

Affordable Housing Need in Scotland

Summary Report – September 2015

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Foreword

There's a lot to do to make the Scottish housing market meet the needs and expectations of people in Scotland.

There's the challenge of an ageing population and making sure the homes we have are right for older citizens. There's the need to protect fragile rural communities by ensuring there's a mix of housing provision. Making our homes more energy efficient; improving private renting; supporting better neighbourhoods – all important priorities.

But underlying that mix is a stark fact. We need more homes. Affordable homes at that. In which people can have the security of knowing they have somewhere to call home, which is within their means.

This report shows just how much current policy is lagging behind that need. Scotland needs at least 12,000 affordable homes a year for the next five years. Current programmes, at best, provide only half of that. And it is a longstanding failing as well, spanning governments of different hue.

Scotland needs 12,000 affordable homes because the market alone cannot do the job. Those homes can vary as to whose needs they meet. While there is a compelling case for the bedrock of that programme to be socially rented homes – council or housing association homes with below-market rents and with

secure tenancies – we believe that there is also room for a range of solutions, including low cost home ownership or newer products like mid-market rent homes.

So in scaling up to 12,000 affordable homes, there is plenty of scope for continuing innovation, especially as different areas match the specific needs of their localities to the range of options available. However, that must be in the context of a concerted effort to increase affordable housing supply through to 2020. That should be the litmus test of housing policy for the next 5 years.

We recognise that a programme of this scale is a challenge to national government, to councils, to housing associations, to builders. But there's a prize too. There's a jobs and skills boost from upping our game on housing supply; the health gains from better homes; the critical role of secure and affordable housing in reducing inequality and child poverty.

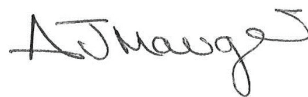
All of these gains are widely-recognised of course, not least by government ministers. But it has been a long time since the rhetoric on the importance of housing has been matched by programmes of sufficient scale.

We are at that point now. The evidence is clear. The benefits are clear. The need is clear.

Let's get on with it!



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List of abbreviations

ARC	Annual Return on the Charter	LLP	Limited Liability Partnerships
AHSP	Affordable Housing Supply Programme	MMR	Mid-market Rent
ASHE	Annual Survey of Hours and Earnings	NHT	National Housing Trust
CCHPR	Cambridge Centre for Housing and Planning Research	NRS	National Records of Scotland (formerly GROS)
CHMA	Centre for Housing Market Analysis	ONS	Office for National Statistics
CIH	Chartered Institute of Housing	PRS	Private Rented Sector
CSR	Comprehensive Spending Review	PSR	Partnership Support for Regeneration
ECO	Energy Company Obligation (Scheme)	RSL	Registered Social Landlord
GROS	General Register Office for Scotland	RTB	Right to Buy
GWSF	Glasgow and West of Scotland Forum for Housing Associations	SAR	Shared Accommodation Rate
HaTAP	Homelessness and Temporary Accommodation Pressure	SCORE	Scottish Continuous Recording System
HMO	Housing of Multiple Occupation	SDPA	Strategic Development and Planning Authority
HNDA	Housing Need and Demand Assessment	SFHA	Scottish Federation of Housing Associations
IIF	Innovation and Investment Fund	SHCS	Scottish House Conditions Survey
LAD	Local Authority District	SHIP	Strategic Housing Investment Plan
LBTT	Land and Building Transactions Tax	SHQS	Scottish Housing Quality Standard
LCHO	Low-cost Homeownership	SNP	Scottish National Party
LHA	Local Housing Allowance	SRS	Social Rented Sector
LHS	Local Housing Strategy	UC	Universal Credit

Summary

Introduction

- This report presents the findings from research conducted in 2015 which sought to estimate the need for affordable housing across Scotland as a whole. The research was commissioned by Shelter Scotland, the Chartered Institute of Housing Scotland and the Scottish Federation of Housing Associations (SFHA). The study updates a previous, similar exercise conducted almost a decade ago for the Scottish Government (Bramley *et al.*, 2006).
- The purpose of this research is to: arrive at an estimate which can inform of the scale of affordable housing need *nationally*; and assess the extent to which Scottish Government housing spending plans can address this need. The focus is therefore on a *pan-Scotland* estimate of affordable housing need which can inform housing policy and debate across the sector.
- This national focus necessitates the development of an alternative, consistent approach which builds on local evidence and the model developed by the Centre for Housing Market Analysis (CHMA) at the Scottish Government. In this sense the findings presented complement the local evidence base derived through the local Housing Need and Demand Assessment (HNDA) process, rather than challenge it.

The research approach

- The research was commissioned in December 2014 with a primary focus on: the additional affordable housing required for households whose needs are not met by the private housing market. The overall aim of the research is to provide Shelter Scotland and partners – CIH Scotland and SFHA – with robust evidence on total and affordable housing need in Scotland.
- The research was divided into five overlapping stages: policy review; a review of HNDAs; key stakeholder interviews; a pan-Scotland assessment of housing demand and need; and analysis and reporting.
- The pan-Scotland assessment involved the development of a stock-flow model of the type commonly used in housing needs assessment in the UK. The model builds on the CHMA Tool produced by the Scottish Government and is presented in section five.
- Evidence from stakeholder interviews is drawn upon in sensitising the research to a changing local context (e.g. welfare reform considerations) and in highlighting the diversity across Scotland.

Assessing affordable housing need at the local level

- Local authorities are required by law under the Housing (Scotland) Act 2001 to produce a Local Housing Strategy (LHS), underpinned by an assessment of housing need and demand: HNDAs provide the evidence base for local strategies.
- Over the last three years the CHMA has developed a HNDA modelling tool to assist local authorities in the analysis and development of their HNDAs. The tool serves to separate the evidence base on HNDAs from policy; streamline and bring greater clarity to the HNDA process; and provide a clearer method and approach.
- Geography is obviously critical to any assessment of housing need. Yet in practice HNDAs can use a range of different geographies which can have implications for sourcing suitable data, and arriving at an assessment of need. Many stakeholders reported that housing need tends to be greater the more you disaggregate at the local level.
- The HNDAs of many local authorities in Scotland pre-date the development of the CHMA Tool, as well as recently updated guidance on conducting HNDAs. As a result, there is inevitable variation in the methodologies and timescales of HNDAs.

Demographic trends and context

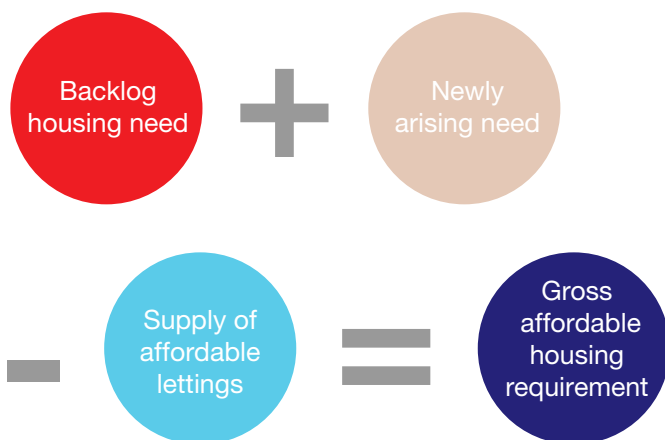
- The Scottish housing market has undergone significant change since the last assessment of affordable housing need at the national level (Bramley *et al.*, 2006).
- In addition, wide-ranging and on-going welfare reforms since 2011 have impacted on the nature of housing need and demand for many low-income households in Scotland (e.g. the bedroom tax has resulted in increased demand for one-bedroom properties).
- Household projections show that the number of households in Scotland is growing at a steady rate, as is the Scottish population, underscoring the need for an increase in housing delivery over the longer-term.
- House prices and market rents show an upward trend, the latter have increased steadily and consistently in recent years, which is perhaps unsurprising given that the social rented sector has contracted and many households are struggling to access homeownership.
- Overall housebuilding levels are well below their peak at 2007 and social housing completions have fallen by 44 per cent from 2010 to 2014 – to just 3,217 last year. At the same time, social rented

stocks have been depleted through demolitions and the Right to Buy.

- Though the number of households assessed as homeless has fallen since a peak in 2010, homelessness is still a pressing issue in many local authorities.
- Taken together, demographic and housing market trends in Scotland point to significant housing pressures, with the potential for a worsening situation in terms of access to affordable housing in the short- to medium-term.

A pan-Scotland assessment of affordable housing need

- A statistical model of affordable housing need has been developed. It attempts to balance the need to create a model that is robust and evidence-led at the level of the country as a whole, with the need to be sensitive to an array of potential local issues that will inflect the overall assessment of need.
- Our basic principle is that a national assessment of housing need cannot simply be the sum of local needs assessments but must proceed using a set of common assumptions.
- A main version of the model is detailed in section five – this is termed the ‘Core Model’ as it is built around ‘core’ assumptions built into the CHMA Tool. A set of four scenarios are then presented which provide bottom- and top-end assessments of affordable housing need by varying assumptions related to household formation and affordability within the overall calculation of needs expected to arise in the future.
- The assessment of affordable housing need employs a stock-flow model of the type commonly used in housing needs assessment in the UK. Put simply, the model architecture consists of:



- 2012 based household projections that have been built into the CHMA Tool are used within the model, which results in an average increase in the number of households in Scotland of 18,704 per annum. This represents the de facto total housing

requirement for Scotland over the next five years, though this figure will be significantly higher once losses to stock through demolitions and regeneration are taken into account.

- The core model represents a ‘mid-point’ scenario in terms of future demographic and house price changes, and is considered the most likely to occur. **The core model estimates an affordable housing requirement in Scotland of 12,014 dwellings per annum over five years.** This represents 64.2 per cent of the expected net increase in households in Scotland (18,704) over the next five years.
- The estimate of overall affordable housing need varies from 10,435 to 14,678 per annum. It is clear from the presentation of the scenarios in section five that the models are more sensitive to assumptions about price inflation than they are to assumptions about migration.
- Housing needs are not distributed equally across Scotland, although we note that it is unreasonable to expect needs arising in one part of the country to be met in another. A classification of local authorities has been developed driven by measures of migration self-containment and recent house price inflation, which results in four local authority types (see sections four and five).
- The level of affordable housing need expressed as a proportion of expected net household formation is highest in aggregate in Type 3 areas (95 per cent) and lowest in aggregate in Type 2 areas (11 per cent). Type 3 areas are those where recent price inflation has been strongest and where self-containment has been lowest (i.e. areas that have attracted a higher number of in-migrants). This combination of factors has arguably led to a worsening of affordability in those areas. In contrast, Type 2 areas have experienced the lowest levels of price inflation and are relatively self-contained (i.e. the market tends to meet more localised demand).

Policy and funding implications

- As a proportion of *overall* housing need, the need for *affordable* housing is much higher than previously estimated. As a result, in discussions about overall housing supply, far more attention needs to be focused on *what* is provided, not just *how much*. This is an important consideration nationally and locally in terms of specific discussions on land-use planning, and affordable housing policies within the planning system.
- Social housing remains more prevalent in Scotland than elsewhere in the UK, and the supply of new affordable housing remains a stated priority for the Scottish Government. It has expressed a commitment to deliver at least 30,000 affordable homes, of which at least two-thirds will be for social rent, including 5,000 council houses, during the lifetime of the current Parliament (by 2016). This equates to around

- 6,000 affordable homes per annum over five years: just half of the estimated affordable housing requirement per year evidenced here.
- The Scottish housing system has experienced significant change and pressure over the last decade. Households are finding it difficult to realise their long-term aspirations towards homeownership and social lettings have become more concentrated amongst the poorest and most vulnerable sections of society. The deregulated private rented sector has grown markedly and is emerging as the default destination for many vulnerable households unable to access the social rented sector.
 - Ongoing welfare reform creates risks for the business plans of social landlords already operating in a difficult economic climate. Social landlords have expressed particular concerns over the implementation of Universal Credit for instance.
 - Other changes to Housing Benefit pose a real threat to the Scottish Government's aim of increasing affordable choices for households. Ultimately, reductions in Local Housing Allowance entitlements serve to increase the gap between Housing Benefit payments and market rents thereby adding to affordability pressures for those unable to access social housing.
 - Demographic and housing market trends point to steady household growth, rising house prices and rents, and increased homelessness. On the other hand, the social rented sector has contracted and new affordable supply is at historically low levels.
 - A well-functioning housing system which meets the needs of all households is pivotal to addressing national policy outcomes. Yet current Affordable Housing Supply Programme targets fall well short of the levels of affordable housing required to address the need evidenced here.
 - At current subsidy levels of £58k¹ per home (for an urban registered social landlord property for example) an affordable housing programme to deliver 12,000 homes per year – which would address both the backlog of housing need and newly arising need over a five year period – would cost the Scottish Government around £700m per annum (£696m). Clearly, addressing housing need in Scotland would require additional public investment over and beyond what is currently committed.
 - Over £1 billion has been allocated from the Scottish Government housing supply budget, to local authority areas across Scotland, for the three years to March 2016. This represents roughly £333m per year; and a shortfall of over £360m if housing need is to realistically be met. However, a return to previous investment levels would significantly reduce that shortfall. Whilst the affordable housing landscape is more positive in Scotland than elsewhere in the UK, ultimately, delivering such a programme is not cost-free.
 - This is a critical juncture for Scottish housing policy. In England, emphasis has shifted to the private sector and the encouragement of higher rent intermediate markets. While such initiatives can prove beneficial to some households, this ultimately shifts the focus from low-income households – those in the most acute housing *need*.
 - The major policy lever in affordable housing delivery remains the level of housing subsidy. If housing need is to be met, and future housing crises are to be averted, then the Scottish Government must build on the national legacy of prioritising affordable housing investment in the forthcoming Comprehensive Spending Review.

1. £58k is the average for rented programmes. To the extent that the programme is a varied one, drawing in low-cost home ownership and mid-market rent products, then that average will be lower. However, against that is the likelihood that low rates of subsidy would act as a constraint on expanding housing supply, so higher rates are likely to be needed to deliver an overall programme of this scale.

Shelter Scotland helps over half a million people every year struggling with bad housing or homelessness through our advice, support and legal services. And we campaign to make sure that, one day, no one will have to turn to us for help.

We're here so no one has to fight bad housing or homelessness on their own.

We need your help to continue our work.
Please support us at www.shelterscotland.org

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