouth BRMA and Fordingbridge is in the Salisbury BRMA). The Southampton LHA is insufficient to cover the cost of renting a lower quartile property in the District, meaning that many households are likely to need to 'top up' their rent to be able to access private rented housing.
- 2.10 For some households, a benefit cap will also impact on the ability to afford private rented housing in the District. This is likely to particularly affect larger family households and is discussed in more detail later in this section.

Figure 2.5: Average (median) and Lower Quartile Market Rents, year to March 2017 – New Forest

Property Size	Rent		Local Housing Allowance by Broad Rental Market Area (as at June 2017)		
	Average (median) pcm	Lower Quartile pcm	Bournemouth	Salisbury	Southampton
Room only	£455	£442	£284	£294	£292
Studio	£495	£450	-	-	-
1-bedroom	£625	£585	£536	£499	£505
2-bedrooms	£795	£725	£663	£623	£678
3-bedrooms	£975	£875	£818	£748	£799
4-bedrooms	£1,450	£1,250	£1,097	£992	£1,050
All properties	£840	£695	-	-	-

Source: Valuation Office Agency

- 2.11 As with prices, the rent levels can be compared with other areas (as in the table below for median rents by property size). This shows that rents are generally in-line with equivalent figures across Hampshire and slightly below typical rents across the South East. When compared with data for England, the analysis does however show higher average rent levels.

	New Forest	Hampshire	South East	England
Room only	£455	£433	£410	£376
Studio	£495	£500	£550	£570
1-bedroom	£625	£650	£695	£595
2-bedrooms	£795	£800	£875	£650
3-bedrooms	£975	£995	£1,075	£735
4-bedrooms	£1,450	£1,600	£1,733	£1,300
All properties	£840	£843	£875	£675

Source: Valuation Office Agency

Affordable rents

- 2.12 The table below sets out what an affordable rent would be if calculated at 80% of average and lower quartile market rents within New Forest. The rents in this case are more closely aligned with the LHA limits (for Southampton BRMA) and would suggest that households claiming benefits would in many cases be able to afford an affordable rent, whilst the private rent is likely to put some strains on household finances.
- 2.13 It should be noted that the private rent data from VOA does not include service charges (whereas an affordable rent cost would do so). If additional service charges were added to the VOA data, then the estimates of the cost of an affordable rent (as in the table below) would increase. It is possible that this would take the cost above LHA limits, and again could cause difficulties for some households in affording rents. It is not however possible from the data available to estimate if and/or how much the private rent costs would increase with the inclusion of service charges.
- 2.14 The costs below for affordable rented housing are likely to be similar to those for affordable private rent housing (a new tenure being proposed for introduction in the Housing White Paper (HWP)) and so private rent housing has not been separately studied.

	80% of Average Market Rents pcm	80% of Lower Quartile Market Rents pcm
Room only	£364	£354
1-bedroom	£500	£468
2-bedrooms	£636	£580
3-bedrooms	£780	£700
4-bedrooms	£1,160	£1,000

Source: Derived from Valuation Office Agency data

Social rents

- 2.15 The final main tenure analysed initially is social rents. The figures provided are an average rent and include services charges. The figures have been derived by looking at rent levels for 2015/16 (as evidenced by CoRe³ data) and then figures for different sizes established by looking at historical data (to iron out any potential year-on-year anomalies) and also the profile of dwellings let at social rents.
- 2.16 The analysis shows rent levels starting at £400 per month for a 1-bedroom home and rising to around £550 for four (or more) bedrooms. The figures for the 4-bedroom category should be treated with some caution as there are generally very few lettings of properties of this size in the New Forest. For comparison, the Local Housing Allowance limit has also been provided (for the Southampton BRMA) – this shows for all sizes that social rents are less than LHA.

	Average (median) social rent	LHA limit (Southampton BRMA)
1-bedroom	£400	£505
2-bedroom	£461	£678
3-bedroom	£498	£799
4-bedroom	£554	£1,050

Source: CoRe and VOA data

Income Required to Access Different Tenures of Housing

- 2.17 Having established the likely cost of housing, the next step is to estimate what level of income might be required to access the different products. Separate tests are applied for home ownership and private renting; home ownership is based on looking at mortgage multiples (mortgage affordability) with accessing private rented housing being based on consideration of the proportion of income that might need to be spent on housing (rental affordability).

Mortgage affordability

- 2.18 A household is considered able to afford to buy a home if it costs less than four times the gross household income; it has also been assumed that a household will have a 10% deposit.
- 2.19 Previous CLG guidance (of 2007) suggests using thresholds of 2.9× for households with multiple incomes and 3.5× for those with a single income. The use in this study of a four times multiple reflects the fact that there is likely to be some keenness from Government to ensure that prospective households are able to access the finance they need (for example, with the Help-to-Buy Scheme, the maximum income multiple is 4.5). Additionally, a brief review of a number of lenders indicates that four times income is generally available across the market; although the exact availability of finance will also depend on an individual household's circumstances.

³ Continuous Recording of Lettings and Sales in Social Housing in England – a national information source funded by the Department for Communities and Local Government that records information on the characteristics of both Private Registered Providers' and Local Authorities' new social housing tenants and the homes they rent and buy

- 2.20 The 10% deposit is used to reflect the typical minimum deposit required to access mortgage finance. Again deposit availability will vary by household and raising this sort of level of capital would potentially be an issue for a number of households. However, there are initiatives available to help households to raise a deposit (such as Help-to-Buy ISAs).
- 2.21 Hence, as with other analysis, the affordability measure used should be treated as indicative given that there are a number of variables that will differ based on the circumstances of individual households – this cannot be captured within this study.

Rental affordability

- 2.22 A household is considered able to afford market rented housing in cases where the rent payable would constitute no more than a particular percentage of gross income. The choice of an appropriate threshold is an important aspect of the analysis, CLG guidance (of 2007) suggested that 25% of income is a reasonable start point but also notes that a different figure could be used. Analysis of current letting practice suggests that letting agents typically work on a multiple of 40% (although this can vary by area). Government policy (through Housing Benefit payment thresholds) would also suggest a figure of 40%+ (depending on household characteristics).
- 2.23 The threshold of income to be spent on housing should be set by asking the question '*what level of income is expected to be required for a household to be able to access market housing without the need for a subsidy (e.g. through Housing Benefit)?*' The choice of an appropriate threshold will to some degree be arbitrary and will be linked to the cost of housing rather than income. Income levels are only relevant in determining the number (or proportion) of households who fail to meet the threshold. It would be feasible to find an area with very low incomes and therefore conclude that no households can afford housing, alternatively an area with very high incomes might show the opposite output. The key here is that local income levels are not setting the threshold, but are simply being used to assess how many can or can't afford market housing.
- 2.24 To look at a reasonable threshold in New Forest a national benchmarking exercise has initially been carried out. Across the Country, evidence (from VOA) points to the cheapest areas having lower quartile rents of around £350 per month (Hull). It is assumed that these areas would have a 25% affordability threshold (i.e. the bottom end of the threshold range reflects the bottom end of the housing cost range).
- 2.25 The key point when looking at thresholds and housing costs is one of 'residual income' – i.e. the amount of money a household has after housing costs are paid for. Using the £350 pcm example, if a household spent 25% of income on housing then their residual income would be £1,050 per month, the same threshold in New Forest would show a residual income of £2,085 (i.e. 99% higher). Hence it is arguably not appropriate to use the same (25%) threshold in all areas.
- 2.26 This analysis is not conclusive given that such an analysis would need to be predicated on a) an assumption that a 25% threshold is an appropriate benchmark at the bottom end of the market; b) that living costs (other than housing) are equal across areas and c) to note that the analysis is based on gross income (households with higher gross incomes would be expected to be paying more tax). It does however serve to show why the cost of housing is the key input into understanding a reasonable threshold for affordability.

- 2.27 Returning to the question for New Forest, the analysis seeks to recognise residual income and also issues about tax and the cost of living. If it were assumed that the residual income (i.e. £1,050) should be held constant for all areas, then this would suggest a threshold in New Forest of 40%, however as noted keeping the residual income figure constant is probably not realistic. Hence, the analysis takes a simple average between the bottom line 25% and the 40% figure; this gives a threshold for affordability in New Forest of 32%. For information, this threshold would give a level of residual income in New Forest of around £1,475 per month. It should be noted that figures are indicative and have been based on the overall lower quartile private rent for all dwellings sizes.
- 2.28 A similar analysis has been carried out to look at appropriate thresholds for different types of housing (including affordable rented and social rented). This analysis is shown below and indicates slightly lower thresholds for the affordable tenures.

Figure 2.9: Affordability thresholds for different tenures of rented housing			
	LQ private rent	Affordable rented	Social rented
New Forest	32%	30%	28%

Source: Housing costs from VOA and CoRe

- 2.29 In checking if these thresholds are of the right order of magnitude it is worth considering recent evidence on this subject. The English Housing Survey headline report (2015/16) provides data on the proportion of household income spent on housing costs, by tenure. This showed, on average, those buying their home with a mortgage spent 18% of their household income on mortgage payments whereas rent payments were 28% of household income for social renters and 35% of household income for private renters. Excluding Housing Benefit, the average proportion of income spent on rent was 37% for social renters and 41% for private renters (Annex Table 1.13 and Figure 1.8).
- 2.30 This suggests that the assumption that households could spend up to one third of their gross income on housing costs reflects reality for those living in the private and social rented sectors in England. This evidence is used in the NHF's Home Truths 2014 report and is used by Savills in the NHF and JRF Living Rents study (discussed below).
- 2.31 Overall it is considered that the threshold of 32% of gross household incomes is a reasonable threshold based on the available evidence and is retained for assessing affordability.

Income thresholds for different tenures of housing

- 2.32 The table below brings together an analysis of the different tenures discussed so far to consider what level of income would indicatively be required to access a home. Although the measures for mortgage and rental affordability are different; both ultimately lead to an estimate of the income required. Looking at figures for the whole of the District it can be seen that it is estimated that an income of around £42,750 would be required for open market purchase of a 2-bedroom property; but much lower figures are seen for rental options.

- 2.33 The analysis shows a figure of around £17,100-£23,700 to afford social rented housing and therefore it is assumed that any household with an income below this level would need this tenure of housing (probably supported by Housing Benefit). In reality, affordable rented housing might also be a solution for such a household, as long as sufficient Housing Benefit were to be available. The estimated incomes to access social rented housing should also be considered in light of benefit caps; both 3- and 4-bedroom properties show an income requirement which is higher than the upper end of benefit caps (£20,000 per annum for non-single person households).
- 2.34 As of February 2017, data from the Department for Work & Pensions (DWP) shows that around 100 households in the District were having their benefits capped (and around 40% of these by more than £50 a week). Further analysis of DWP data identifies that all of these households have at least two children and that over 80% are lone parent households. This confirms that benefit cap issues are likely to disproportionately impact on households needing larger homes.

Figure 2.10: Indicative affordability (income) thresholds for different tenures of housing – by size

	LQ purchase	LQ private rent	Affordable rented	Social rented
1-bedroom	£28,125	£21,938	£18,720	£17,143
2-bedrooms	£42,750	£27,188	£23,200	£19,757
3-bedrooms	£65,250	£32,813	£28,000	£21,343
4-bedrooms	£94,500	£46,875	£40,000	£23,743

Source: Derived from a range of sources as described

- 2.35 With regard to the use of Housing Benefit (particularly to assist households affording affordable rented homes) it should be noted that there are a number of implications. The most obvious one is that the higher rents potentially charged will see a greater burden on the public purse. Additionally, with households being subject to the tapering of Housing Benefit as their income rises, the higher rents potentially provide for a longer ‘benefit trap’.

Affordable Home Ownership

- 2.36 The analysis above has considered some of the main tenures of housing. There are also a series of other tenures in the NPPF and HWP that can be considered in this report. These are under the banner of affordable home ownership, and in terms of the HWP could include Starter Homes, Discounted market sales housing and intermediate housing (taken in this report to largely be shared ownership).

Intermediate Housing (shared ownership)

- 2.37 Looking at affordability for shared ownership draws on both a mortgage and rental affordability test and is discussed separately below. Shared ownership starts with an open market value (OMV) and then part of the property is sold and the rest is rented (normally from a Registered Provider). It is difficult to know exactly what the OMV of shared ownership might be (as this will depend on a range of factors such as the location of the dwelling), however, for the purposes of an indicative analysis, it is assumed that the OMV for shared ownership will be approximately lower quartile house price plus 15% (the estimated newbuild premium).

- 2.38 Taking the example of a 2-bedroom property, it is estimated that the OMV would be £218,500. If buying a 25% share in the property, the income required for the purchase part of the tenure would be around £12,300 (this assumes a 10% deposit and 4x income multiple). The rental element would be about £4,900 per annum (based on paying a rent of 3% per annum on the unsold equity) and based on 33% of income for this (which seems to be a fairly standard figure for shared ownership) an additional income of about £14,700 would be needed. The overall income required for shared ownership would therefore be around £27,000.
- 2.39 The table below shows the same calculation (working through to an income requirement) for all dwelling sizes and also considering a 50% share (as well as 25%). This shows that shared ownership is affordable for 1-bedroom homes with a 25% share, and is close to being affordable with a 50% share (this is based on considering if there is an income requirement which is below the LQ private rent figure); additionally, 2-bedroom shared ownership looks to just about 'work' with a 25% share but not if this is raised to 50%. For 3- and 4-bedroom homes the income requirements even at the lower end of the scale (25%) are higher than the income needed to access the private rented market and this is arguably not an affordable product. That said enabling households to access shared ownership would potentially release other accommodation into the market for use by another household.
- 2.40 The calculations below all assume a 10% deposit on the equity part of the home; if a household were to be able to pay a larger deposit, then the mortgage cost (and income requirement) would reduce, and hence the housing would be more affordable. That said, it may be that some shared ownership is available with deposits lower than 10% - this in turn would increase the monthly housing cost. Overall, it should therefore be noted that the analysis below is based on a specific set of circumstances; these would be different for individual households seeking to access shared ownership accommodation and should therefore be seen as indicative (albeit consistent with the analysis carried out when looking at the affordability of other tenures).

Figure 2.11: Indicative affordability (income) thresholds for shared ownership – by size		
	25% equity share	50% equity share
1-bedroom	£17,789	£22,641
2-bedrooms	£27,039	£34,414
3-bedrooms	£41,271	£52,526
4-bedrooms	£59,771	£76,073

Source: Derived from a range of sources as described

- 2.41 The analysis above can briefly be compared with data about households who have applied for or recently accessed shared ownership in the District (data for the year to March 2017) – this data is available from Help to Buy South Application and Completion Statistics.
- 2.42 In terms of households completing on a property, the data shows an average income of about £34,800 with 38% moving to a 2-bedroom home and 54% to a home with 3-bedrooms. The average share purchased was about £111,000, with this equating to around a 42% equity share, the average deposit was £5,600 and 51% of purchasers moved from the private rented sector.

- 2.43 In terms of households who have applied for shared ownership, the data shows an average income of about £30,500 with 52% requiring a 2-bedroom home and 25% a home with 3-bedrooms. Households have an average level of savings of £16,800 and 46% currently live in the private rented sector.
- 2.44 These figures tend to support the analysis above as being of the right order of magnitude (in terms of likely income requirements) and is useful in showing that many households have moved from (or would move from) the private rented sector.
- 2.45 In looking at shared ownership, the question about affordability can be shifted to ask what level of equity purchases would be needed for a home to be affordable (i.e. at the same cost or less than access level private rented accommodation). The table below estimates these percentages and shows that an equity purchase of 46% for a 1-bedroom home would bring the cost in at a level close to the private rented sector along with a figure of 25% for 2-bedrooms. For larger homes, a household would only be able to equal the income requirement to access the private rented sector if the equity purchase was as low as 5%-6%.
- 2.46 The analysis (particularly for the larger dwelling sizes) does not mean that the Council should not consider this type of accommodation within the mix of housing, as larger shared ownership can add to the mix of housing and will be affordable to some households who are able to rent but not to buy. Additionally, whilst 1-bedroom shared ownership looks to be relatively affordable, it would need to be established if there is actually demand for this size and tenure of accommodation in a local area – experience elsewhere has suggested that one-bedroom shared ownership is not typically of high demand.

Figure 2.12: Equity share needed to make shared ownership income requirements the same as requirements in the private rented sector	
	Affordable equity share
1-bedroom	46%
2-bedrooms	25%
3-bedrooms	6%
4-bedrooms	5%

Source: Derived from a range of sources as described

Starter Homes/discounted market sales housing

- 2.47 The final tenures to be considered are Starter Homes and discounted market sales housing. These are considered together as in many cases they would be the same product (having a discount of at least 20% from open market value (OMV)). There are some differences in terms of eligibility and the extent to which the discount is held in perpetuity, but for the purposes of this report they are most readily considered as a single tenure.

- 2.48 Consistent with other analysis, to establish the likely OMV we have looked at lower quartile prices and added 15%. Then a discount of 20% is applied and all of the same assumptions about deposits and income multiples as for full open market purchase. The table below shows a worked example of the income requirement for a 2-bedroom home. This shows an income requirement of £39,330, which is below the income required for open market purchase (£42,750) but above the equivalent figure for a lower quartile private rented home (£27,200).

	Assumptions	Value (£)
Overall price of SH/DMS (before discount)	Price is 15% above estimated lower quartile second-hand purchase	£218,500
Price of home after 20% discount	20% discount on market value	£174,800
Deposit	10% required	£17,480
Mortgage required	Minus 20% discount and 10% deposit	£157,320
Income required to afford home	Assuming a mortgage up to 4 times income	£39,330

Source: Derived from a range of sources as described

- 2.49 The table below shows equivalent income requirement figures for all dwelling sizes. This does split Starter Homes for Discounted Market Sale. This is because Starter Homes have a maximum cost of £250,000 outside London. A 20% discount from the estimated OMV for these two sizes of property would still give a figure in excess of £250,000 and so the figures are capped at this level for these sizes of property. In all cases the income requirement sits somewhere between the income for open market purchase and the income required to access the private rented sector (also shown in the table below for clarity).

	Discounted market sale	Starter Home	LQ purchase	LQ private rent
1-bedroom	£25,875	£25,875	£28,125	£21,938
2-bedrooms	£39,330	£39,330	£42,750	£27,188
3-bedrooms	£60,030	£56,250	£65,250	£32,813
4-bedrooms	£86,940	£56,250	£94,500	£46,875

Source: Derived from a range of sources as described

- 2.50 One additional question arising from this analysis is to study at what point increasing the discount on a Starter Homes (above the minimum 20% assumed above) will put this tenure on an equal footing (in affordability/income requirement terms) as the access level to the market (i.e. a lower quartile private rent). The simplest way to consider this is to look at the discount required so that the income required is in line with that needed to access a lower quartile private rented home – this tenure essentially sets the upper bound for intermediate housing. Hence an additional analysis has been undertaken to test what level of discount might be needed for Starter Homes/Discounted Market Sale housing to be an intermediate product, as currently defined in the NPPF.
- 2.51 The table below shows for a Starter Home to just fall into the bracket of intermediate housing, that the discount from OMV would need to be in the order of 33% for a one bedroom home and rising to 56% for homes with 3- or more bedrooms.

Figure 2.15: Theoretical discount needed from OMV to make a Starter Home/Discounted Market Sale as ‘affordable’ as intermediate housing	
	Discount from OMV
1-bedroom	33%
2-bedrooms	44%
3-bedrooms	56%
4-bedrooms	56%

Source: Derived from a range of sources as described

2.52 An alternative way to look at discounts to make housing affordable is to use the income thresholds for private rented accommodation and work these back into a house price (again assuming a four times income multiple and a 10% deposit). The table below shows what the sale price would need to be if low-cost home ownership were to essentially be at the access level to the market. The final column in the table shows how a developer contribution could be calculated.

Figure 2.16: New Forest affordable home ownership prices (aligned with cost of accessing private rented sector) – March 2017		
	Affordable Housing Prices (AHP) (initial fixed sale prices)	Notional developer contribution
1-bedroom	£97,500	OMV less £97,500
2-bedrooms	£120,800	OMV less £120,800
3-bedrooms	£145,800	OMV less £145,800
4-bedrooms	£208,300	OMV less £208,300

Source: Derived from a range of sources as described

2.53 One advantage of looking at the cost of housing in this way is that it can readily be updated (every six months by reference to Valuation Office Agency data). However, it is not entirely clear if setting low-cost home ownership costs at these levels would be a worthwhile exercise.

2.54 Firstly, whilst these costs would theoretically mean that an affordable home ownership unit would meet the current NPPF definition of affordable housing; it would remain the case, that many households who are able to afford such a product, could already afford open market housing without the need for subsidy/discount (unless strict income limits were to be applied, which certainly in the case of Starter Homes looks unlikely (given an £80,000 upper income limit).

2.55 Secondly, providing homes at these costs (e.g. a 2-bedroom home for £120,800) will be less viable than providing the same homes at (say) a 20% discount (e.g. in the case of a 2-bedroom home a 20% discount would roughly equate to a property price of £174,800). The larger discount could have a knock-on effect on the ability for other forms of affordable housing to be provided (such as social/affordable rent). As with many aspects of looking at affordable housing provision, there will be a series of choices to be made by the Council which will need to balance up overall delivery, the affordability of housing and the viability of provision.

Housing Costs by Sub-Area

- 2.56 The analysis above has focussed on housing costs and income requirements for a range of tenures for the whole of New Forest District. It is also of interest to consider how some of the key figures vary by sub-area and below analysis is provided to look at the main tenures (that being housing to buy and to privately rent).
- 2.57 The table below shows estimated cost of housing to buy by sub-area; the figures are for a lower quartile (entry-level) home and have been derived from an internet search of properties available for sale in each area (figures rounded to the nearest £5,000). The analysis shows that one-bedroom homes do not seem to vary much in price, this finding should however be treated with caution due to low volumes of one bedroom homes and the fact that this cost can be influenced by Park Homes and retirement properties. Looking more broadly at other dwelling sizes, the analysis identifies the lowest costs to be in Totton & the Waterside, followed by Avon Valley & Downlands, then South Coastal Towns, with the National Park area having the highest house prices.

	1-bedroom	2-bedrooms	3-bedrooms	4-bedrooms
Avon Valley & Downlands	£115,000	£170,000	£280,000	£335,000
South Coastal Towns	£125,000	£195,000	£320,000	£445,000
Totton & the Waterside	£125,000	£165,000	£200,000	£325,000
New Forest National Park	£135,000	£245,000	£365,000	£485,000

Source: Internet price search (June 2017)

- 2.58 A similar analysis has been carried out for private sector rents, with the table below showing estimated lower quartile rents by size and area. This analysis tends to show that there is less variation in rental costs than was the case for prices, although the National Park area still stands out as having higher costs than in the other three planning authority sub-areas.

	1-bedroom	2-bedrooms	3-bedrooms	4-bedrooms
Avon Valley & Downlands	£565	£710	£815	£1,210
South Coastal Towns	£595	£725	£915	£1,160
Totton & the Waterside	£560	£720	£815	£1,200
New Forest National Park	£640	£750	£940	£1,640

Source: Internet price search (June 2017)

- 2.59 As with other analysis, it is possible to use this information to look at the type of income levels that might be needed to access different types of housing. The analysis below looks at this issue, with tables provided for each dwelling size. The tables also show an estimate of the cost of affordable rented housing (set at 80% of the lower quartile rent) and social rented housing – this cost (and hence the income requirement) is assumed to be the same in all parts of the District.

2.60 The discussion below focusses on the costs of 2-bedroom accommodation for the purposes of comparison between areas. Because the rent levels were shown to not vary substantially by area, the gaps between income for private rent, affordable rent and social rent are similar in all areas. However, with higher house prices in the National Park area (and to a lesser extent the South Coastal Towns) there is quite a notable gap between the income required for outright purchase and the income needed to access the private rented sector.

Figure 2.19: Indicative affordability (income) thresholds for different tenures of housing – 1-bedroom housing – by sub-area				
	LQ purchase	LQ private rent	Affordable rented	Social rented
Avon Valley & Downlands	£25,875	£21,188	£18,080	£17,143
South Coastal Towns	£28,125	£22,313	£19,040	£17,143
Totton & the Waterside	£28,125	£21,000	£17,920	£17,143
New Forest National Park	£30,375	£24,000	£20,480	£17,143

Source: Derived from a range of sources as described

Figure 2.20: Indicative affordability (income) thresholds for different tenures of housing – 2-bedroom housing – by sub-area				
	LQ purchase	LQ private rent	Affordable rented	Social rented
Avon Valley & Downlands	£38,250	£26,625	£22,720	£19,757
South Coastal Towns	£43,875	£27,188	£23,200	£19,757
Totton & the Waterside	£37,125	£27,000	£23,040	£19,757
New Forest National Park	£55,125	£28,125	£24,000	£19,757

Source: Derived from a range of sources as described

Figure 2.21: Indicative affordability (income) thresholds for different tenures of housing – 3-bedroom housing – by sub-area				
	LQ purchase	LQ private rent	Affordable rented	Social rented
Avon Valley & Downlands	£63,000	£30,563	£26,080	£21,343
South Coastal Towns	£72,000	£34,313	£29,280	£21,343
Totton & the Waterside	£45,000	£30,563	£26,080	£21,343
New Forest National Park	£82,125	£35,250	£30,080	£21,343

Source: Derived from a range of sources as described

Figure 2.22: Indicative affordability (income) thresholds for different tenures of housing – 4-bedroom housing – by sub-area				
	LQ purchase	LQ private rent	Affordable rented	Social rented
Avon Valley & Downlands	£75,375	£45,375	£38,720	£23,743
South Coastal Towns	£100,125	£43,500	£37,120	£23,743
Totton & the Waterside	£73,125	£45,000	£38,400	£23,743
New Forest National Park	£109,125	£61,500	£52,480	£23,743

Source: Derived from a range of sources as described

- 2.61 The section to follow looks at the likely proportion of households who fall into the various gaps of being able to afford different tenures in the District (and by sub-area).

Housing Costs and Income Requirements – Conclusions

- 2.62 The cost of housing to buy in New Forest District is relatively expensive compared with national data. A lower quartile terraced home (regardless of size) is estimated to cost around £208,000, whilst a lower quartile two-bedroom home is estimated to be around £190,000. To access a 2-bedroom home (assuming a 10% deposit and a four times income multiple) a household would need an income of around £42,800.
- 2.63 The cost of private rented accommodation is somewhat more expensive than seen nationally. A lower quartile 2-bedroom home costs around £725 per month, and the income needed to access this accommodation (assuming that 32% of income could reasonably be spent on housing) would be around £27,200. The amount of housing benefit that can be claimed is generally lower than lower quartile market rents, meaning that benefit dependent households could find it difficult to access market housing (without having to top-up the rent to be paid).
- 2.64 The cost of affordable rented housing (at 80% of market rents) looks likely to have a cost at or below the maximum Housing Benefit levels, and hence can be considered as an affordable product likely to be available to most households. However, for households requiring larger homes, it is possible that the benefit cap would make it difficult to access this form of affordable housing. Social rents are notably cheaper than private or affordable rents and are the most affordable form of accommodation.
- 2.65 Analysis has been carried out to look at the potential cost of a range of affordable home ownership options. Key forms of affordable home ownership set out in the HWP (e.g. Starter Homes or Discounted Market Sale) also have the potential to be expensive relative to the income requirements for private rented accommodation. If such homes were sold at a 20% discount to Open Market Value (OMV) then they would not be meeting affordable need (i.e. those able to afford such accommodation could also afford to rent privately without any subsidy). To make home ownership as affordable as the private rented sector, discounts on OMV of well in excess of 20% would be needed (for a 2-bedroom home a discount of 44% is estimated as being necessary).
- 2.66 Turning to shared ownership, this tenure would sit at an effective cost somewhere between the cost of outright ownership and renting privately (potentially cheaper than privately renting if the equity share is as low as 25% for 1- and 2-bedroom homes). Hence, this type of accommodation is in some instances not affordable in terms of the definitions in the NPPF (and reaffirmed in the HWP). However, this analysis is based on a specific set of assumptions; the affordability of any particular dwelling could vary depending on the OMV and the individual circumstances of prospective purchasers. Additionally, the options that Help to Buy South⁴ offer in purchasing a share may make such housing affordable for the applicant, and would therefore make this a viable and affordable home ownership option.

⁴ <https://www.helptobuysouth.co.uk/>

- 2.67 It is clear from the analysis that shared ownership is likely to be the most affordable home ownership option available and should ideally be included in the mix of housing where an affordable home ownership element is to be included (which is likely to be necessary if the suggestions in the HWP are followed through).
- 2.68 The range of analysis around the cost of housing (including affordable housing) does provide the Council with a series of choices. The analysis clearly identifies a need for affordable housing based on the current NPPF definition (as seen in the 2014 SHMA), as well as a potential role of affordable home ownership (although it is recognised that this may not meet 'needs' as currently defined it is the case that such housing would sit in the gap between privately renting and home ownership). The choices are considered in more detail in the following section, which also introduces income information to look at affordability issues.
- 2.69 The analysis in this section has considered a range of different affordable products to both buy and rent. There are clear overlaps between products, with the analysis only able to provide a broad overview; for example, shared ownership could be provided with different equity shares to that assumed in this study, whilst Starter Homes could be provided with a greater discount than 20% on open market value.

3. Affordability

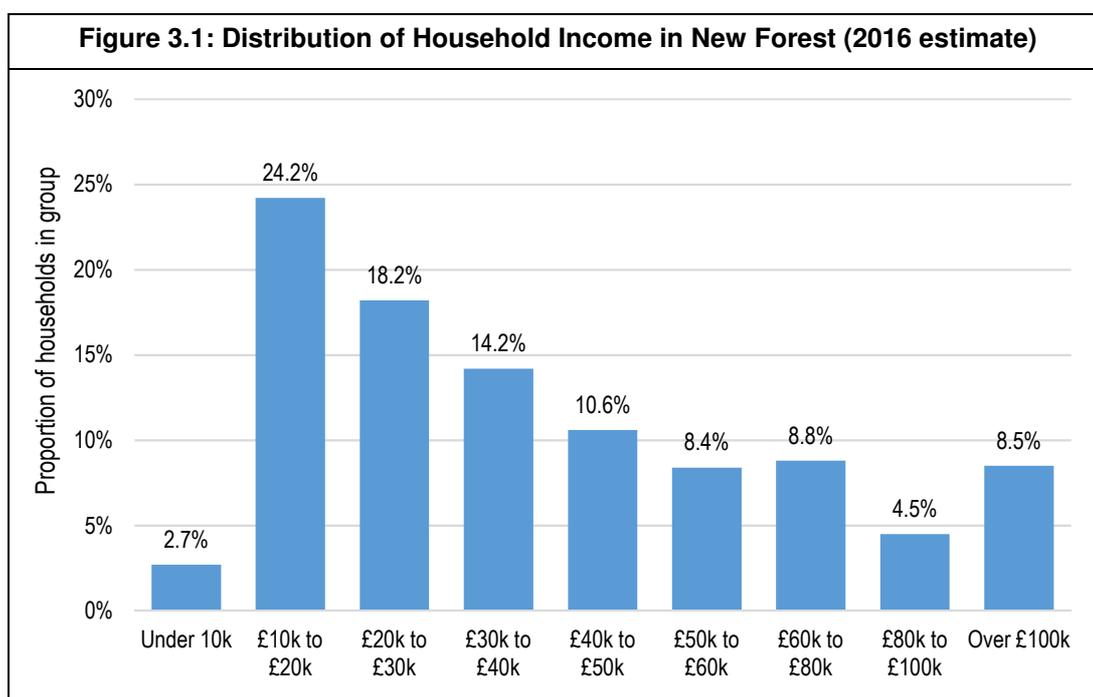
Introduction

3.1 Following on from the assessment of local prices and rents it is important to understand local income levels as these (along with the price/rent data) will determine levels of affordability and also provide an indication of the potential for intermediate housing to meet needs.

Incomes

3.2 Data about total household income has been modelled on the basis of information from ONS in its small area income estimates series; the latest information has a 2013/14 base and this has been updated to a 2016 base by reference to data from the Annual Survey of Hours and Earnings (ASHE). The ONS source only provides an average (mean) income and so additional information has been drawn from the English Housing Survey (EHS) to develop an income distribution.

3.3 Drawing all of this data together an income distribution for the whole of the District for 2016 has been constructed. The data shows that just over a quarter of households are estimated to have incomes below £20,000 with a further third in the range of £20,000 to £40,000. The overall average (median) income of all households in the District was estimated to be around £33,200 with a mean income of £43,600 (and a lower quartile of £19,200).



Source: Derived from CACI and EHS data

- 3.4 The analysis below is segmented by dwelling size, and so it has additionally been necessary to consider how incomes might vary for households requiring different sizes of property. There is no published source for this information and analysis is complicated by the fact that there is a difference between the size of accommodation a household needs (which would normally be determined by a bedroom standard as part of an allocations policy) and what a household might demand – particularly in the private sector where a household is able to live in a home larger than their requirements as long as they can afford to do so. Because this report is largely focussed on affordable housing, the approach is to estimate income levels by the size of accommodation needed.
- 3.5 Analysis carried out by JGC (based on survey data from other local authority areas) suggests that incomes are lowest for households with a 1-bedroom need and highest for those needing 3 or more bedrooms. The table below shows the overall average income by size required as a proportion of total income in an area along with an estimate of what the median income would be in New Forest when these figures are applied to local data.
- 3.6 The data shows that households requiring just one bedroom have an income which is about 80% of the average with all other sizes having income levels notably above the average. There is no notable difference in income levels between households requiring three bedrooms and those with a need for four bedrooms.
- 3.7 Whilst the distribution looks to be somewhat skewed with more sizes having higher than average incomes it needs to be remembered that for affordability purposes we would typically look at minimum size requirements for households – this means for example that all single person and childless couple households would be modelled against the costs of a one-bedroom home.

Figure 3.2: Estimated median incomes by size requirement (all households)

Size requirement	Income as % of average	Estimated income
1 bedroom	80%	£26,500
2 bedrooms	135%	£44,800
3 bedrooms	150%	£49,700
4+ bedrooms	150%	£49,700

- 3.8 The analysis also briefly considers affordability across the different sub-areas of the District, and the table below shows how incomes are thought to vary in different locations. This shows the highest incomes to be in the National Park area and the lowest in the South Coastal Towns (which may be due to a higher proportion of older and retired persons in this area). When looking at affordability by sub-area, the analysis has also made further adjustments in-line with the size requirement figures shown above.

Figure 3.3: Estimated median incomes by size requirement (all households)		
Size requirement	Median income	% of district average
Avon Valley & Downlands	£33,700	102%
South Coastal Towns	£29,300	88%
Totton & the Waterside	£33,400	101%
New Forest National Park	£38,800	117%
District	£33,200	100%

Affordability

- 3.9 Having worked through a range of housing products and local income levels, it is possible to bring the data together to look at the proportion of households able to afford different housing products. Focussing on two-bedroom homes, the table below shows that some 52% of households would be able to buy a lower quartile property on the basis of their income.
- 3.10 There is a relatively big gap between the income required for market purchase and Private Rented accommodation with some 21% of households having an income in this range. It is most probable that this group of households would be able to afford a product such as shared ownership although technically such housing would not be affordable (given that all households in this 'gap' can afford private rented housing).
- 3.11 Around 14% of households fall in the gap between private rent and social rent. This category would be intermediate housing (as defined by the NPPF) although, as noted, it may be the case that some intermediate products actually require a higher income than is needed to access the private rented sector; in such cases, the housing may be described as 'affordable' but it is not affordable in terms of the NPPF.
- 3.12 Finally, the analysis shows some 13% of households in the 'below social rent' category (shown as *can only afford housing with housing benefit support* in the table below) – this would increase to 20% if those unable to afford affordable rents are included (i.e. to also include *can afford a social rent without benefit support but cannot afford an affordable rent*). These households would all essentially fall into a need for social rented housing and have incomes that are insufficient to afford any of the housing products (other than social rents) without spending a high proportion of their income on housing (or without claiming Housing Benefit). Whilst these households are placed in a 'social rented' category for the purposes of analysis, it remains the case that other products (notably affordable rent) may be suitable, as long as sufficient Housing Benefit can be accessed.
- 3.13 When looking at different sizes of accommodation, the findings show some notably different outputs. For 1-bedroom homes, there is a fairly high proportion who could afford to buy a home and relatively few in the gap between buying and renting. The analysis also shows a high proportion (30%-34%) who could only afford social rented housing. The findings for 1-bedroom accommodation reflect the fact that housing costs across the spectrum are closer together than for other dwelling sizes.

3.14 For three and four-bedroom homes, there is a much lower proportion able to afford to buy a home and higher proportions in the gap between buying and privately renting (around a third of households are estimated to be in this gap between buying and renting). There is therefore arguably considerable scope for housing to be provided in this ‘gap’ although the Council does need to be mindful of the fact that such housing might not be technically affordable (i.e. it would essentially have an income threshold above that needed to privately rent); additionally, the analysis does not take account of current supply, clearly in this gap between buying and renting there will be a large range of rented homes available as well as a quarter of all sales. Finally, the analysis identifies notable proportions of households who fall below affordable rents in terms of income (24% of the 3-bedroom category and 40% for 4-bedrooms). This would suggest a potential need for social rented housing, or affordable rents, where the rent level falls below the appropriate LHA limit.

3.15 The final row of the table below shows a ‘crude average’ of the figures for each of the different dwelling sizes (this is simply the average of the figures, and is not weighted to take any account of the different need for different sizes of homes). This shows overall that around 37% of households are unable to afford market housing (based on a lower quartile private rent) and that around 25% sit in the gap between affording to buy and affording to rent (based on income data alone).

Figure 3.4: Proportion of households able to afford different housing tenures by size – New Forest

	Can afford to buy a home	Cannot afford to buy but can afford to privately rent	Cannot afford to privately rent but can afford affordable rented housing	Can afford a social rent without benefit support but cannot afford an affordable rent	Can only afford housing with housing benefit support	Total unable to afford (sum of last three columns)
1-bedroom	46.9%	12.2%	7.0%	3.9%	30.0%	40.9%
2-bedrooms	52.4%	20.5%	7.1%	6.9%	13.2%	27.2%
3-bedrooms	37.0%	32.2%	7.1%	11.8%	12.0%	30.9%
4-bedrooms	20.0%	33.1%	7.3%	23.2%	16.5%	47.0%
Crude average	39.1%	24.5%	7.1%	11.5%	17.9%	36.5%

Source: Derived from a range of sources as described

3.16 The figures provide a good indication of the relative affordability of different housing products. However, this should not be seen as indicating what tenure split is appropriate for new development – there are significant overlaps between the tenures which mean that households may be able to afford or access a range of different products.

3.17 The analysis should also be considered as indicative as it is based on estimated income levels of all households. In reality, individual households will have different and specific affordability levels which can vary, for example, depending on whether they are a current owner (with equity) and the size of home that they actually need. Also, certain groups will have a different profile (for example younger people are likely to have lower incomes than those in their 40s and 50s). However, the general ordering of the affordability of different products and the gap in costs between them does mean that the analysis is a useful guide to the potential mix of housing within the (broadening) affordable housing definition.

Affordability by sub-area

- 3.18 A similar analysis has been carried out for each of the four sub-areas. This tends to show that affordability is likely to be a more significant issue in the South Coastal Towns area than other parts of the District; this looks to be driven by estimated incomes in this location being relatively low. The analysis also identifies a high level of unaffordability in larger (4 bedroom) homes in the National Park area. Some caution should however be applied to this finding, as in reality, the majority of people seeking to access homes of this size are likely to already be owner-occupiers with equity, as such an analysis focussing solely on income will not provide the full picture.
- 3.19 The analysis does however suggest that there is a need for affordable housing in all areas; this is consistent with the findings of the 2014 SHMA. The following section of this report looks at the sizes of affordable housing that might be required.

Figure 3.5: Proportion of households able to afford different housing tenures by size – Avon Valley & Downlands

	Can afford to buy a home	Cannot afford to buy but can afford to privately rent	Cannot afford to privately rent but can afford affordable rented housing	Can afford a social rent without benefit support but cannot afford an affordable rent	Can only afford housing with housing benefit support	Total unable to afford (sum of last three columns)
1-bedroom	52.2%	9.3%	7.0%	2.3%	29.3%	38.6%
2-bedrooms	58.5%	16.0%	7.1%	6.0%	12.5%	25.6%
3-bedrooms	39.4%	33.7%	7.1%	8.5%	11.4%	27.0%
4-bedrooms	30.8%	24.6%	7.2%	21.7%	15.8%	44.7%
Crude average	45.2%	20.9%	7.1%	9.6%	17.3%	34.0%

Source: Derived from a range of sources as described

Figure 3.6: Proportion of households able to afford different housing tenures by size – South Coastal Towns

	Can afford to buy a home	Cannot afford to buy but can afford to privately rent	Cannot afford to privately rent but can afford affordable rented housing	Can afford a social rent without benefit support but cannot afford an affordable rent	Can only afford housing with housing benefit support	Total unable to afford (sum of last three columns)
1-bedroom	41.1%	11.5%	7.4%	4.6%	35.4%	47.4%
2-bedrooms	44.7%	22.7%	7.1%	7.2%	18.4%	32.7%
3-bedrooms	26.2%	35.6%	7.0%	14.1%	17.2%	38.3%
4-bedrooms	14.5%	36.1%	7.7%	19.8%	22.0%	49.5%
Crude average	31.6%	26.5%	7.3%	11.4%	23.3%	42.0%

Source: Derived from a range of sources as described

Figure 3.7: Proportion of households able to afford different housing tenures by size – Totton & the Waterside

	Can afford to buy a home	Cannot afford to buy but can afford to privately rent	Cannot afford to privately rent but can afford affordable rented housing	Can afford a social rent without benefit support but cannot afford an affordable rent	Can only afford housing with housing benefit support	Total unable to afford (sum of last three columns)
1-bedroom	47.3%	14.1%	7.0%	2.0%	29.7%	38.7%
2-bedrooms	59.4%	14.1%	7.1%	6.6%	12.9%	26.6%
3-bedrooms	55.4%	17.3%	7.1%	8.5%	11.8%	27.4%
4-bedrooms	31.8%	23.6%	7.1%	21.4%	16.2%	44.7%
Crude average	48.5%	17.3%	7.1%	9.6%	17.7%	34.4%

Source: Derived from a range of sources as described

Figure 3.8: Proportion of households able to afford different housing tenures by size – New Forest National Park

	Can afford to buy a home	Cannot afford to buy but can afford to privately rent	Cannot afford to privately rent but can afford affordable rented housing	Can afford a social rent without benefit support but cannot afford an affordable rent	Can only afford housing with housing benefit support	Total unable to afford (sum of last three columns)
1-bedroom	51.2%	11.0%	7.0%	8.0%	22.9%	37.9%
2-bedrooms	47.3%	31.0%	7.0%	7.3%	7.4%	21.7%
3-bedrooms	33.5%	39.5%	7.1%	13.4%	6.6%	27.1%
4-bedrooms	20.5%	26.7%	8.0%	34.8%	10.1%	52.9%
Crude average	38.1%	27.1%	7.3%	15.9%	11.8%	34.9%

Source: Derived from a range of sources as described

3.20 All areas see a notable proportion of households sitting between the cost of buying and a private rent (most notably in South Coastal Towns and the National Park); this means that there are potentially quite a large number of households who are able to rent but not buy a home. This is important given the Government’s push for more affordable home ownership products to be made available. However, any decisions on the proportion of homes to be provided in the home ownership category needs to be tempered by the understanding that technically these households do not have an affordable need (as defined by the NPPF and also in the White Paper).

Affordability – Conclusions

- 3.21 Overall, the analysis has estimated that over a third of households (based solely on incomes) cannot afford market housing; this is based on accessing a lower quartile private rented home. Additionally, there looks to be a reasonably sizeable gap between accessing private rented accommodation and social rented housing (around half of those unable to afford are estimated to fall into this 'gap' which in NPPF terms would be termed intermediate housing). Much of this 'gap' would however be picked up as affordable rented housing rather than equity-based forms of intermediate housing.
- 3.22 There is also a clear and sizeable gap between the incomes required to access open market housing to buy and the private rented sector with around a quarter of households falling into this gap. This does not however mean that a quarter of new homes should be priced in this band as there will already be a sizeable amount of housing available (including a quarter of open market sales and likely to be much of the private rented sector). Any housing provided in the gap between private rents and the market would not be technically affordable, but could help some households to move out of private renting and into home ownership (which is a key aim of the Government as set out in the Housing White Paper (HWP)). Hence, it is arguable that some housing could be provided as forms of low-cost home ownership.
- 3.23 Additionally, greater provision of home ownership options would allow some households to move out of private rented accommodation, and this housing would then potentially be available for use by another household (and on this point it should be noted that the White Paper is also suggesting including some forms of private renting within the definition of affordable housing).
- 3.24 It is therefore suggested that the Council should consider seeking 10% of all housing to be affordable home ownership (as set out in the White Paper). There will be decisions to make about the form such housing takes. The analysis is clear that a 20% discount from OMV will not make housing affordable, but higher discounts will impact on viability, with the possibility that such housing still does not meet an ideal target audience (e.g. if households with relatively high incomes are able to access such housing). Hence any policy to include the 10% should be carefully thought through. Furthermore, it is not considered that there is any basis (in affordability terms) to increase the provision of affordable home ownership above the 10% figure currently suggested in the White Paper.
- 3.25 The Council will also need to consider what forms of affordable home ownership are most appropriate in local circumstances. The discussion when looking at different tenures within this broad 'affordable home ownership' category clearly points towards shared ownership as being the most affordable option; the Council should therefore focus on this tenure as a start point, with other options potentially being considered where viability is a concern.
- 3.26 The Council could also consider other forms of affordable home ownership over and above the typical social:intermediate split currently sought in policy. This could be in addition to the affordable housing and could form part of the market housing.

- 3.27 Subject to viability, in addition to 10% of affordable home ownership, the Council should be seeking to provide additional rented housing (given the analysis of affordability and the level of affordable need shown in the 2014 SHMA the provision of such housing should be maximised where opportunities arise). The analysis in this section suggests that rented housing should be split broadly equally between social and affordable rented although the amount of affordable rent could be increased as long as the rent level does not fall above LHA limits (and also being mindful of the impact of benefit caps for larger households).
- 3.28 When looking at the sub-areas, there is some argument that a slightly different mix of affordable housing might be appropriate (most notably the South Coastal Towns and National Park areas have larger 'gaps' in the cost between open market purchase and the cost of private rented housing). However, these areas also show high proportions unable to afford the market generally, which would point towards a need for rented housing. Hence on balance, it is not considered that any different area approach would be appropriate.
- 3.29 In terms of the choices, the delivery of affordable housing will be limited by the finance available to provide such housing and this will need to be balanced against the need for different types of accommodation. For example, the analysis clearly shows the main need to be for social and affordable rented homes, however, social rent is typically less viable to provide than say shared ownership (or indeed affordable rents) – therefore fewer social rented homes would be able to be provided than homes of other tenures.
- 3.30 Additionally, low-cost home ownership may not meet the current NPPF definitions of affordable housing, however all planning authorities in England are under a general duty to promote the supply of Starter Homes, with the White Paper looking to include a 'policy expectation' that 10% of all new homes will be some form of affordable home ownership. Hence, there will be further choices to make regarding the provision of affordable home ownership and this will include consideration of issues such as the discount on OMV.
- 3.31 There are further considerations when looking at the tenures of affordable homes to be provided. This includes the cost to the public purse of Housing Benefit and also the extent to which households might get caught in a benefit trap if rent levels are too high (which could act as a disincentive to seek employment). Differences in the pricing and availability of housing in different areas will also be a consideration when deciding what mix of housing is most appropriate (e.g. rural housing is more expensive, and these areas typically have a lower proportion of social rented homes currently).
- 3.32 The analysis in this report broadly supports the Council's current approach to affordable provision when negotiating with developers (on Section 106 sites); this approach is to seek a 35%:15% or 25%:15% split between social rented and intermediate housing.
- 3.33 Overall, whilst this report provides an evidence base about different types/tenures of housing, it remains the case that the local authority will need to recognise that there are a series of choices to be made with regard to the provision of new homes; essentially a trade-off between the affordability of accommodation and the number of homes that can viably be provided. However, if the Council's current policy is delivering affordable housing, there is nothing in the evidence base in this report to suggest that any radically different approach needs to be taken.

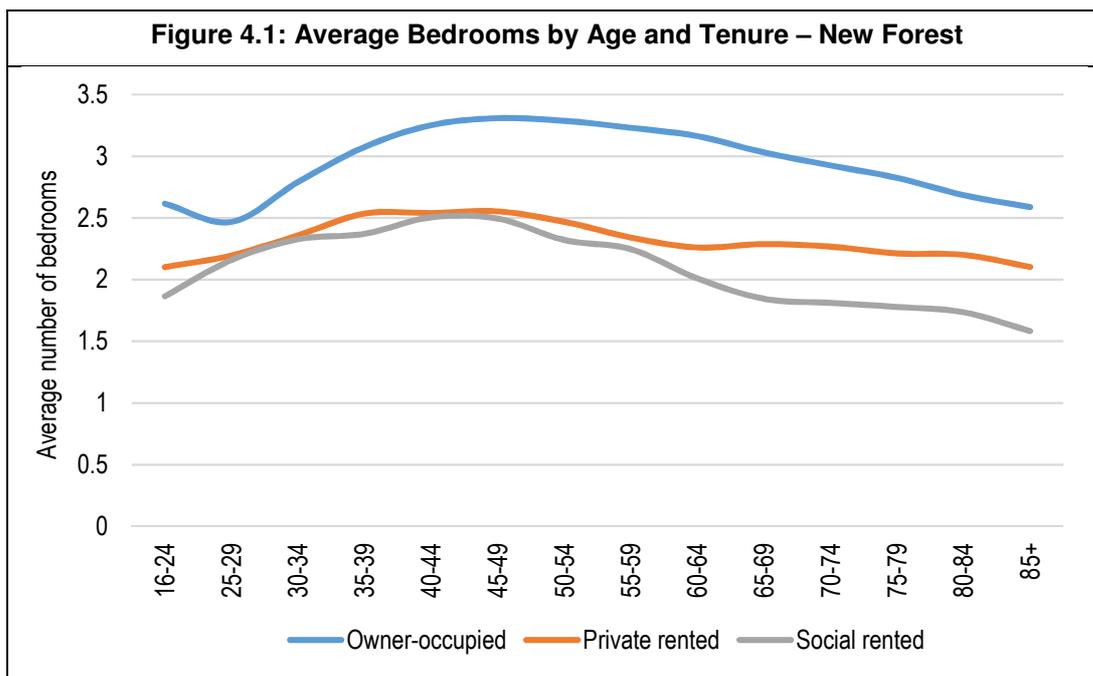
4. Housing Mix (Size of Homes Needed)

Introduction

- 4.1 Previous sections have discussed the costs of different tenures of housing and their affordability based on local incomes. This section expands on this analysis to provide an indication of the sizes of accommodation that might be required in different (broad) tenure groups.
- 4.2 The analysis in this section seeks to use the information available about the size and structure of the population and household structures; and consider what impact this may have on the sizes of housing required in the future. For analysis purposes, this assumes population and household growth in line with the housing targets in the emerging Local Plan (plus trend-based growth in the National Park area). This would suggest household growth of around 12,100 in the District between 2016 and 2036. The demographic projections used in this report were developed by JGC as part of a separate commission for New Forest Council.

Understanding how Households Occupy Homes

- 4.3 Whilst demographic projections provide a good indication of how the population and household structure will develop, it is not a simple task to convert the net increase in the number of households in to a suggested profile for additional housing to be provided. The main reason for this is that in the market sector, households are able to buy or rent any size of property (subject to what they can afford) and therefore knowledge of the profile of households in an area does not directly transfer into the sizes of property to be provided.
- 4.4 The size of housing which households occupy relates more to their wealth and age than the number of people which they contain. For example, there is no reason why a single person cannot buy (or choose to live in) a four-bedroom home as long as they can afford it and hence projecting an increase in single person households does not automatically translate in to a need for smaller units. This issue is less relevant in the affordable sector (particularly since the introduction of the social sector size criteria) although there will still be some level of under-occupation moving forward with regard to older person and working households who may be able to under-occupy housing.
- 4.5 The approach used is to interrogate information derived in the projections about the number of household reference persons (HRPs) in each age group and apply this to the profile of housing within these groups. The data for this analysis has been formed from a commissioned table by ONS (Table CT0621 which provides relevant data for all local authorities in England and Wales from the 2011 Census).
- 4.6 The figure below shows an estimate of how the average number of bedrooms varies by different ages of HRP and broad tenure group. In the owner-occupied sector the average size of accommodation rises over time to typically reach a peak around the age of 45-49; a similar pattern (but with smaller dwelling sizes is seen in the private rented sector). In the social rented sector, this peak appears earlier. After this peak, the average dwelling size decreases – as typically some households downsize as they get older.



Source: Derived from ONS Commissioned Table CT0621

4.7 In terms of the analysis to follow, the outputs have been segmented into three broad categories. These are market housing, which is taken to follow the occupancy profiles in the owner-occupied sector; affordable home ownership, which is taken to follow the occupancy profile in the private rented sector (this is seen as reasonable as the Government’s desired growth in home ownership looks to be largely driven by a wish to see households move out of private renting) and affordable housing, which is taken to follow the occupancy profile in the social rented sector. The affordable sector in the analysis to follow is expected to largely be rented housing and would include affordable rented housing.

Tenure Assumptions

4.8 The housing market model has been used to estimate the future need for different sizes of property over the 20-year period from 2016 to 2036. The model works by looking at the types and sizes of accommodation occupied by different ages of residents, and attaching projected changes in the population to this to project need and demand for different sizes of homes. However, the way households of different ages occupy homes differs between the market and affordable sectors (as shown earlier). Thus it is necessary to consider what the mix of future housing will be in the market and affordable sectors.

4.9 It is necessary on this basis to make some judgement for modelling purposes on what proportion of net completions might be of market and affordable housing. For modelling purposes, the analysis assumes that 35% of net completions are either affordable housing (rented) or low-cost home ownership and therefore that 65% are market housing (designed to be sold for owner-occupation). Within the 35% affordable/low-cost a split of (roughly) 70:30 has been used; this means an estimated total of 25% of completions as affordable housing (rented) and 10% as low-cost home ownership. These proportions are consistent with conclusions earlier in the report, whilst the 35% figure is based on what is considered to be reasonably possible in the District, although this has not been subject to viability testing which could see the potential for these figures to go up or down.

4.10 It should be stressed that these figures are not policy targets. Policy targets for affordable housing on new development schemes in some cases are above this; but not all sites deliver policy-compliant affordable housing provision, whilst some delivery is on sites below affordable housing policy thresholds. Equally some housing development is brought forward by Registered Providers and local authorities and may deliver higher proportions of affordable housing. The figures used are not a policy position and have been applied simply for the purposes of providing outputs from the modelling process. To confirm, it has been assumed that the following proportions of different tenures will be provided moving forward:

- Market housing – 65%
- Low-cost home ownership – 10%
- Social/affordable rent – 25%

Key Findings: Market Housing

4.11 There are a range of factors which can influence demand for market housing in different locations. The focus of this analysis is on considering long-term needs, where changing demographics are expected to be a key influence. It uses a demographic-driven approach to quantify demand for different sizes of properties over the 20-year period from 2016 to 2036.

4.12 Looking first at market housing, an increase of 7,900 additional households is modelled. The majority of these need two- and three-bed homes. The data suggests that housing need can be expected to reinforce the existing profile, but with a shift towards a requirement for smaller dwellings relative to the distribution of existing housing (particularly towards a need for 2-bedroom homes). This is understandable given the fact that household sizes are expected to fall slightly in the future – particularly as a result of a growing older population living in smaller households.

Size	2016	2036	Additional households 2016-2036	% of additional households
1 bedroom	2,444	2,886	442	5.6%
2 bedrooms	14,508	17,079	2,571	32.6%
3 bedrooms	26,895	30,312	3,417	43.3%
4+ bedrooms	16,416	17,869	1,453	18.4%
Total	60,263	68,146	7,883	100.0%

Source: Housing Market Model

4.13 The statistics are based upon the modelling of demographic trends. As has been identified, it should be recognised that a range of factors including affordability pressures and market signals will continue to be important in understanding market demand; this may include an increased demand in the private rented sector for rooms in a shared house due to changes in housing benefit for single people. In determining policies for housing mix, the Council's policy aspirations are also relevant.

- 4.14 At the strategic level, a local authority in considering which sites to allocate, can consider what type of development would likely be delivered on these sites. It can also provide guidance on housing mix implicitly through policies on development densities.
- 4.15 The analysis has also been undertaken by sub-area with the table below showing the summary outputs. This shows only small variations between areas, with arguably the most notable being the relatively high need for 4+ bedroom accommodation in Avon Valley & Downlands. However, on balance, the differences between areas are not so great that a different approach in different locations needs to be taken.

	1-bedroom	2-bedrooms	3-bedrooms	4+ bedrooms
Avon Valley & Downlands	5%	29%	43%	22%
South Coastal Towns	7%	37%	40%	16%
Totton & the Waterside	5%	31%	46%	18%
New Forest National Park	6%	37%	39%	17%
District total	6%	33%	43%	18%

Source: Housing Market Model

Key Findings: Low-cost home ownership

- 4.16 The table below shows estimates of the need for different sizes of affordable home ownership based on the analysis of demographic trends. The data suggests in the period between 2016 and 2036 that the main need is again for homes with two- or three-bedrooms, although the proportions in the 1-bedroom category are higher than for market housing.

Size	2016	2036	Additional households 2016-2036	% of additional households
1 bedroom	1,857	2,101	244	20.1%
2 bedrooms	3,984	4,477	492	40.6%
3 bedrooms	3,284	3,667	383	31.6%
4+ bedrooms	928	1,021	93	7.7%
Total	10,053	11,265	1,213	100.0%

Source: Housing Market Model

- 4.17 The analysis has also been undertaken by sub-area with the table below showing the summary outputs. This shows little variation between areas and does not suggest that a different approach need be taken in different locations.

Figure 4.5: Estimated size mix of dwellings by sub-area – low-cost home ownership

	1-bedroom	2-bedrooms	3-bedrooms	4+ bedrooms
Avon Valley & Downlands	19%	41%	33%	8%
South Coastal Towns	21%	40%	31%	9%
Totton & the Waterside	21%	41%	31%	7%
New Forest National Park	18%	40%	33%	9%
District total	20%	41%	32%	8%

Source: Housing Market Model

Key Findings: Affordable Housing (rented)

- 4.18 The table below shows estimates of the need for different sizes of affordable homes based on the analysis of demographic trends. The data suggests in the period between 2016 and 2036 that the main need is for homes with one- or two-bedrooms.
- 4.19 This analysis provides a longer-term view of the need for different sizes of affordable housing and does not reflect any specific priorities such as for family households in need rather than single people. In addition, it should be noted that smaller properties (i.e. one-bedroom homes) typically offer limited flexibility in accommodating the changing needs of households, whilst delivery of larger properties can help to meet the needs of households in high priority and to manage the housing stock by releasing supply of smaller properties. That said, there may in the short-term be an increased requirement for smaller homes as a result of welfare reforms limiting the amount of housing benefit being paid to some working-age households.

Figure 4.6: Estimated Size of Dwellings Needed 2016 to 2036 – affordable housing (rented) – New Forest

Size	2016	2036	Additional households 2016-2036	% of additional households
1 bedroom	2,503	3,547	1,044	34.4%
2 bedrooms	2,876	3,899	1,023	33.7%
3 bedrooms	2,785	3,663	878	29.0%
4+ bedrooms	287	374	87	2.9%
Total	8,451	11,483	3,032	100.0%

Source: Housing Market Model

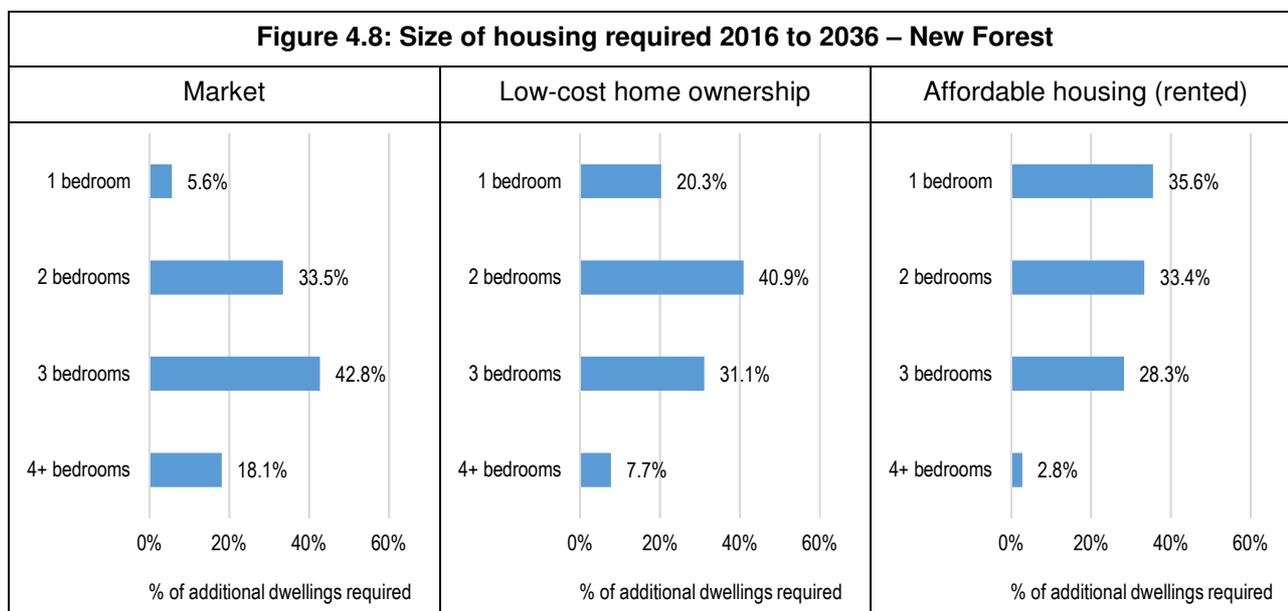
- 4.20 As with market housing, the data again shows that relative to the current profile there is a slight move towards a greater proportion of smaller homes being needed (again related to the ageing population and the observation that older person households are more likely to occupy smaller dwellings).
- 4.21 The analysis has also been undertaken by sub-area with the table below showing the summary outputs. This again shows little difference between areas.

Figure 4.7: Estimated size mix of dwellings by sub-area – affordable housing (rented)				
	1-bedroom	2-bedrooms	3-bedrooms	4+ bedrooms
Avon Valley & Downlands	34%	34%	29%	3%
South Coastal Towns	38%	32%	28%	3%
Totton & the Waterside	33%	34%	30%	3%
New Forest National Park	34%	35%	28%	3%
District total	34%	34%	29%	3%

Source: Housing Market Model

Indicative Targets by Tenure

4.22 The figure below summarises the above data in both the market and affordable sectors under the modelling exercise. The analysis clear shows the different profiles in the three broad tenures with affordable housing being more heavily skewed towards smaller dwellings, and affordable home ownership sitting somewhere in between the market and affordable housing.



Source: Housing Market Model

4.23 Whilst the output of the modelling provides estimates of the proportion of homes of different sizes that are needed, there are a range of factors which should be taken into account in setting policies for provision. This is particularly the case in the affordable sector where there are typically issues around the demand for and turnover of one-bedroom homes (as well as allocations to older person households) – e.g. one bedroom homes provide limited flexibility for households (e.g. a couple household expecting to start a family) and as a result can see relatively high levels of turnover – therefore, it may not be appropriate to provide as much one-bedroom stock as is suggested by the modelling exercise. At the other end of the scale, conclusions also need to consider that the stock of four-bedroom affordable housing is very limited and tends to have a very low turnover. As a result, whilst the number of households coming forward for four or more bedroom homes is typically quite small the ability for these needs to be met is even more limited.

- 4.24 For these reasons, it is suggested in converting the long-term modelled outputs into a profile of housing to be provided (in the affordable sector) that the proportion of one bedroom homes required is reduced slightly from these outputs with a commensurate increase in four or more bedroom homes also being appropriate.
- 4.25 There are thus a range of factors which are relevant in considering policies for the mix of affordable housing (rented) sought through development schemes. At a District-wide level, the analysis would support policies for the mix of affordable housing (rented) of:
- 1-bed properties: 30-35%
 - 2-bed properties: 30-35%
 - 3-bed properties: 25-30%
 - 4-bed properties: 5-10%
- 4.26 The strategic conclusions recognise the role which delivery of larger family homes can play in releasing supply of smaller properties for other households; together with the limited flexibility which one-bed properties offer to changing household circumstances which feed through into higher turnover and management issues.
- 4.27 The need for affordable housing of different sizes will vary by area (at a more localised level) and over time. In considering the mix of homes to be provided within specific development schemes, the information herein should be brought together with details of households currently on the Housing Register in the local area and the stock and turnover of existing properties.
- 4.28 In the low-cost home ownership and market sectors a profile of housing that closely matches the outputs of the modelling is suggested. The recommendations take some account of the time period used for the modelling and the fact that the full impact of the ageing population will not be experienced in the short-term.
- 4.29 On the basis of these factors it is considered that the provision of affordable home ownership should be more explicitly focused on delivering smaller family housing for younger households. On this basis the following mix of low-cost home ownership is suggested:
- 1-bed properties: 15-20%
 - 2-bed properties: 40-45%
 - 3-bed properties: 30-35%
 - 4-bed properties: 5-10%
- 4.30 Finally, in the market sector, a balance of dwellings is suggested that takes account of both the demand for homes and the changing demographic profile, this sees a slightly larger recommended profile compared with other tenure groups. The following mix of market housing is suggested:
- 1-bed properties: 0-5%
 - 2-bed properties: 30-35%
 - 3-bed properties: 40-45%
 - 4-bed properties: 20-25%

4.31 Although the analysis has quantified this on the basis of the market modelling and an understanding of the current housing market, it does not necessarily follow that such prescriptive figures should be included in the plan making process. The figures can however be used as a monitoring tool to ensure that future delivery is not unbalanced when compared with the likely requirements as driven by demographic change in the area.

Housing Mix (Size of Homes Needed) – Conclusions

4.32 There are a range of factors which will influence demand for different sizes of homes, including demographic changes; future growth in real earnings and households' ability to save; economic performance and housing affordability. The analysis linked to long-term (20-year) demographic change concludes that the following represents an appropriate mix of affordable and market homes:

Figure 4.9: Suggested mix of housing (by size and broad tenure)

	1-bed	2-bed	3-bed	4+ bed
Market	0-5%	30-35%	40-45%	20-25%
Low-cost home ownership	15-20%	40-45%	30-35%	5-10%
Affordable housing (rented)	30-35%	30-35%	25-30%	5-10%

4.33 The strategic conclusions in the affordable sector recognise the role which delivery of larger family homes can play in releasing supply of smaller properties for other households; together with the limited flexibility which one-bed properties offer to changing household circumstances which feed through into higher turnover and management issues. The analysis also takes account of the fact that rented affordable housing would tend to be allocated on the basis of a bedroom standard (which for example would see a childless couple having a need for a one-bedroom home), whilst it is expected that accessing low-cost (affordable) home ownership would have more flexibility (and that this tenure is in part designed to allow households in the private rented sector to buy their own home).

4.34 The mix identified above should inform strategic policies. In applying these to individual development sites regard should be had to the nature of the development site and character of the area, and to up-to-date evidence of need as well as the existing mix and turnover of properties at the local level.

4.35 Based on the evidence, it is expected that the focus of new market housing provision will be on two- and three-bed properties. Continued demand for family housing can be expected from newly forming households. There may also be some demand for two and three bedroom properties from older households downsizing and looking to release equity in existing homes, but still retain flexibility for friends and family to come and stay.

4.36 The analysis of an appropriate mix of dwellings could also inform the 'portfolio' of sites which are considered by the local authority through its local plan process. Equally it will be of relevance to affordable housing negotiations.

4.37 The analysis also looked at the housing mix in each of the four sub-areas. Whilst there were differences between locations, it is not considered that these are so great as to point towards a different profile of new housing being needed when compared to District level findings.

5. Living Rents

Introduction

- 5.1 The analysis above has looked at a range of housing tenures and considered the likely income requirements for households to be able to access housing. The main conclusion is that low-cost home ownership products are unlikely to be affordable in the traditional sense of households needing affordable housing, as households able to afford such products will also be able to access the private rented sector without the need for subsidy.
- 5.2 The analysis also revealed potential issues with the costs of affordable rented housing, where the housing cost could potentially be at or above the LHA limit, and as a result, some households would need to top up their rent payments to be able to access such housing. The reduction in the benefit cap from £26,000 to £20,000 for couples and families with children has the potential to make affordable rents unaffordable to those on the lowest incomes and those reliant on benefits and needing larger homes (with 3 or more bedrooms).
- 5.3 Additionally, the analysis has noted, but not analysed the possibility of service charges making homes unaffordable. This is particularly likely to be an issue for smaller homes (1- and 2-bedroom flats). There is also the possibility that, over time, rents will increase at a faster rate than earnings or benefits, making affordable rents unaffordable to more households. This would particularly be the case for any new affordable rented housing as for existing stock the Government is requiring reductions in social/affordable rents of 1% per annum over the period to 2020. This will ensure that in the short term, households will benefit from flat or marginally lower rental costs. The HWP included a commitment to develop a rent policy for social landlords beyond 2020, and this may see rents starting to rise again.

Living Rents

- 5.4 On the basis of the discussion above, this report explores an alternative approach to setting rents to ensure that they are affordable to those on low incomes and in need of affordable housing. This approach could be applied to new homes developed by the Council through its development programme. Essentially, the approach is to explore whether there is an alternative to setting affordable rents in relation to market rents, an approach that links more closely to local incomes. Such an approach might require higher levels of subsidy and therefore the viability of schemes would need to be carefully considered before implementing any new approach.
- 5.5 This approach has the advantage of being more readily updatable than conducting a full review of housing costs in different tenures. As will be seen below, there is only one core input to the analysis; that is data about incomes, which is updated annual by ONS in its Annual Survey of Hours and Earnings (ASHE).

5.6 The study essentially draws on a study by the Joseph Rowntree Foundation and National Housing Federation, undertaken by Savills. This developed an approach with the aim of *'re-establishing the link between housing and the labour market and between rents and the ability of low income households to afford them.'* (JRF, NHF by Savills (June 2015) Living Rents – A New Development Framework for Affordable Housing). The principles of the Living Rents approach are that:

- Rents reflect the type of households accessing social housing.
- Rent levels are affordable for households with individuals in full time employment, working average hours each week, earning the minimum wage.
- Earnings are indexed used an equivalence scale to allow for household income and property size.

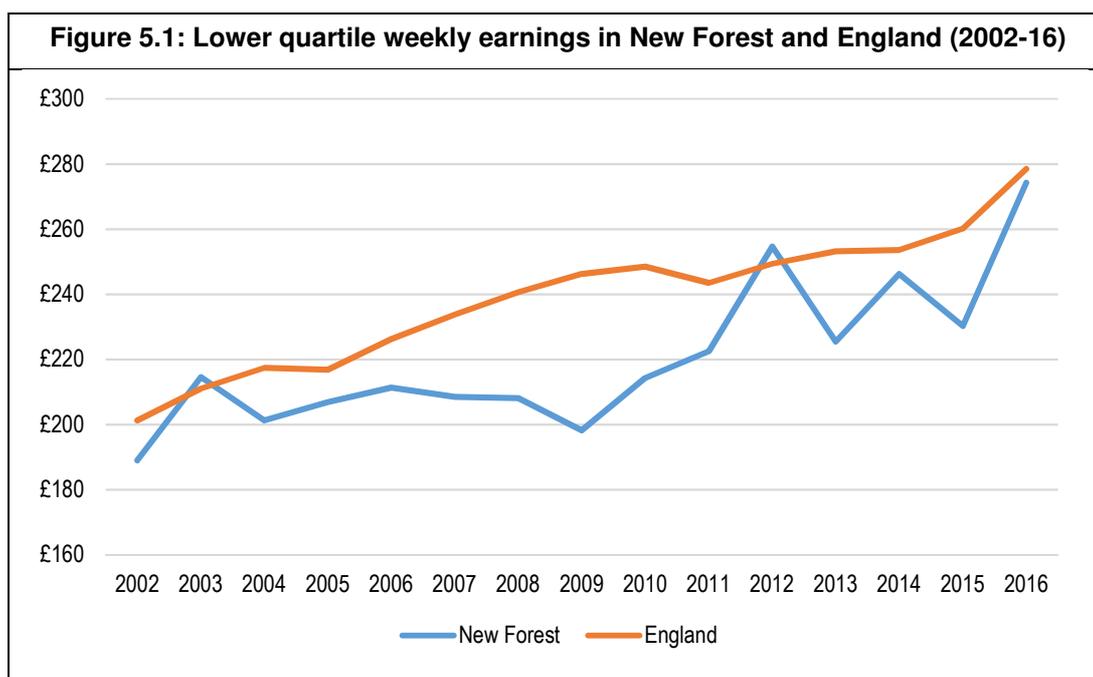
5.7 The steps in calculating a Living Rent, according to the report, are as follows:

- Lower quartile gross weekly pay for all employees (using ASHE) is taken to represent the incomes of those who typically live in social housing and also to equate to earnings of someone working full time, average hours and earning the minimum wage (or in the future a living wage). These figures can be readily sourced at the local level.
- The study then uses Continuous Recording of lettings in social housing in England (CoRe) data and the OECD modified equivalence scale to adapt the individual earnings data to reflect different household compositions in different sized properties. Specifically, this allows for benefit top ups for households with children (see figure below). This is a useful methodology for converting local individual earnings data into estimated household incomes.
- The study concludes that rents should be set at 28% of earnings. The research explains that whilst households typically spend 33% of earnings or incomes on housing costs, this has been adjusted to 28% to take account of net earnings/incomes after tax. The five percentage point difference between 28% and 33% of income spent on rent has quite a large effect on the rent that the household can afford and so it is useful to calculate the resulting rents under each scenario.

5.8 Below the analysis works through the various stages suggested in the Living Rent document, this analysis takes a base of 2016, that being the latest date for which information about local earnings from ASHE is available.

Using ASHE

5.9 The Annual Survey of Hours and Earnings (ASHE) is compiled by the Office for National Statistics. This looks at individual – rather than household – earnings. The lower-quartile, average national figure using ASHE figures for all employee jobs for New Forest in 2016 was £274.30 per week, slightly lower than the equivalent figure for England (£278.50). The figure below shows how the lower quartile income figure has changed over time (for New Forest and England).



Source: Annual Survey of Hours and Earnings

5.10 Using the Living Rents methodology the lower quartile figure quoted above is used to reflect a basic earnings figure for calculating Living Rents. The report does however recognise that this needs to be adapted to take account of:

- The differing composition of households in different-sized properties
- Allowing for the fact that household income for low-paid families with children is likely to be enhanced by benefits and tax credits. Therefore, the key issue is to find a mechanism to use ASHE in a way that adapts to reflect these factors.

Equivalisation

5.11 The Living Rents model uses an equivalisation methodology to enable the ASHE data to be used in a way that adapts to reflect the factors in the bullet points above. Equivalisation scales are used to show how the incomes of households are compared, adjusting a household's income for size and composition. The methodology recognises that the OECD-modified equivalence scale is the standard scale for the Statistical Office of the European Union (EUROSTAT) and several government departments in the UK use it for key household income statistics. This produces the scale as shown below.

Figure 5.2: OECD-modified equivalence scale as applied by household composition	
Type of Household Member	Equivalence value
First adult	1
Additional adult	0.5
Child aged 14 and over	0.5
Child aged 0-13	0.3

Source: Living Rent Methodology

5.12 The methodology recognises that the equivalence approach is designed to adjust cost of living – rather than income – in relation to household size and composition. It is therefore not specifically designed to relate rents to income. The methodology suggests however that it can be a suitable proxy to relate rents to household and property size, given that:

- It gives a base point of a household with one working adult
- A household with one child and one adult earning the ASHE national lower-quartile wage would receive one third more in income from the basic tax credits and child benefit
- A household with two children and one adult earning the ASHE national lower-quartile wage would receive around 53% extra income from the tax credits and child benefit
- Given the difficulties low-income households experience finding work with the number of hours they want, it seems logical to make an allowance for the fact that additional adults may be working less than full-time.

Equivalence and dwelling sizes

5.13 The Living Rent methodology looks at CoRe data at a national level for working-age households moving into general needs properties to gain an idea of who has been moving into which size of property. For the purposes of analysis in this report it is considered that the national analysis is reasonable to apply to the New Forest. Assumptions by dwelling size are summarised below:

- One bedroom: 86% of the lettings of one-bed properties to working age adults were to single adults. Therefore, the rent should be focused on a single adult. Giving 1 point on the equivalisation scale
- Two-bedroom: For two-bed properties there was more of a mixed picture with more than three-quarters having children or more than one adult. The assumption made is that a two-bedroom property would typically contain one adult with one child under 14. Giving 1.3 as the appropriate point on the scale.
- Three-bedroom: In this dwelling size, families predominate, with lone parents and multi-adult households with children accounting for nearly 80% of lettings. A further 17% are multi-adult households with no children. The assumption made for a three-bedroom property is that there would be one adult with two children under 14; giving 1.6 as the appropriate point on the scale.

5.14 This analysis can be summarised as in the table below. Clearly differing assumptions could be used, but for consistency with the national research the equivalence rating suggested in the Living Rents methodology have been applied.

Figure 5.3: Dwelling size and equivalence rating		
Number of bedrooms	Household size	Equivalence rating
One bedroom	Single adult	1
Two bedrooms	One working adult and one child	1.3
Three bedrooms	One working adult and two children	1.6

Source: Living Rent Methodology

Income to be spent on housing

- 5.15 The narrative below is largely paraphrased from the Living Rents methodology and is concerned with views about what proportion of income should be spent on rent. This analysis is different to that carried out earlier in the report, which is largely based on considering housing costs (rather than incomes).
- 5.16 The Living Rents methodology recognises that there is no generally agreed method for determining what percentage of earnings/income should be used for assessing the affordability of rents for social housing. It recognises that different organisations or studies use a variety of proportions and many studies focus on net income or use a residual income methodology. The methodology notes that there is a general bunching of views around 25% to 35% of net income.
- 5.17 JRF's Monitoring poverty and social exclusion report (MacInnes, T. et al Monitoring poverty and social exclusion 2014 York: JRF) shows that the poorest households spent on average 29% of their income on housing. This is twice as much as those on average incomes (15%) and three times the level of the richest fifth (9%). This study found that social renters in the poorest fifth spend on average 33% of their income on housing.
- 5.18 The methodology therefore takes the figure of 33% of gross household income noting that *'it is not the intention of this study to see social renters worse off'*. The methodology continues by discussing net and gross income and concludes that there is a 5% gap between the equivalent percentages of net and gross income (for lower income households). The methodology therefore notes that 33% of gross earnings translates into 28% net and as a result 28% of net earnings is used as the basis for calculating Living Rents. It is unclear why a net figure is used given that the ASHE data is gross; for this reason, this study looks at the implications for both 28% and 33% of ASHE income being spent on housing.
- 5.19 Finally, the methodology notes that service charges are an important aspect of rent setting but that these are outside of the model used for setting social rents (and the same approach is taken for Living Rents). The methodology does however note that *'landlords developing affordability approaches based on Living Rents would need to consider service charges as part of the whole affordability package'*.

Living Rent Calculations

- 5.20 The basic position taken in New Forest is an income of £274.30 a week (based on 2016 earnings data). For different property sizes this is adjusted in line with the equivalence scale discussed previously. The two tables below look at Living Rents under the range of assumptions, firstly using the 28% of income on rent, and secondly with 33% of income. The figures are compared with lower quartile rents in the private rented sector. The analysis shows that 'Living Rents' under the 28% assumption equates to around 60% of market rents, and this increases to about 70% if the income on housing is increased to 33%. A Living Rent (as defined by the JRF/Savills research) would therefore be lower than the estimated rent if using affordable rents at 80% of the market.

Figure 5.4: Living Rents (based on LQ gross earnings of all employees spending 28% of their income on rent) – 2016			
	Living Rent per month	LQ market rent	Living Rent as % of Market Rent
1 bedroom	£333	£585	57%
2 bedrooms	£433	£725	60%
3 bedrooms	£533	£875	61%

Source: Derived from Living Rents Methodology

Figure 5.5: Living Rents (based on LQ gross earnings of all employees spending 33% of their income on rent) – 2016			
	Living Rent per month	LQ market rent	Living Rent as % of Market Rent
1 bedroom	£392	£585	67%
2 bedrooms	£510	£725	70%
3 bedrooms	£628	£875	72%

Source: Derived from Living Rents Methodology

5.21 When compared with the estimated social rents discussed earlier in this report (which did include service charges) it can be seen that for 1-bedroom properties the Living Rent is lower than a social rent, for 2-bedroom homes it depends on whether a 28% or 33% threshold is used, and with 3-bedroom homes the living rents are higher in both cases. Overall, there seems to be a reasonable level of agreement between Living Rents and Social Rents.

Figure 5.6: Comparing Living Rents and Social Rents in New Forest			
	Living Rent per month (28% income on housing)	Living Rent per month (33% income on housing)	Estimated Social rent
1 bedroom	£333	£392	£400
2 bedrooms	£433	£510	£461
3 bedrooms	£533	£628	£498

Source: Derived from Living Rents Methodology and CoRe

Living Rent Conclusions

5.22 Generally, looking at the cost of housing (including affordable housing) has been based on consideration of how much housing in an area costs to buy or rent. The Living Rent model provides an alternative to setting affordable rents. Under this model, affordable rents are set in relation to local earnings and incomes rather than in relation to market rents. The data used is publicly available and uses a transparent methodology for converting local individual earnings into household incomes. The advantage of this approach from a practical perspective is that the Council would be able to update local earnings and income data each year and review affordable or 'Living Rents' accordingly.

- 5.23 One additional advantage of considering 'Living Rents' is that they can provide an indication of what is likely to be affordable to those on low incomes and in housing need because they relate to incomes these households can expect to receive. They are designed to be affordable to those on low incomes in work, those reliant on benefits, and households who work but have their incomes topped up through benefits.
- 5.24 The analysis in this report about the likely costs of Living Rents does however suggest that there is not likely to be a substantial difference between Living Rents and current social rents; it may therefore not currently be appropriate to consider Living Rents in any rent setting policy. It does remain the case that the Council could monitor Living Rents as well as using this analysis to consider what tenure split is appropriate for new rented housing (i.e. what proportions of social and affordable housing).