

# **EREWASH BOROUGH COUNCIL HOUSING MARKET ASSESSMENT UPDATE**

**APRIL 2012**

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# EREWASH BOROUGH COUNCIL

## HOUSING MARKET ASSESSMENT UPDATE

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# Introduction

## 1.1. The current scenario

1.1.0.a. The housing market indicators and needs analysis for Erewash Borough Council were last updated in 2009. Since then, though in many respects the housing market itself has remained largely stagnant, political changes impacting on housing and planning have been significant. These include:

- The abolition of regional bodies and many associated regional build targets
- The introduction of 'localism' which prompts a greater level of local ownership of housing and planning objectives, data and evidence
- The launch of the 'Affordable Rent' product, an alternative to the traditional social rent, which is promoted as being more sustainable and less dependent on public subsidy in the long term
- Substantial changes to the benefit system, including housing benefit and local housing allowance, many of which have yet to be implemented, but which need to be recognised and prepared for.

1.1.0.b. In current housing markets a stalemate seems to have been reached. Land owners and homeowners waiting for a 'recovery', buyers unable or unwilling to borrow or save enough, banks wary of lending, builders struggling to build and development committees unwilling to grant large permissions in advance of a revised and agreed plan. For many households owning a home currently seems an impossibility, as average house prices remain well above sustainable borrowing multipliers and combine with the additional barrier of stringent mortgage application criteria, as well as demands for larger deposits (many of the best mortgage deals still require a deposit of 15 to 25%).

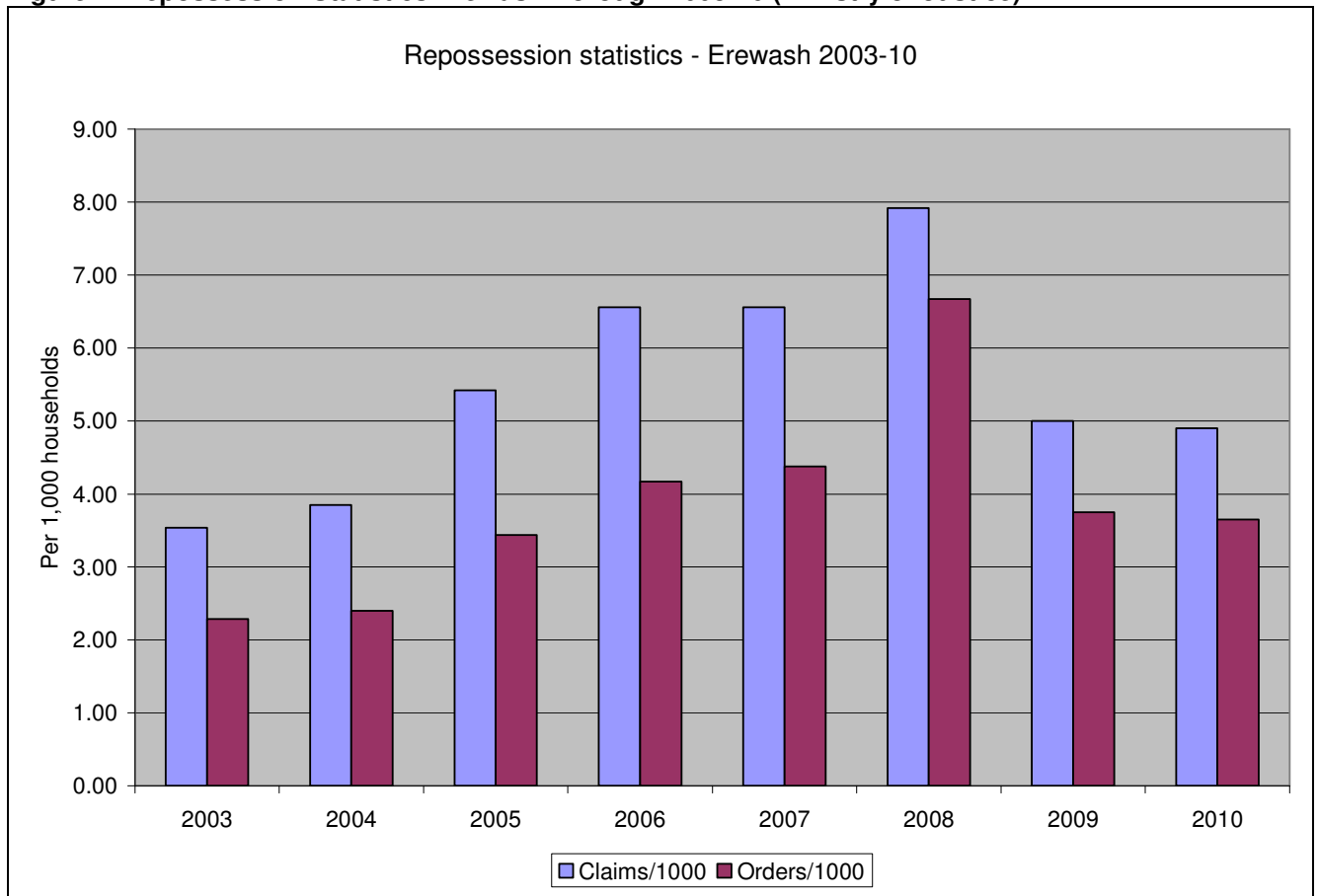
1.1.0.c. The private rental sector continues to be a very important element of the market, though plans to more stringently monitor and regulate it have been scrapped. Tenure data provided by Experian (2009, via [www.hi4em.org.uk](http://www.hi4em.org.uk)) indicates that the private rental sector in Erewash is small, accounting for approximately 7% of households, while owner occupiers are by far the largest group, with 80% of households in this tenure. The income structure of privately renting households is not clear, though this is a key element which needs to be understood, in order to gauge the full impact of future proposed benefit changes. When available, data from the 2011 Census may provide useful insights into the make-up of the sector. Some research has been carried out in the area by Nathaniel Lichfield and Partners, which may assist in understanding local market factors.<sup>1</sup>

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<sup>1</sup> <http://www.nottinghamcity.gov.uk/CHttpHandler.ashx?id=27011&p=0>

1.1.0.d. Some owners may be trapped by a need to reach a certain price to repay mortgages (particularly if a purchase was made during the latest boom). Statistics from the Ministry of Justice show a rise in repossessions over the most notable boom period (2005-2008). Figures have since dropped back down (see chart below), though not to the same levels as in 2003/4.

**Figure 1: Repossession Statistics Erewash Borough 2003-10 (Ministry of Justice)**



Source: Ministry of Justice 2011

1.1.0.e. Erewash Borough Council is currently developing its Local Development Framework. The current position in relation to long term strategic planning for housing is available in the Draft Erewash Core Strategy<sup>2</sup>.

<sup>2</sup> <http://www.ErewashBorough.gov.uk/CHttpHandler.ashx?id=33852&p=0>

## 1.2. Determining Estimates of Housing Need

1.2.0.a. Several housing needs spreadsheet models were developed as part of the 2006/7 Nottingham Core Strategic Housing Market Assessment, based on the 'Bramley' model. This captures the main components of housing need, given as:-

- New emerging households that cannot afford market housing, with the ability to afford estimated by assessing entry level house prices against incomes
- Backlog need based on local authority housing registers
- A factor for owner occupiers falling into need
- An element for need from migrations

1.2.0.b. This is then compared to the supply of affordable lets and sales from local authorities and housing associations.

1.2.0.c. The model can be summarised as:-

### **Figure 2 Bramley affordability model – summary**

The basic model for estimating affordable housing need is as follows:-

Net Need (units per year) =  
Gross Household Formation x % aged under 35 unable to buy (adjusted for wealth)  
+ proportion (33%) x net migration (household equiv) x % <35 unable to buy  
+ proportion x owner occupier households (moving to social renting)  
+ proportion over the 'policy period' (e.g. 20% over 5 years, 10% over 10 years) x  
waiting list 'backlog' above need threshold

*Less net annual new and relets of social rented housing*

1.2.0.d. More recently because of the economic background and changes in the form of affordable housing, the model has been expanded to incorporate a factor for households unable to obtain mortgages (who would otherwise be able to afford entry level purchase), and a factor for households who are able to afford the new Affordable Rent tenure (explained in more detail later).

1.2.0.e. It is a simplified, systematised model which does not capture all aspects of need, although many of them will be partially reflected in the main components. For example households living in unsuitable accommodation are not specifically included, but many of them will be in the backlog need on local authority housing registers. The model will therefore tend to under-estimate need, and other methods have been consistently shown to give higher needs estimates.

1.2.0.f. However while very high levels of need may be justifiable by the evidence, in current housing market circumstances they are unlikely to be delivered by the Planning system. Viability considerations have gained substantial weight and must be considered in relation to any demands for planning contributions. Failure to do so

may result in the loss of what could reasonably have been achieved with more moderate requirements. The basic problem is a dysfunctional, volatile housing market, and seeking ever higher contributions through S106 agreements will not address that, and indeed may make it worse.

1.2.0.g. The data and models provide part of the evidence base and a decision support system, but policy judgments and interventions should also take into account and balance more up to date qualitative local knowledge, experience and perceptions.

## 2) Key Figures and Comparisons

2.1.1.a. The outputs produced by the model are based on the following:

- House Prices from January 2010 to September 2011
- CACI Incomes data, 2011 (via [www.hi4em.org.uk](http://www.hi4em.org.uk))
- Emerging household calculations are based on ONS 2008 subnational population projections
- Private rental sector rents are based on combined averages over the relevant geographical area from [www.findaproperty.com](http://www.findaproperty.com).
- Backlog need data is based on HSSA (Housing Strategy Statistical Appendix) returns
- The proportion of Housing Register applicants able to afford Affordable Rent is derived from Choice Based Lettings data extracted from the Local Authority system.
- Supply is based on CORE data. There is also an element for average annual new affordable development based on HSSA returns.

### 2.1.2. Assumptions for model outputs

2.1.2.a. The model makes the following assumptions in producing the results given in this report:

**Figure 3 Key Variable settings for LA and submarket model outputs**

Deposit	10%
Balance to fund	90%
Income : Mortgage multiplier	3.5
Policy period	7
Resources from other sources	10%
Housing Register - can afford Affordable Rent	11%
Factor for owners falling into need	0.469%



### 2.1.3. Model Results

**Figure 4 Erewash Housing Need Estimates – Results**

<b>Need Factor</b>	<b>Model Result</b>
Emerging Households (over 10 years)	7,328
Emerging Households (Annual)	733
Lower Quartile Price (2010-11)	£90,000
Income required to access LQP	£23,143
% households unable to afford purchase	45%
Emerging households unable to afford purchase	333
% household unable to access mortgage products in current market	38%
Emerging households able to afford but unable to get mortgage	153
Total emerging households unable to access owner occupation	485
Average Affordable Rent @ 80% of market rent (mean of all property sizes)	£362
% of emerging households unable to afford Affordable Rent	22%
Number of owner occupier households with mortgage	26,893
Number predicted to fall into need through repossession	126 per year
Need from migration*	n/a*
Backlog Need (Housing Register)**	2,366
Proportion of housing register expected to afford Affordable Rent	11%
Annual Backlog to be housed in Affordable Rent	38
Annual Backlog to be housed in Social Rent	300
<b>GROSS NEED</b>	<b>901 households per year</b>
Annual Supply (Lets net of transfers)	479 per year
<b>Net Need</b>	<b>422 households per year</b>

\* Migration statistics have been omitted to avoid double counting, as figures should be incorporated into the sub-national population projections which make up the emerging households factor.

\*\* Housing Register figure takes an average of waiting list totals for 2008, 2010 and 2011. The 2009 figure is omitted as waiting list totals dropped during the introduction of Choice Based Lettings.

## 2.2. Comparisons with results from 2006 and 2009

### 2.2.4. Lower Quartile Prices

**Figure 5 Change in lower quartile price 2006 - 2011 (LA Level)**

LA	Lower Quartile Price 2005-06	Lower Quartile Price 2008-09	Lower Quartile Price 2010-11
Erewash	£93,125	£95,000	£90,000

2.2.4.a. The lower quartile price in Erewash has decreased since the previous SHMA update, though not to a dramatic extent. The impact on the overall affordability of housing remains relatively unchanged, particularly with the additional barrier of mortgage requirements still in place.

### 2.2.5. Affordability

2.2.5.a. The following table compares the percentage of emerging households unable to afford market purchase, **deducting 10% who may have access to financial resources from elsewhere** (for example parental help), as applied in the 2006 and 2009 studies.

**Figure 6 Percentage of emerging households unable to afford market purchase**

LA	2006 unable to afford (minus 10% resources from elsewhere)	2009 unable to afford (minus 10% resources from elsewhere)	2011 unable to afford (minus 10% resources from elsewhere)
Erewash	32%	36%	35%

### 2.2.6. Demand and Supply

**Figure 7 HSSA Housing Register Data (2008, 10 & 11)**

Total households on waiting list	Erewash
2008	2,386
2010	2,043
2011	2,670
Average	2,366

\*2009 figures are omitted as housing register figures dropped during the move to Choice Based Lettings

**Figure 8 CORE affordable lets, general needs, supported housing and new sales 2008-10**

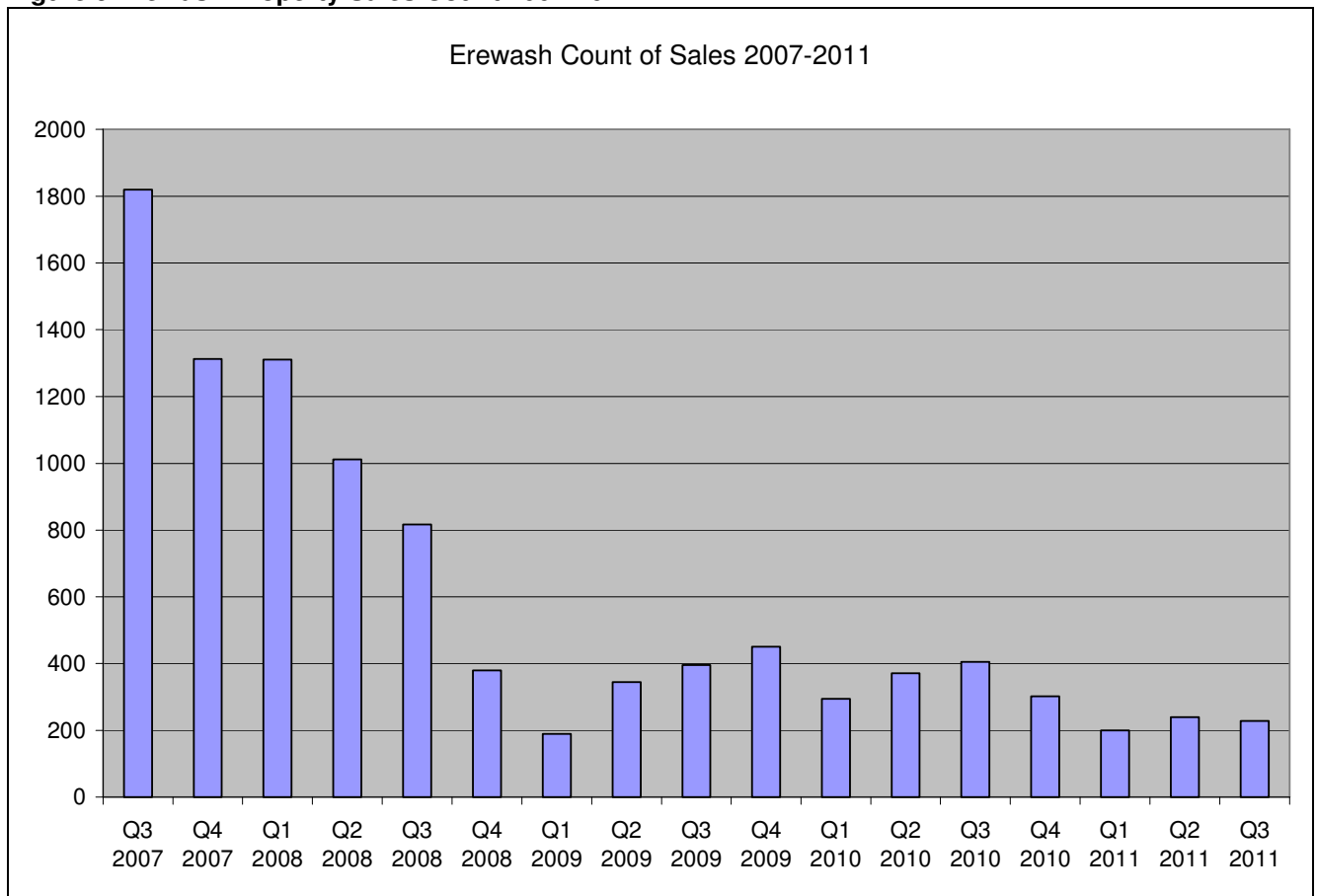
Supply - General Needs Lets	2008	2009	2010	Average
Total Lets	403	504	403	437
Of which transfers	107	126	99	111
Supported Housing Lets	213	187	241	214
Of which transfers	88	57	62	69
Sales	13	3	8	8
Total Supply excluding transfers	434	511	491	479

2.2.6.a. There is an obvious disparity between the supply of and the demand for affordable housing. Although an average figure over the last three years has been used to determine the housing register factor used in the model, the number of households on the register has been steadily climbing, indicating that need is in fact likely to be higher than the figure used to model need. There is a discrepancy since the supply figures have not been used for 2011, where the housing register figure has, however returns for 2011 are not yet complete.

**2.3. House Sales**

2.3.6.a. Data from the Land Registry clearly shows a slowdown in the market when comparing the number of sales to those in 2007 and 2008. However it is now very difficult to determine 'normal' in relation to the UK housing market, since the closest thing to a pattern is repeated cycles of boom and bust.

**Figure 9 Erewash Property Sales Count 2007-2011**



Source: Land Registry via [www.hi4em.org.uk](http://www.hi4em.org.uk)

**Figure 10 Erewash Property Sales, Average Prices and most common property type sold**

Quarter/ Year	No. Sales	% change +/-	Average Price	% change +/-	Most common property type
Q1 2009	189	0	£127,440	0	Semi-detached
Q2 2009	344	82%	£130,340	2%	Semi-detached
Q3 2009	396	15%	£139,278	7%	Semi-detached
Q4 2009	451	14%	£134,161	-4%	Semi-detached
Q1 2010	295	-35%	£123,743	-8%	Semi-detached
Q2 2010	371	26%	£136,691	10%	Semi-detached
Q3 2010	405	9%	£142,743	4%	Semi-detached
Q4 2010	302	-25%	£138,651	-3%	Semi-detached
Q1 2011	199	-34%	£122,239	-12%	Semi-detached
Q2 2011	240	21%	£130,071	6%	Semi-detached
Q3 2011	228	-5%	£140,030	8%	Semi-detached

Source: Land Registry via [www.hi4em.org.uk](http://www.hi4em.org.uk)

2.3.6.b. Sales fluctuations are fairly unremarkable over the period. Quarterly changes are notable, but there is no discernible pattern up or down. Prices remain largely stable, as does the favoured property type of purchasers. This is also a likely reflection of both the availability and affordability of those properties.

**Figure 11 Sale frequency by property type (2009-Q3 2011)**

Quarter/Year	Detached	Flat	Semi-detached	Terraced
Q1 2009	40	21	80	48
Q2 2009	87	23	142	92
Q3 2009	123	19	161	93
Q4 2009	126	29	202	94
Q1 2010	69	13	137	76
Q2 2010	109	33	129	100
Q3 2010	106	14	205	80
Q4 2010	97	9	129	67
Q1 2011	48	4	91	56
Q2 2011	66	4	98	72
Q3 2011	65	2	111	50

2.3.6.c. While there are clear seasonal fluctuations in the number of sales of each property type, the data suggests a slight dip in frequency overall.

2.3.6.d. Average property prices by type show terraces and flats competing with each other fairly consistently. Semi detached houses are relatively close to the prices of the former two property types, which may explain their popularity (it makes sense that households committing to a purchase may stretch their finances or save a little longer to reach a longer term housing solution in the form of a larger family home). As in most markets, detached properties make up a separate, higher price bracket.

### 2.3.7. House prices and deposit requirements

**Figure 12 Income and deposit requirements in order to buy property using average price/type**

Mortgage requirements	Detached	Flat	Semi-detached	Terraced
10% deposit income requirement	£58,908	£25,779	£28,993	£22,220
10% deposit amount	£22,909	£10,025	£11,275	£8,641
25% deposit income requirement	£49,090	£21,482	£24,161	£18,516
25% deposit amount	£57,272	£25,063	£28,187	£21,603

2.3.7.a. So to buy an average terrace in Erewash, with a deposit of 10%, a household would need to provide a deposit of around £8,500. Research by the Joseph Rowntree Foundation in 2011 has estimated that the average cost of living for a single household in the UK (excluding London) is approximately £15,000 per year<sup>3</sup>. To put this in perspective, according to CACI Paycheck data for 2011, the median household income in Erewash is around £25,000 per year (the average household size in the East Midlands is 2.25<sup>4</sup>), and the most common income in the district is lower, at £15-20,000. It is clear how difficult saving a deposit of this size is likely to be.

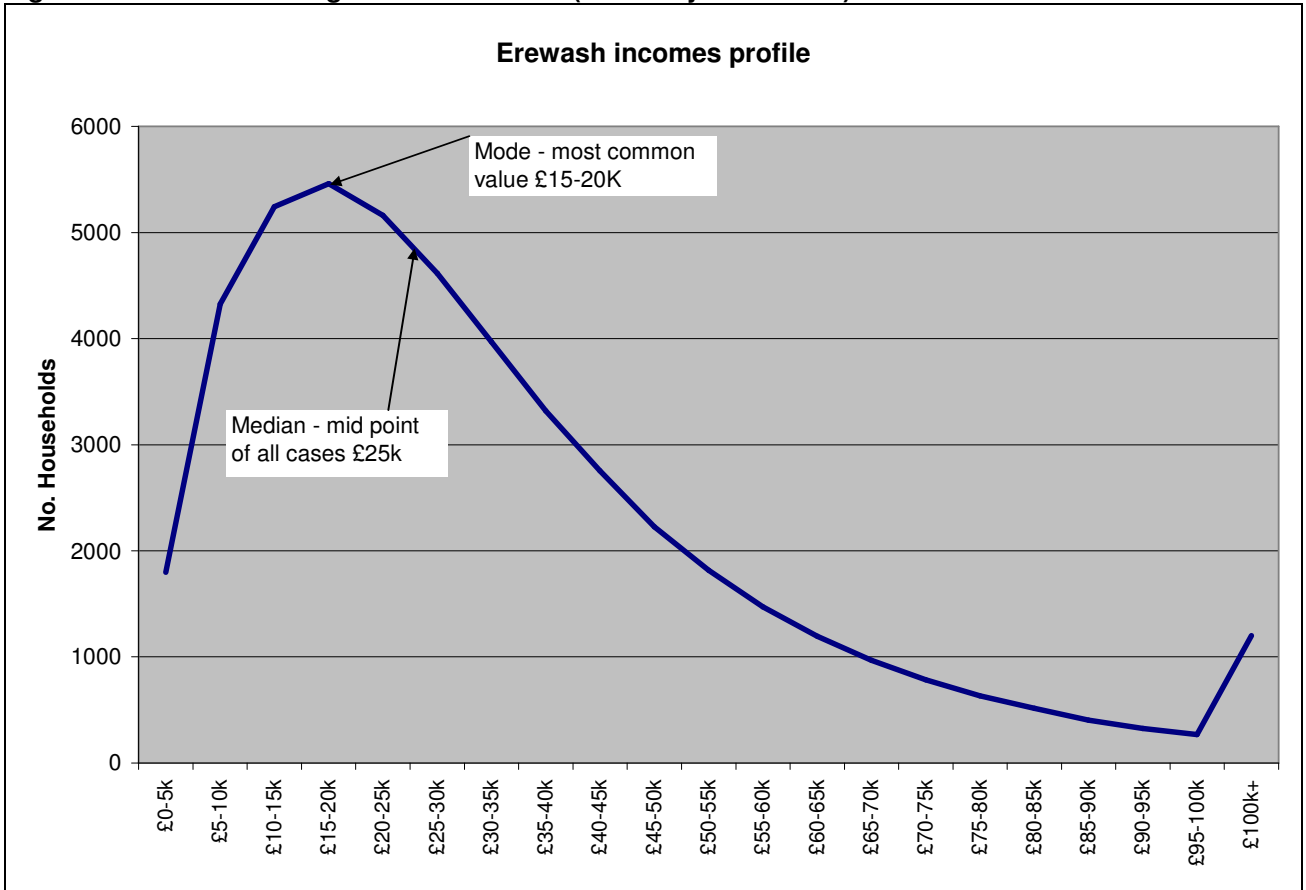
**Figure 13 Average property prices by property type**

Quarter/Year	Detached	Flat	Semi-detached	Terraced
Q1 2009	£215,005	£97,241	£115,612	£87,394
Q2 2009	£200,084	£87,162	£115,139	£98,642
Q3 2009	£206,807	£93,735	£116,499	£98,705
Q4 2009	£197,125	£94,217	£119,262	£94,106
Q1 2010	£186,513	£120,003	£109,757	£92,606
Q2 2010	£204,367	£82,378	£116,916	£106,359
Q3 2010	£225,088	£104,518	£119,559	£99,732
Q4 2010	£201,787	£76,272	£119,810	£91,902
Q1 2011	£192,382	£58,250	£110,725	£85,398
Q2 2011	£214,145	£81,238	£110,819	£81,920
Q3 2011	£229,088	£100,250	£112,750	£86,410

<sup>3</sup> See <http://www.jrf.org.uk/publications/minimum-income-standard-uk-2011>

<sup>4</sup> Source: ONS household projections

Figure 14 Erewash Borough Incomes Profile (CACI Paycheck 2011)



### 3) Demand

#### 3.1.1. Housing Register

3.1.1.a. The model uses HSSA data<sup>5</sup> provided annually to derive backlog need (households waiting for affordable housing on the housing register). An average is taken for the number on the list over 2008, 2010 and 2011. The 2009 waiting list figure is omitted due to significant and unrepresentative fluctuation during the introduction of the Choice Based Lettings System. On closer examination of the waiting list internally it may be considered appropriate to adjust the figure further, for example to reduce it to reflect households considered able to meet their own needs, or to make adjustments when considering specific provision such as supported or sheltered housing. The resulting need figure currently does not break down into need for specific property types or sheltered/general needs demand.

**Figure 15 HSSA housing register figures, 2008, 10 & 11**

Total households on waiting list	Erewash
2008	2,386
2010	2,043
2011	2,670
Average	2,366

#### 3.1.2. Emerging Households

3.1.2.a. A proportion of emerging households will be unable to afford accommodation at open market cost. Data for emerging households is taken from ONS Subnational Population Projections, (Household Projections) 2008. These projections are particularly useful in needs analysis as they give a breakdown by age and household type. This allows the emerging households (given to be between 18 and 35) to be isolated fairly effectively (in theory). Results are shown below<sup>6</sup>. The period considered is 10 years, based on the projections for 2011 and 2021. The model calculates how many households over that time will move through the emerging households age group, and apportions them annually.

**Figure 16 Emerging Households by local authority**

LA	Emerging households over 10 years	Annual emerging households
Erewash	7,328	733

<sup>5</sup> HSSA (Housing Strategy Statistical Appendix) collected and published by CLG here: <http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/localauthorityhousing/dataforms/>. The HSSA is being replaced by ELASH (English Local Authority Statistics on Housing in 2012/13

<sup>6</sup> The total increase in households is lower than the number of emerging households during the same period due to a declining number of households within other age ranges.

### 3.1.3. Owner Occupier Need

3.1.3.a. The model derives owner occupation levels using data from Experian (2009, via [www.hi4em.org.uk](http://www.hi4em.org.uk)). Experian provide a breakdown of the mortgage levels held by households and this total is used to apply a percentage factor which determines the estimated number of owner-occupier households falling annually into need (through repossession). There are a number of households within the Experian dataset for whom data is missing. These have been included in the total, though they could arguably be excluded or partially excluded.

**Figure 17 Owner Occupation Mortgage Debt (2009)**

	No outstanding mortgage	Less than £20k	£20 - 50k	£50 - 100k	More than £100k	Missing Data	Total owner occupiers with mortgages
Erewash	23,266	5,965	6,349	7,476	2,319	4,784	26,893

Source: Experian via [www.hi4em.org.uk](http://www.hi4em.org.uk)

3.1.3.b. The percentage factor applied to owner occupiers is derived from data provided by the Ministry of Justice. An average over the last three years is used, of the number per thousand households subject to court orders leading to repossessions.

**Figure 18 Ministry of Justice repossession statistics (2008-10)**

Erewash	Repossession orders per 1,000 households	% to apply to owner occs
2008	6.67	0.667%
2009	3.75	0.375%
2010	3.65	0.365%
Average	4.69	0.469%

Source: Ministry of Justice



## 4) Affordable Rent

### 4.1. Understanding Affordable Rent and its implications

4.1.0.a. Affordable Rent is an alternative affordable housing tenure introduced by the current government through the Homes and Communities Agency (HCA). The product is explained in the 2011-15 Affordable Homes Programme Framework, published in February 2011<sup>7</sup>. The introduction of the new tenure has been the subject of much discussion, and many questions have been raised regarding its introduction, implications and implementation. The main gist of Affordable Rent is as follows:

- HCA grant for affordable homes is intended to fund the Affordable Rent tenure in all but exceptional circumstances, which should be proven using evidence.
- Affordable Rent should be set at up to 80% of the equivalent market rent for a comparable property.
- Registered Providers of Social Housing who are successful in bidding for funding from the HCA<sup>8</sup> will be expected to use the Affordable Rent tenure to leverage additional borrowing, to enable the provision of more new affordable homes.
- After 2012, Registered Providers with contracts for the provision of Affordable Rent will be able to convert properties to Affordable Rent.
- Registered Providers will be able to use 'fixed' or 'flexible' tenancies, no longer having to give lifetime tenure to applicants but able to limit the length of each tenancy to a minimum of 2 years, but it is expected that most fixed tenancies will be 5 years in length.

4.1.0.b. There is still some debate over the capping of Affordable Rent in relation to Local Housing Allowance rates. The HCA originally said in this regard:

*"The TSA is therefore not proposing to restrict the maximum rent that Registered Providers can charge for Affordable Rent properties based on the Local Housing Allowance. However, landlords will wish to consider the local market context when setting rents, including the relevant Local Housing Allowance for the Broad Rental Market Area in which the property is located."*

2011-15 Affordable Homes Programme – Framework, p.16 pg 3.7

4.1.0.c. This issue was later revisited following an article in Inside Housing, which prompted a CLG response confirming that Rents will be set at 80 per cent of market levels, but will not be allowed to rise above LHA levels<sup>9</sup>.

<sup>7</sup> Available at <http://www.homesandcommunities.co.uk/sites/default/files/our-work/affordable-homes-framework.pdf>

<sup>8</sup> Providers who have been successful in obtaining funding and other details can be viewed here: <http://www.homesandcommunities.co.uk/affordable-homes>

<sup>9</sup> <http://www.insidehousing.co.uk/news/housing-management/-rent-rises-to-be-lower-than-expected/6512218.article>

4.1.0.d. Whatever the final outcome of the debate over the capping of Affordable Rents to LHA rates, a significant disparity remains between the current levels of social rent and the potential cost of affordable rent. This is not a simple issue to unpick. In some lower value areas of housing, the difference between social rent and LHA rates is already negligible, particularly in newly developed properties. However, in higher value areas, and in particular in relation to larger family homes, the difference becomes more substantial. The table below shows the overall comparison district wide of the different rental levels (at March 2012). The difference is more marked for larger properties, and this will be more noticeable still in higher value areas.

4.1.0.e. There is a question mark over the long term affordability of the new Affordable Rent product, as they are essentially linked to private rent levels, which are linked to housing demand. Should demand remain high and supply low, private rents may rise, making Affordable Rent potentially more inaccessible to lower income households.

4.1.0.f. While Local Housing Allowance can be used to support households on low incomes, these rates are based on the 30<sup>th</sup> percentile of market rents, meaning that there will be a number of properties where the asking rent exceeds the maximum benefit for the renting household. This could also be a particular problem in higher end areas of the local housing market, since LHA rates apply on a district wide basis and do not necessarily recognise internal market variations.

**Figure 19 Rent Comparison**

Property Size	Social Rent	LHA rate	Affordable Rent
1 Bed	£65	£84	£65
2 Bed	£75	£104	£80
3 Bed	£85	£115	£87
4 Bed	£85	£160	£102

N.B These are district wide, rough averages – rents vary substantially between areas and providers.

4.1.0.g. With the introduction of Affordable Rent, Registered Providers, Local Authorities, the Homes and Communities Agency and the Department of Work and Pensions, as well as National Government, face a new set of organisational and strategic challenges. The shake-up of housing and benefits will involve a large scale revision of policies and practices, and the following issues must be addressed in the implementation of change:

- Local Authorities must produce a Tenancy Strategy to guide Registered Providers with regard to local issues which need to be taken under consideration.
- Registered Providers must produce a Tenancy Policy detailing how they intend to use the new product and tenure options available to them, and what criteria will be applied to households approaching them for housing.
- Local Authorities will review their allocations policies, and may alter eligibility criteria for those households wishing to apply for affordable housing.

- The Homes and Communities Agency must monitor the delivery of affordable homes and the effective implementation of Affordable Rent, as well as the relationships between Registered Providers and Local Authorities.
- Local Authorities must assess the impact of the changes across the board and ensure they have measures in place to mitigate any negative repercussions.
- The Department of Work and Pensions must adjust to the change in the proposed structure of the benefit system (see information on Universal Credit<sup>10</sup>), and the changing cost of social housing as a result of the Affordable Rent product.

4.1.0.h. Understanding the implications of Affordable Rent for local households is imperative for Local Authorities. This understanding will allow them to assess where Affordable Rent is appropriate, and where it is not. Although the lack of grant for traditional social rent may limit its provision, it is demographically evident that the full removal of social rent has far reaching implications for those households in the lowest income brackets, or fully dependent on benefits. These implications relate not only to the reliance of these households on benefits to cover their cost of living, but also to the benefit bill itself where rents are higher.

4.1.0.i. The argument for retaining an element of social rented housing within the affordable stock stems from the affordability implications of the new tenure. The model accompanying this report examines the affordability of Affordable Rent in relation to the incomes profile of the district and incomes data for those on the Housing Register. Where households can cover Affordable Rent using 30% of their gross household income (this percentage is used as the typical outgoing a household can sustainably pay), the new product is considered affordable. Where the income is below this threshold, social rent is recommended as the most sensible and sustainable tenure option for the household.

4.1.0.j. Whilst it could be argued that the benefit bill will pay the additional rent increase of the change in tenure for households below the given income bracket (many of whom are likely to be entirely dependent on benefits), this was not the original intention of the new tenure, which was *'to provide an offer which is more diverse for the range of people accessing social housing, providing alternatives to traditional social rent'*.

4.1.0.k. Instead, it makes more sense to view the new tenure as an intermediate product, directed not at benefit dependent households, but at the middle group of households, on incomes lower than necessary to sustain typical private rent or owner occupation, but higher than that which qualifies them as in significant 'need' of traditional social rent.

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<sup>10</sup> <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/universal-credit/>

## 5) Model Outputs

- 5.1.1.a. Figure 20 below shows the key data that goes in to the model in order to reach the final gross need figure. The lower quartile price (given in CLG Guidance as the price at which most households enter owner occupation) is the factor used to determine which households are unable to access housing using their own financial means. The model assumes a 10% deposit is deducted from the lower quartile price, and assesses the income requirements following this deduction. Though it is widely evident that a larger deposit is now required by many lenders in order to access the best mortgage deals, the model is counter-intuitive in this sense, as by increasing the deposit amount the actual borrowing amount is decreased, and therefore the capacity of the household income is increased. Therefore, although a 10% deposit may be less realistic, for the purposes of the model it is more sensible to leave the deposit percentage at a lower level. Difficulty in obtaining a mortgage is covered by another variable.
- 5.1.1.b. The income : mortgage multiplier is set at 3.5 times household income. Again, arguments can be made towards both increasing and decreasing this factor. Some may say that lenders have in the past given greater multiples to borrowing households, others that lenders under these kinds of stringent economic conditions are more likely to reduce the multiplier. However, over the long term in relation to both lender behaviour and financial sustainability for the typical household, a multiplier of 3.5 is on fairly safe ground.
- 5.1.1.c. The policy period (over which the backlog need from the housing register is addressed) is set at 7 years. This period should be decided internally depending on the strategic plan of the authority. The longer the policy period, the lower the annual backlog need, and vice versa. CLG guidance says that 5 years should be the minimum, and many assessments of need use this figure.
- 5.1.1.d. A 10% factor is applied to reduce the total number of emerging households derived by the model in the assumption that this proportion of households will be able to access resources for home ownership from other sources (such as parents, inheritance, savings etc). Though this is an unsubstantiated figure it is well known that some households will have such financial help. The actual number of households is difficult to estimate, so any available data which gives an indication of the genuine proportion in this group would be useful in increasing the accuracy of the model.
- 5.1.1.e. The factor for owner occupiers falling into housing need is derived from a 3 year average of court order repossession statistics from the Ministry of Justice. This percentage has decreased over the last few years, resulting in a lower number (in theory) of homeowners coming to the Local Authority for assistance.

**Figure 20 Assumptions and key data**

Lower quartile entry level price	£90,000
Deposit	10%
Balance to fund	90%
Income : Mortgage multiplier	3.5
Policy period	7
Resources from other sources	10%
Backlog need - Housing register or survey	2,366
Housing Register - can afford Affordable Rent	11%
Factor for owners falling into need	0.469%
All owner occupiers with mortgage	26,893

### 5.1.2. Tenure Breakdown

5.1.2.a. The tenure split below is produced automatically by the model and will adjust where assumptions are altered, such as a reduction in the housing register, increased house prices, a reduced policy period or an increase or decrease in the assumed number of households with access to a deposit or other sources for house purchase.

**Figure 21 Overall borough wide Tenure Split generated by the model to best fit the profile of housing need**

Tenure Split		
Intermediate Housing/Shared Ownership	28%	
Rent	72%	Rental Split
of which: Social Rent	37%	51% (Social)
of which: Affordable Rent	36%	49% (Affordable)

### 5.1.3. Model Outputs and Calculations

**Figure 22 Model Outputs**

Outputs	
Emerging households (annual)	733
<i>Total households passing through ages 18 to 35 between 2011-21, Divided by 10 (years) to give annual figure Source: ONS 2008 Based Detailed Household Projections</i>	= 7,328 / 10
Percentage unable to afford LQP	45.4%
<i>Total proportion of households unable to afford Lower Quartile Price</i>	= 21,987 / 48,457

<i>based on 3.5 x income and 10% deposit (assumes deposit is available), using CACI incomes data (2011) and Land Registry (combined data Jan 2010 – Sept 2011)</i>	
Unable to afford on income	333
<i>Equals Emerging households (annual) x Percentage unable to afford LQP</i>	<i>= 45.4% x 733</i>
Proportion now unable to obtain mortgage	38%
<i>Derived from CML Mortgage statistics, change in long term borrowing rates among first time buyers</i>	
Unable to obtain mortgage in current circumstances	153
<i>Equals Proportion now unable to obtain mortgage x Emerging households (annual)</i>	<i>= 38% x (733-333)</i>
Unable to afford or get mortgage	485
<i>Equals Unable to afford on income + Unable to get mortgage in current circumstances</i>	<i>= 333 + 153</i>
Unable to afford Affordable Rent, so require social rent	22%
<i>Derived from average cost of local rents (Source: <a href="http://www.findaproperty.co.uk">www.findaproperty.co.uk</a>) x 80% assessed against incomes (Source: CACI 2011). Applied to emerging households only</i>	
Proportion emergers can afford AR	38%
<i>Derived from average cost of local rents (Source: <a href="http://www.findaproperty.co.uk">www.findaproperty.co.uk</a>) x 80% assessed against incomes (Source: CACI 2011). Applied to emerging households only</i>	
Need from emergers adjusted for resources from other sources	437
<i>Applies a reduction to the Unable to afford or get mortgage, set within the key data section of the model (see Figure 19, set at 10% for this report). Equals Unable to afford or get mortgage x 90%</i>	<i>= 485 x 90%</i>
Adjusted emergers as % of total emergers	60%
<i>Equals adjusted figure above as proportion of total emergers</i>	<i>=437 / 760</i>
Backlog need per year over policy period - SR	300
<i>Equals (Housing register total x proportion requiring Social Rent)/Policy Period Policy Period is set within key data section (set at 7 years for this report). Proportion requiring social rent is derived from incomes data provided by Housing Register applicants, currently estimated at 89%</i>	<i>= (2,366 x 89%) / 7</i>
Backlog need per year over policy period - AR	38
<i>Equals (Housing register total x proportion</i>	<i>= (2,366 x 11%) / 7</i>

<p>requiring Affordable Rent)/Policy Period  Policy Period is set within key data section (set at 7 years for this report).  Proportion requiring social rent is derived from incomes data provided by Housing Register applicants, currently estimated at 11%</p>	
<p>Owners falling into need</p>	126
<p>Derived using average annual claims (per 1,000 households) leading to repossession orders (Source: Ministry of Justice), converted to percentage  Equals Repossession percentage x Total owner occupied households (with mortgage) (Source: Experian 2009)</p>	= 26,893 x 0.469%
<p>Total need</p>	901
<p>Equals  Need from emergers adjusted for resources from other sources and unable to obtain mortgage  PLUS  Backlog need over policy period – SR  PLUS  Backlog need over policy period – AR  PLUS  Owners falling into need</p>	<p>= 437  +  300  +  38  +  126</p>
<p>Social rent element ( emergers social rent + backlog)</p>	458 = 51%
<p>Equals  (Emergers unable to afford Affordable Rent, so require Social Rent + Backlog need per year over policy period- SR)  As a proportion of gross need</p>	<p>= (22% x 733)  +  (2,366 x 89%) / 7  /  901</p>
<p>Affordable Rent element ( emergers AR + housing register applicants able to afford + owners in need)</p>	442 = 49%
<p>Proportion emergers can afford AR  +  Backlog need per year over policy period- AR)  +  Owners falling into need</p>	<p>= (38% x 733)  +  (2,366 x 11%) / 7  +  126  /  901</p>
<p>As a proportion of gross need</p>	901

#### 5.1.4. Derivation of Model Outputs

- **Emerging Households:** This is an extrapolation of data from the ONS 2008 Subnational Population Projections (household estimates). The model takes those households who will pass through the age group of 18 to 35 over the next 10 years, deducting those who appear in both groups to avoid double counting (those households who are caught by the younger age group in 2011 are deducted from the older age group in 2021).
- **Percentage unable to afford LQP:** This derives the income required to afford the lower quartile price (based on Land Registry data), using a multiple of 3.5 (what we assume households can borrow), and a deposit of 10%. This is then compared to the overall data of the district to derive the proportion of households whose incomes are below the figure required to buy. This proportion is then applied to the *emerging households only*. It is arguable that this gives a lower reflection of need because younger households have lower incomes, but it is not possible to break this data down with any confidence.
- **Unable to afford on income** = Percentage unable to afford LQP x *Emerging Households*
- **Proportion now unable to afford mortgage:** This is a static percentage based on CML statistics relating to the level of lending to first time buyers. It is derived using a view of long term borrowing levels to estimate the proportion of decreased borrowing, assuming that this is likely to be a result of greater difficulty in accessing mortgage products.
- **Unable to get mortgage in current circumstances** = Proportion now unable to afford mortgage x *remainder of emerging households*
- **Unable to afford or get mortgage** = Unable to afford on income + Unable to get mortgage in current circumstances
- **Unable to afford Affordable Rent, so require social rent:** This applies the same calculation to emerging households used in the lower quartile price section, except the income required relates to the current cost of Affordable Rent. The model calculates how many households cannot afford each property size (1 to 4 beds). Because a single figure is needed for the purposes of the overall need factor, the model then uses a derivation of the likely levels of overall need for each property size (based on the lifestyles, lifestages principal used in the original SHMA), and combines these to give an overall affordability total. This is then applied to the *emerging households only*, to give the number who require social rent. The remainder of emerging households is the number who could, potentially, afford Affordable Rent (remember the figure is already based on those unable to afford purchase).
- **Proportion emergers can afford AR:** *See above*



- **Need from emergers adjusted for resources from other sources** = unable to afford or get mortgage x *Resources from other sources*. The Resources from other sources factor is set at 10%, assuming that this proportion of emerging households may have help from parents, inheritance etc which enables them to purchase. This is an arbitrary figure, based on a common sense assumption that some households have financial help in accessing housing. The figure can be altered in the Inputs section of the model.
- **Adjusted emergers as % of total emergers**: Emerging households unable to afford or obtain mortgage, adjusted for resources from other sources, as a proportion of total emerging households.
- **Backlog need over policy period – SR**: This is the proportion of the housing register considered to need social rent, divided by the policy period (set in the Inputs section at 7 years).
- **Backlog need over policy period – AR**: This is the proportion of the housing register considered to be able to afford Affordable Rent (based on incomes data provided by the Choice Based Lettings system), divided by the policy period.
- **Owners falling into need**: This is derived applying the average rate of repossessions (per 1,000 households) over the last 3 years to the total of owner occupiers in the district with mortgages (in Inputs: Factor for owners falling into need x All owner occupiers with mortgage)
- **Total need** = Need from emergers adjusted for resources from other sources + Backlog need over policy period (SR) + Backlog need over policy period (AR) + Owners falling into need
- **Social Rent Element (ememer social rent + backlog)** = Unable to afford Affordable Rent, so require social rent (*emerging households*) + Backlog need over policy period (SR) (*housing register*)
- **Affordable Rent Element (emergers AR + backlog AR + owners in need)** = proportion emergers can afford AR + backlog need over policy period (AR) + Owners falling into need

## 5.2. Implications of model outputs – Affordable Rent and Social Rent

5.2.4.a. The assessment of affordability by the model concludes that approximately 45% of households in the Borough are unlikely to be able to afford market entry housing based on income alone. This proportion is applied to the emerging households only (calculated using the 2008 based household projections).

5.2.4.b. For affordable rented housing, the model estimates that 51% of all rental supply flow could be at Social Rent levels, and about 49% of supply could be at Affordable Rent levels. These proportions are heavily influenced by the number of households on the housing register, the policy period, and the high number of emerging households, around 64% of whom are calculated to have incomes high enough for Affordable Rent.

5.2.4.c. Note that the Affordable Rent figure applies to **all lets**, including relets, and not just new lets coming out of development. So if there are sufficient relets to meet the need for social rent then a higher proportion of new developments, and hence new lets, **could** be at Affordable Rent, but the local authority should monitor and may need to limit the extent of conversions to Affordable Rent to prevent the housing market becoming more imbalanced. Another consideration is whether the Authority wishes to focus primarily on backlog need, or overall need, or projected need. A focus on backlog need would considerably alter the proportions of Affordable Rent which are appropriate (with a split of 89%/11% in favour of Social Rent).

5.2.4.d. The decision about where to focus supply requires serious consideration from an internal perspective, since exclusive focus on backlog need could lead to further market dysfunction, creating greater barriers to middle income households, but a greater focus on emerging households may leave higher numbers of lower income households stuck indefinitely on the Housing Register. It should also be considered that it is highly likely, with the introduction of Affordable Rent, that a number of lets will go to households who cannot really afford them based on income alone, effectively trapping them on benefits.

5.2.4.e. It should be noted that approximately 48% of the need estimate relates to emerging households (projected need). The large number of emerging households and the potential impact this may have on the need for additional homes is already known and recognised in the Council's proposed Development Plan<sup>11</sup>. A key issue in mitigating the potential growth of demand for affordable homes is to address the imbalance in the housing market by providing more moderately priced market homes which are more accessible to households on average incomes. This requires more involvement in the market mix, rather than an exclusive focus on affordable homes.

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<sup>11</sup> Information on the current strategic position of Erewash Borough Council is available on the Planning Policy pages of the website, see

<http://www.ErewashBorough.gov.uk/index.aspx?articleid=740>

5.2.4.f. To determine the ability of Housing Register to afford Affordable Rent, the model uses data about applicant incomes extracted from the Choice Based Lettings database. There are some serious inconsistencies and omissions within the dataset, so the resulting affordability factor is not wholly reliable. The Choice Based Lettings system relies in many cases on applicants entering their own incomes data online at the time of application. The result is that some figures are entered inaccurately or omitted entirely. Nonetheless this data is currently the only and best available.

5.2.4.g. CORE data gives some evidence on incomes of new tenants. The 2010/11 data shows a total of 403 returns for which incomes data is given for 120 households. Of these, the majority of households show incomes of under £200 per week. CORE indicates that 59% of households are entirely dependent on benefits, and 16% are partially dependent. However new tenants may not be wholly representative of all applicants, and may indeed be housed because they are in more housing need, partly because they have lower incomes.

**Figure 23 Social and Affordable Rent Split (Emerging Households)**

Split Social/Affordable Rent (emergers)	No. in need of Social/Affordable Rent (Emergers)	Total Emerging Need
34% SR	159	437
66% AR	278	
	48.5%	forward need
	51.5%	backlog need

5.2.4.h. The incomes and affordability calculation within the model determines that approximately 36% of new households requiring affordable housing over the next 10 years will be unable to afford the new Affordable Rent product, based on current property prices and incomes. Obviously significant changes in either incomes levels or rental prices will affect this estimate.

5.2.4.i. Using the current model settings which apportion the backlog need over 7 years, annually there are more emerging households than households on the waiting list. This results in the annual need figure being weighted more heavily towards emerging households, with 51.5% of the need figure addressing future or predicted need. If the policy period were reduced, or the Housing Register were to grow substantially, this balance would shift.

### 5.2.5. Calculating the split between Affordable and Social Rent

5.2.5.a. The calculation behind the Affordable Rent/Social Rent split is as follows:

#### Figure 24 Affordable Rent/Social Rent Split

<p>Emerging Households Split (36% Social Rent, 64% Affordable Rent)</p> <ul style="list-style-type: none"><li>• Affordable Rent requirement from emergers (38%) = ARE</li><li>• Social Rent requirement from emergers (22%) = SRE</li><li>• Adjusted Emergers (unable to afford LQP, unable to get mortgage, resources from other sources (60%) = LQPE</li><li>• Affordable Rent Proportion = ARE (38%)/LQPE (60%) = 64%</li><li>• Social Rent Proportion = SRE (22%) /LQPE (60%) = 36%</li></ul> <p>Backlog Households Split (89% Social Rent, 11% Affordable Rent) Derived from Housing Register data, applied to backlog figure divided by policy period (set at <b>7 years</b>).</p> <p>Overall Affordable Rent/Social Rent split (49%/51%):</p> <p>Affordable Rent</p> <ul style="list-style-type: none"><li>• 64% of emergers adjusted for resources from other sources (64% x 437 = 278)</li><li>• PLUS 11% of backlog need (11% x (2,366 / 7) = 38</li><li>• PLUS Owners falling into need (0.469% x 26,893) = 126</li><li>• As a proportion of gross need = (278 + 38 + 126) / 901 = 49%</li></ul> <p>Social Rent</p> <ul style="list-style-type: none"><li>• 36% of emergers adjusted for resources from other sources (36% x 437 = 159)</li><li>• PLUS 89% of backlog need (89% x (2,366 / 7) = 300</li><li>• As a proportion of gross need = (159 + 300) / 901 = 51%</li></ul>
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### 5.2.6. Forward and Backlog Need

5.2.6.a. The calculation behind the forward/backlog need split is as follows:

#### Figure 25 Forward/Backlog Need Split

<p>Need from emergers unable to obtain mortgage and adjusted for resources from other sources (437) as a proportion of total need = Forward Need</p> <p><math>437/901 = 48\%</math></p> <p>Total Backlog Need + Owners falling into need (300 + 38 + 126) as a proportion of total need = Backlog Need</p> <p><math>(300 + 38 + 126) / 901 = 52\%</math></p>
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### 5.3. Determining Rent Levels

5.3.6.a. Local rents (below) are derived from average asking prices provided by Find A Property ([www.findaproerty.com](http://www.findaproerty.com)). The figures used combine the average asking prices given over the relevant geographical areas. Find A Property uses postcode areas as market proxies, so the areas may not fit exactly within the Local Authority boundary, but should give a relatively accurate guideline for the cost of privately renting in the Borough.

5.3.6.b. The model then calculates 80% of the overall average to derive approximate Affordable Rent levels. These are then set against the incomes profile of the district to calculate which households are able/unable to afford them.

**Figure 26 Local Rents and Affordable Rent Derivation**

Erewash overall average of averages (unweighted)

Property type	1 Bed Flats	2 Bed Flats	2 Bed Houses	3 Bed Houses	4 Bed Houses
Asking rent	£350	£436	£472	£555	£765
80%	£280	£348	£377	£444	£612
Weekly	£65	£80	£87	£102	£141

Sub-area ( <a href="http://www.findaproerty.com">www.findaproerty.com</a> )	1 bed flat	2 bed flat	2 bed house	3 bed house	4 bed house
Ilkeston/Cotmanhay	£331	£425	£442	£523	£843
Long Eaton	£369	£446	£501	£587	£687
Average	£350	£436	£472	£555	£765

**Figure 27 Affordable Rent calculation and income/affordability figures**

Property Type	1 bed	2 bed	3 bed	4 bed
Estimated Affordable Rent	£280	£348	£377	£444
Weekly Affordable Rent	£65	£80	£87	£102
Income required	£10,080	£12,542	£13,579	£15,984
% unable to afford (at 30% of gross income)	12.6%	23.5%	23.5%	23.5%

5.3.6.c. In order to derive a single affordability figure to apply to emerging households for Affordable Rent, the model applies the proportion of households unable to afford in each group (by household size) to the overall proportion of emerging households belonging to that group. These relative percentages are then totalled to give an overall affordability factor.

**Figure 28 Derivation of Overall Affordability Figure for Affordable Rent**

<b>Cannot afford Affordable Rent</b>	<b>1 bed</b>	<b>2 bed</b>	<b>3 bed</b>	<b>4 bed</b>
Proportion cannot afford	12.6%	23.5%	23.5%	23.5%
Proportions in need mix	10%	41%	41%	5%
Overall can't afford AR	1.3%	9.6%	9.6%	1.2%
Combined proportions			21.7%	

**5.4. Intermediate Housing (Shared Ownership/Low Cost Home Ownership)**

**Figure 29 Intermediate Housing section**

LQ entry level multiplier	70%
Modified entry level	£63,000
Cannot afford at modified entry level	23%
<b>Intermediate Housing Policy Options</b>	
Maximum need for Intermediate of all new affordable provided	48%
Proportion of intermediate assuming all housing register applicants are ineligible	25%
Apply proportion to housing register who could afford/have requested intermediate housing	10%
<b>Resulting intermediate requirement</b>	<b>25 - 34%</b>

5.4.6.a. Intermediate housing provision is a difficult policy recommendation for strategic housing, mainly because it is hard to gauge who will be interested, and whether they will choose it. It may be that intermediate housing products are not well known or understood, and therefore will not effectively reach those households they are intended for. While the model can assess the accessibility of intermediate housing products such as shared ownership based on incomes (with the assumption again that the household can produce an adequate deposit), it is up to the organisations providing or recommending them locally to ensure they are properly promoted and allocated as appropriate. It is for the local authority to make a policy judgement on how well this tenure meets housing need and demand.

5.4.6.b. The model gives 3 options for the provision of intermediate housing as a proportion of the affordable housing contribution:

1. Applying the affordability percentage derived from CACI incomes data to the whole need figure.

2. Applying the affordability percentage derived from CACI incomes data only to emerging households, and not to any of the households on the housing register.
3. Selecting an optional (evidence based) proportion of the housing register, to reflect those households who have either expressed interest in intermediate housing, or whose incomes reflect an ability to afford it.

## 5.5. Affordable Housing Supply

5.5.6.a. The housing supply figures for this model are derived from CORE (<https://core.tenantservicesauthority.org/>), the Continuous Recording of Lettings System, maintained by the Tenant Services Authority, with a record of all lets and sales of affordable housing (including intermediate sales and supported housing). The supply figures have transfers and exchanges deducted, as these are movements within the sector and do not meet new need.

**Figure 30 Housing supply figures**

Input	
Supply side	CORE
All affordable lettings gross RSL	658
Transfers & exchanges not meeting new need	188
General Needs lettings net of transfers	326
Sheltered Housing relets net of transfers	145
RSL sales –Shared Ownership, Homebuy, etc	8
Net supply	479

**Figure 31 Net need and deduction of new supply through development of new affordable housing**

Net shortfall per year	422
Total affordable required excluding regular supply of new RSL lets	332

## 5.6. Determining the final need figure

5.6.6.a. Finally, the total supply figure is deducted from the gross need figure, to give a final estimate for the net annual affordable housing requirement. The model also gives a second net figure which deducts the average annual supply of affordable homes provided through new development (which equals 90 per year average taken from the HSSA). This figure is optional, as it is arguable some of this housing will already show up in the CORE figures, and as it is difficult to derive a figure for new building of affordable homes in the current (or any) climate, and, along with the many other variables and uncertainties, shows that it is ultimately mistaken to think of housing need as a fixed, measurable figure.

## 6) Key Conclusions and Recommendations

- 6.1.1.a. The housing market in Erewash as far as sales are concerned is much flatter than it was in 2006, but relatively unchanged when compared to 2009, when the previous needs update was completed. Flats and terraces appear to compete on price, though semi detached houses are regularly the most common purchase. The number of sales fluctuates seasonally and quite substantially.
- 6.1.1.b. The lower quartile entry price currently sits at around £90,000. Assessing this figure against incomes in the Borough indicates that approximately 45% of emerging households will be unable to afford entry level housing at this price each year (estimated over the next ten years). This factor is increased by the model, to account for the significant section of the population who, while their incomes may reflect the potential to sustain a mortgage, are affected by the more stringent lending practices currently in force. Whilst it is easy to pull apart this estimate, as it is impossible to predict the future, the current bleak economic outlook does not provide any silver lining for new households entering the market. As with most large financial commitments, the starting position of households is key, and unfortunately a lack of capital and housing wealth is likely to be perpetuated.
- 6.1.1.c. The final net estimated affordable housing requirement of 422 units per year produced in the model is not likely to be achieved in reality, but the figure should serve to emphasise a continued and urgent need to provide alternative housing options for those unable to access of the private market.
- 6.1.1.d. The introduction of Affordable Rent is a key change for those whose work relates to the housing market. The tenure may well provide a bridge for households who previously had little chance of obtaining long term affordable housing, so were effectively 'trapped' in private rent. Whilst in other countries privately renting is the norm, many factors (both cultural and regulatory) continue to make owner occupation the aspiration of households in Britain. Affordable Rent may provide the opportunity for some households to save a deposit, or ensure some additional security to enable them to settle in a community (depending on the approach of Registered Providers to 'fixed/flexible' tenancies). This being said, it is important that Local Authorities recognise, and emphasise through evidence, the continued need for some provision of traditional social rent in order to prevent the poorest and most vulnerable households from falling through the gaps.
- 6.1.1.e. In monitoring and assessing the provision of Affordable Rent, strategic housing departments should understand the affordability implications at both a general and detailed level. Collecting and maintaining data on local private rental properties in order to have a robust basis against which to set rental levels is imperative, and this data should be made as consistent as possible across and between both Local Authorities and Registered Housing Providers. Any conversions of existing social lets to Affordable Rent also need to be carefully monitored (preferably before they happen), and any notable impacts noted and mitigated where possible.