

Birmingham City Council Strategic Housing Market Assessment 2012



Executive Summary revised January 2013

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This report was originally produced in November 2012. In the present version, some minor errors have been corrected.

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INTRODUCTION

- 1 Birmingham City Council commissioned this study in March 2012:
'...to enable the Council to develop planning and housing policies and take decisions which encourage the provision of the most appropriate mix of housing (in terms of type, size, tenure, and affordability)'¹.
- 2 Until recently, these two kinds of policy were decided by different layers of government and supported by different evidence base studies. Affordable housing policies were set by local authorities and informed by Strategic Housing Market Assessment Studies (SHMAs). Land provision targets were set by Regional Strategies and informed by regional housing requirements studies. These two kinds of study used different methods and had different time horizons – five years for SHMAs and 15-20 years for housing requirements studies.
- 3 All this is in currently changing as the Government restructures the planning system. Regional Strategies are in the process of being abolished and local planning authorities will set their own housing provision targets, as part of their Core Strategies or Local Plans. Paragraph 159 of the National Planning Policy Framework (NPPF) (March 2012) requires authorities to produce a new kind of evidence base study, which should underpin both these new planning targets and affordable housing policy.
- 4 We call this evidence base the 'new SHMA'. It is quite different from the traditional SHMA - which as noted earlier focused on affordable housing rather than the whole housing market, and looked ahead five years rather than 15. The present study aims to provide this new SHMA, in compliance with the NPPF. At the same time, as required by the Council's brief, it complies with the national Practice Guidance on SHMAs² - which was published by the Department of Communities and Local Government 2007 and so far has not been revised to align with the new planning system and recent housing reforms.
- 5 To create the new SHMA, we use an innovative tool, the Long Term Balancing Housing Markets (LTBHM) model. The model takes any total housing requirement and breaks it down into tenures and housing types, to show what mix of dwellings would be required to ensure that all households are adequately housed and the public sector stock is used as efficiently as possible. We use the model to disaggregate total demand over the plan period into tenures and types as required by paragraph 159 of the NPPF.
- 6 In this report, Part A provides a traditional SHMA in line with the 2007 Practice Guidance, focusing on affordable housing need in the next five years, and advises on affordable housing policy. Part B assesses the total demand for housing over the plan period to 2031 and advises on the Core Strategy housing target. Finally Part C estimates the mix of that demand in terms of housing type and tenure, as required by paragraph 159 of the NPPF.

¹ Birmingham City Council, *Contractors Brief & Invitation to Quote*, February 2012

² Communities and Local Government (CLG), *Strategic Housing Market Assessments – Practice Guidance*, March 2007

PART A HOUSING NEED 2012-17

Housing need

- 7 Following the needs assessment model specified in CLG Practice Guidance, we estimate that over a five-year period there is an annual need for 10,427 net new affordable dwellings in Birmingham. Lone parent households are particularly likely to be in housing need, as are households with 'Mixed & Other' ethnicity. Households containing a disabled person are less likely to be in housing need than households where no disabled person is present.
- 8 There is a net need for all sizes of affordable housing. Four bedroom accommodation accounts for some 43% of the total and three bedrooms for some 24% of the total. The level of need relative to current supply is the greatest for four bedroom homes, followed by three bedroom ones.
- 9 We have also tested an alternative approach, based on a wider definition of affordable supply and a narrower definition of affordable need. In this approach, private rented accommodation supported by Local Housing Allowance is considered part of the affordable supply; and households are deemed able to afford market rented housing if the rent payable is no more than 35% of gross household income (against 25% in the CLG model). Under this alternative approach, the need for net new affordable units falls to 1,989 per year.
- 10 The figure of 10,427 affordable dwellings per annum remains the standard estimate of housing need in Birmingham, because it is calculated in accordance with the Practice Guidance, and hence comparable with figures for earlier dates and other places. However, given the current pressures on affordable housing, our alternative need estimate of 1,989 dwellings p.a. might be considered more realistic.

Affordable Rent

- 11 Affordable Rents is a new social tenure which is being introduced to accommodate households on the Housing Register. Affordable Rent may set at up to 80% of open market rents. To help the City Council decide on the right level, we have analysed the potential impact of alternative levels on households in need.
- 12 We find that, if Affordable Rent in Birmingham was set at 80% of the median market rent, very few households in need could afford it. If Affordable Rent is to meet substantial need, it should be set at 65% or 70% of the median market rent. Thus, if Affordable Rent were set at 65%, one fifth of households in gross housing need could afford it; and the net requirement for Affordable Rent would be 40% of all new affordable housing.
- 13 Affordable Rent at 65%, however, would be very close in cost to social rented accommodation, particularly for smaller dwellings. A variable Affordable Rent level maybe appropriate, to reflect the relative difference to social rent for the different property sizes. We suggest that the Council consider setting Affordable Rent at 70% for one and two bedroom homes, 65% for three bedrooms and 60% for four bedrooms. Under this option, Affordable Rent would be suitably priced within the current intermediate gap and it would meet a substantial amount of housing need.

PART B HOUSING DEMAND AND PLANNING TARGETS 2011-16

The plan period

- 1.1 In advising on housing provision targets for Birmingham, we started from the requirements of national planning policy, as set out in the 2012 Planning Framework. The Framework requires that:
 - Plans should meet the demand and need for housing development wherever they have the capacity to do so sustainably.
 - To measure this demand and need, they should use demographic projections.
 - Where the required capacity does not exist, or where demand and need are not tied to a particular local authority area, authorities should steer development to places than *can* accommodate it, irrespective of administrative boundaries.
 - Authorities should work together across housing market areas to deliver these outcomes.
- 1.2 Ideally, Birmingham City Council and its neighbours would set their housing targets jointly, based on shared evidence. But this is not practicable at present, because Councils in the housing market area are at different stages in their plan preparation process. Therefore we suggest that the City Council should:
 - Base its own target on an assessment of demand and need across the sub-regional housing market area, not just Birmingham on its own.
 - Hold discussions with neighbouring authorities, aiming for revised housing targets across this housing market area that collectively meet that area's total need as closely as possible.
- 1.3 Our analysis of the evidence suggests that:
 - i. For the sub-regional housing market area (comprising Birmingham, the Black Country, Bromsgrove, Coventry, Lichfield and Solihull), the best available estimate of objectively assessed housing need to 2031 is for some 9,300 net new homes per annum
 - ii. This estimate is based on the 2008-based CLG household projections. Ideally this figure should be reviewed in the light of more recent evidence. But in the absence of further analysis the 2008-based figure is a good starting point.
 - iii. If past trends were to continue in the future, at least 4,100 of these homes would be accommodated in Birmingham City.
 - iv. But Birmingham City at present has identified sustainable capacity for just 2,200 homes per year.
 - v. Given this capacity and other authorities' proposed targets, there is an estimated supply shortfall across the housing market area of some 2,000 net new homes per year for the plan period 2011-31.

- 1.4 In the light of this shortfall, the Council should re-assess Birmingham's capacity for housing development, including through a Green Belt review that would potentially identify new options for greenfield development.
- 1.5 Depending on the results of this review, the Council might increase its estimate of the city's sustainable supply capacity from the present figure of 2,200 net new homes p.a.
- 1.6 Any increase in capacity will reduce the sub-regional supply shortfall estimated earlier. But we expect that a substantial shortfall will remain, because there are limits to the amount of land Birmingham can release consistent with the sustainability principles of the NPPF, and also to what can be realistically developed by the market within the city's boundaries.
- 1.7 Therefore, to meet demand and need in accordance with the Framework in the long term, there should also be a joint study involving Birmingham and adjoining authorities to identify the scale of additional housing provision that should be planned for outside Birmingham and to agree a strategy for delivering this. In due course the results of this study should be reflected in individual Development Plans.
- 1.8 In arriving at a new housing target, the Council will need to take a view on the balance between the benefits of meeting housing demand / need and the harm from Green Belt of greenfield development. This judgment should have regard to the social and economic consequences of under-provision, as discussed earlier. It should also consider the housing mix analysis in part C of this report, which suggests that the more housing is provided in total the fewer households proportionally will need affordable housing.
- 1.9 Against these arguments for providing more housing land, the Council should consider the sustainable capacity of the specific Green Belt / greenfield areas being considered for development. This is partly a matter of physical and environmental capacity, where the evidence base supporting the earlier version of the Core Strategy should provide some of the necessary information.
- 1.10 But commercial capacity is also major consideration. Even in places and at times when housing development is financially viable, there are bound to be limits to the annual quantum of development that can be delivered, both in specific areas and in total. Historical delivery rates for Birmingham may help determine what these limits are, though it should be borne in mind that feasible delivery rates vary with the economic climate, being slower in the recession than in the upturn.
- 1.11 Agreed targets should preferably be reviewed within five years across the sub-region, in the light of new demographic and economic evidence.

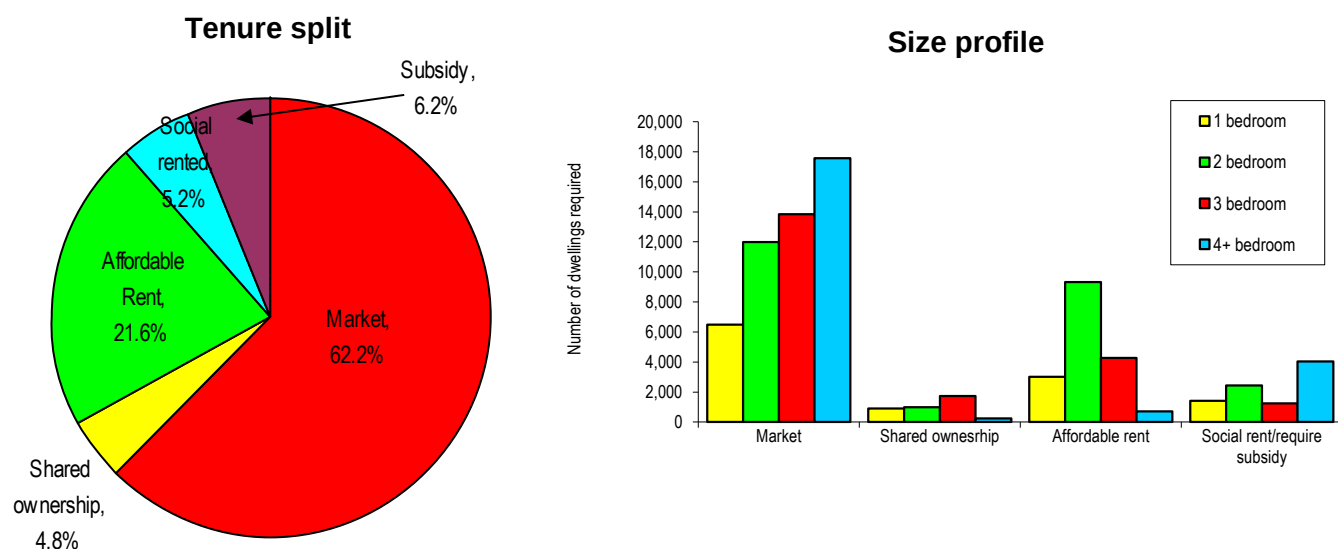
Phasing

- 1.12 In the short term, the effective demand for new housing, and hence for housing land, in Birmingham is clearly much below the 4-5,000 homes per year that projections lead us to expect. No one knows how long this situation will continue; common sense suggests that a full economic recovery is several years away. The Council should plan its housing trajectory accordingly, setting low targets for the first five years of the new Core Strategy and increasing the numbers gradually thereafter.

PART C HOUSING MIX AND TENURE 2011-2031

- 14 As well as setting an overall target, the Council in planning for housing development will need to take many finer-grained policy decisions, on the location of development and the housing mix that it should provide, permit or encourage in different places. To help inform these decisions, and in line with paragraphs 152 and 159 of the Planning Framework, we have modelled the desirable distribution of housing tenures and types corresponding to our different demographic scenarios. For this we use HDH's Long-Term Balancing the Housing Market (LTBHM) model. The model shows the optimal (desired, required) mix of housing needed to house a given population, where all households are adequately housed, according to the standards set out in the Practice Guidance, and the public sector stock is used as efficiently as possible.
- 15 The graphs and table overleaf show the estimated housing mix associated with the 2008-based CLG household projections, which as mentioned earlier is the default indicator of housing demand:
 - In 2031 as in 2011, the largest sector is market housing, followed a long way behind by social renting. The other three tenure sectors – shared ownership, Affordable Rent and private renting - are orders of magnitude smaller.
 - For net new homes to be provided between 2011 and 2031, the largest requirement is still for market housing, which accounts for 62% of the total. The second largest, with 22% of the total, is Affordable Rent – a new tenure that did not exist in 2011.
 - In the socially rented sector, virtually all the net new homes needed are four bedroom homes.
- 1.13 We have modelled the optimal housing mix under our alternative demographic scenarios. The results suggest that restricting housing supply will have implications for the mix of housing as well as the quantity of housing:
 - The greater is net out-migration from the City, and hence the smaller the City's population, the greater will be the proportion who need affordable housing. This is because the profile of net out-migration is biased towards those households that can afford market housing - specifically couple households as opposed to single-person and lone-parent households. Therefore, if housing land supply is more tightly restricted, causing more people to move out of Birmingham, more of the people who remain will need affordable housing.
 - The greater is net out-migration from the City, the more households proportionally will need four-bedroom homes, both in the market and social rented sectors. Again, this is because profile of net out-migration is biased towards households that need smaller properties. So, a more constrained supply of housing land, by causing more people to move out of Birmingham, would result in a greater proportion of the people left behind needing larger homes.

Size and tenure of net new accommodation required in Birmingham by 2031, 2008-based projection



Net new accommodation required

Dwelling size

Tenure able to afford	One bed	Two bed	Three bed	Four bed	Total
Market	6,498	11,982	13,847	17,564	49,891
Shared Ownership	908	991	1,725	243	3,866
Affordable Rent	3,006	9,325	4,268	709	17,308
Social rented / Require subsidy*	1,419	2,434	1,250	4,033	9,135
Total	11,831	24,731	21,089	22,549	80,200

*Not able to afford any tenure and require subsidy to reside in home. Likely to be housed in both the social and private rented sectors.

Source: HDH, RTP