

North London Strategic Housing Market Assessment 2010

Executive summary of study findings



What is a Strategic Housing Market Assessment (SHMA)?

1. A SHMA is a framework that local authorities and their partners can follow to develop a good understanding of how housing markets operate. It promotes an approach to assessing housing need and demand which can inform the development of local development documents and the London Plan. The purpose of the SHMA is to form part of a wider evidence base for the development of housing and planning policies, which should be considered alongside other factors such as the viability of delivering affordable housing, land availability and local policy priorities. Therefore, the evidence provided in the SHMA should not be viewed in isolation.
2. The SHMA is based upon the core assumptions and definitions of the Government's SHMA Practice Guidance and Planning Policy Statement 3: Housing (PPS3). Throughout this document the term affordable housing includes social rented and intermediate affordable housing. Account is also taken of the London Mayor's Consultation Draft Replacement Plan 2009 and proposed amendments to the local housing allowance. The SHMA recognises the crucial and changing role of the private rented sector. The scope of this executive summary is confined to sub-regional findings. Detailed Borough level reports have been prepared for each local authority.

The North London housing sub-region

3. The sub-region consists of seven London local authorities; Barnet, Camden, Enfield, Hackney, Haringey, Islington and the City of Westminster. Hackney is in the North London planning sub-region, but in the East London housing sub-region for housing investment purposes. Currently it is the only London borough which is in different planning and housing sub-regions.
4. The sub-region stretches from the Houses of Parliament and the British Museum in the south to the M25 in the north. It includes the very heart of central and inner London as well as areas more rural in character. It encompasses a whole spectrum of challenges and communities found in a major capital city. Westminster, Camden and Islington are densely developed central London boroughs, while Barnet and Enfield, as outer London boroughs, comprise a mix of town centre urban communities with areas of open countryside to the north. Hackney and Haringey are mainly residential areas and can be described as urban communities with inner city challenges. Almost a fifth of London's population live in the sub-region. Barnet is London's second most populous borough with nearly one quarter of the sub-region's population.
5. The sub region is part of the London Stansted Cambridge Peterborough (LSCP) growth area which runs from North London to the city of Peterborough. The sub-region is also making a contribution to the Olympic Games 2012 with improvements to transport infrastructure from central London and through regeneration of the Lea Valley.
6. Many younger people from all nationalities and backgrounds migrate to Inner London for education, employment, lifestyle and cultural reasons. The rest of the sub-region and the commuter belts beyond provide housing which varies greatly in terms of price quality and built form. Suburban housing more suited to families is more likely to be present in the outer Boroughs.

- Like the rest of Greater London, North London relies upon a great many low paid jobs to sustain its retail and service sector, many of which are filled by international migrant workers. In inner London this leads to extremes of wealth and poverty co-existing in a high density inner city setting with contrasting neighbourhoods and communities in close proximity.

The characteristics of North London’s housing

- The affordability of housing and the nature of the supply of housing differ between local authorities. The imbalance between the existing dwelling stock and the requirements of households is largely caused by a mismatch between demand side factors such as household income, household characteristics and size and supply side factors such as the size and price of market housing. There is a shortage of affordable housing. This has led to a visible response from investors to fill the gap and provide cheaper housing for sale and particularly for rent by sub-dividing dwellings. Many single person households choose to flat share in order to make living in higher quality housing and neighbourhoods more affordable. There has also been a public policy response of prioritising family housing within new build and regeneration schemes.

Housing market drivers

- The main factors are demographic and economic.

Population Change

- Figure 1 shows that this rise in population of North London is expected to continue in the future. Based on the 2007 Round Demographic Projections, the GLA estimate that the sub-region’s population will increase to between 1,832,600 and 1,908,400 by 2026. This would represent a rise of 13.8-18.5% over the period 2001-2026.

Figure 1
Population of North London 1981- 2001 and Population Projections for North London 2006-2026 (Source: ONS Mid-Year Population Estimates , GLA 2007 Round Demographic Projections. Note: Light band shows range from low to high estimates)

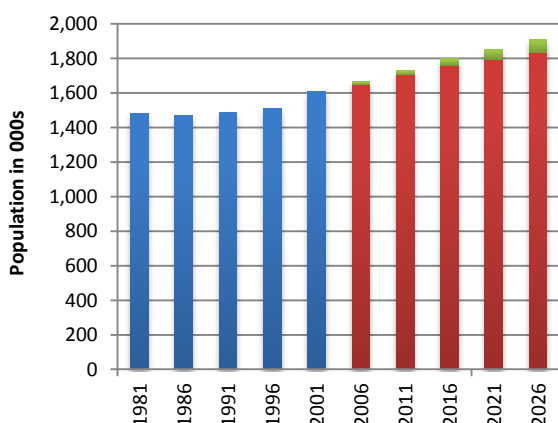
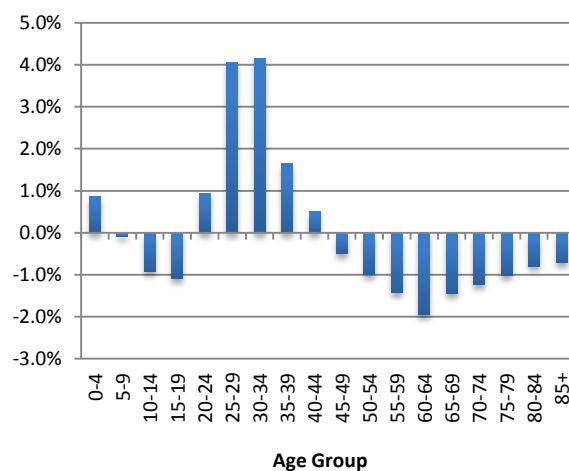


Figure 2
Age Profile for North London Compared with England: 2008 (Source: ONS Mid-Year Population Estimates)

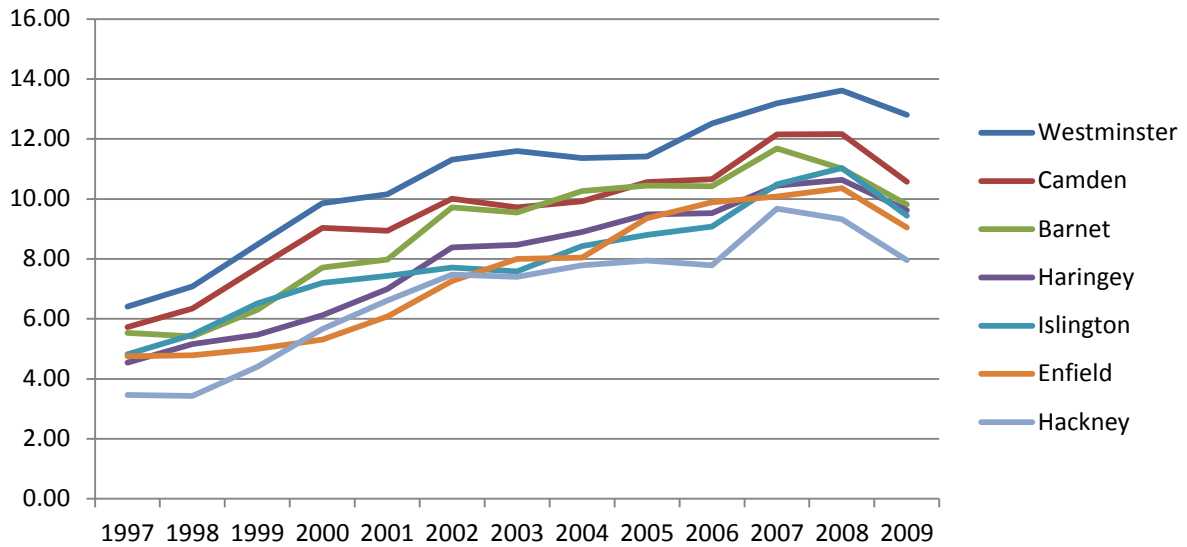


- Figure 2 shows that there are far more young adults and young families with children aged 0-4 years in the area than in England and Wales as a whole. There is a higher population share for those aged 20-44 years, while those aged over 45 years are underrepresented in the population.

The affordability of local housing

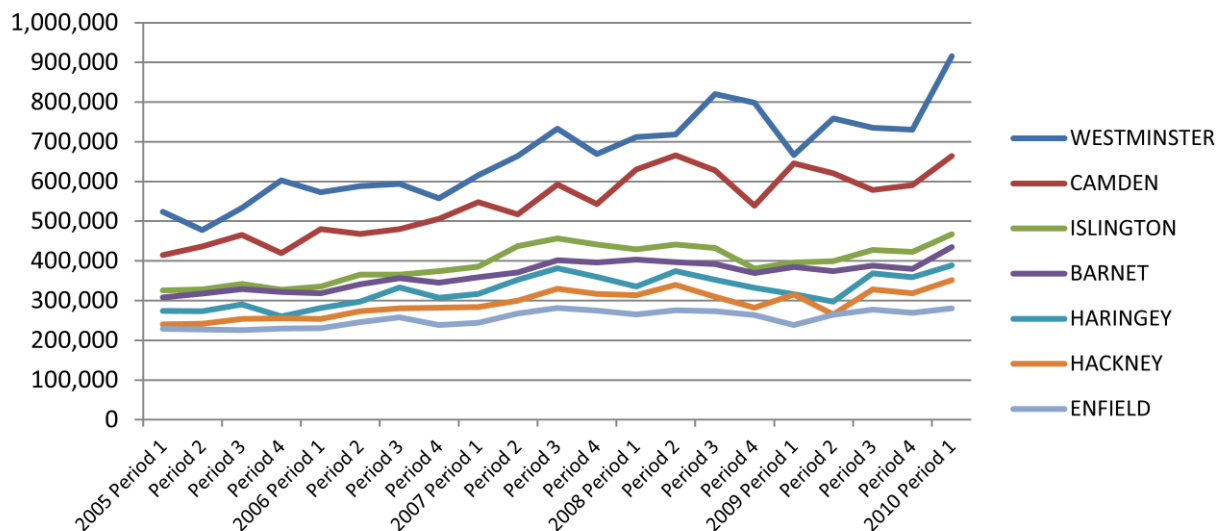
12. The SHMA bases the affordability of dwellings for house purchase and rental upon benchmark price to income ratios defined by the CLG in its SHMA practice guidance. One widely accepted measure for the affordability of home ownership is the ratio of lower quartile house prices to lower quartile earnings. Ratios generally increased up to the credit crunch in 2008 (Figure 3).

Figure 3
 Ratio of lower quartile house prices to lower quartile earnings by Borough in North London 1997-2009 (Source: CLG: table 576, housing research, housing statistics)



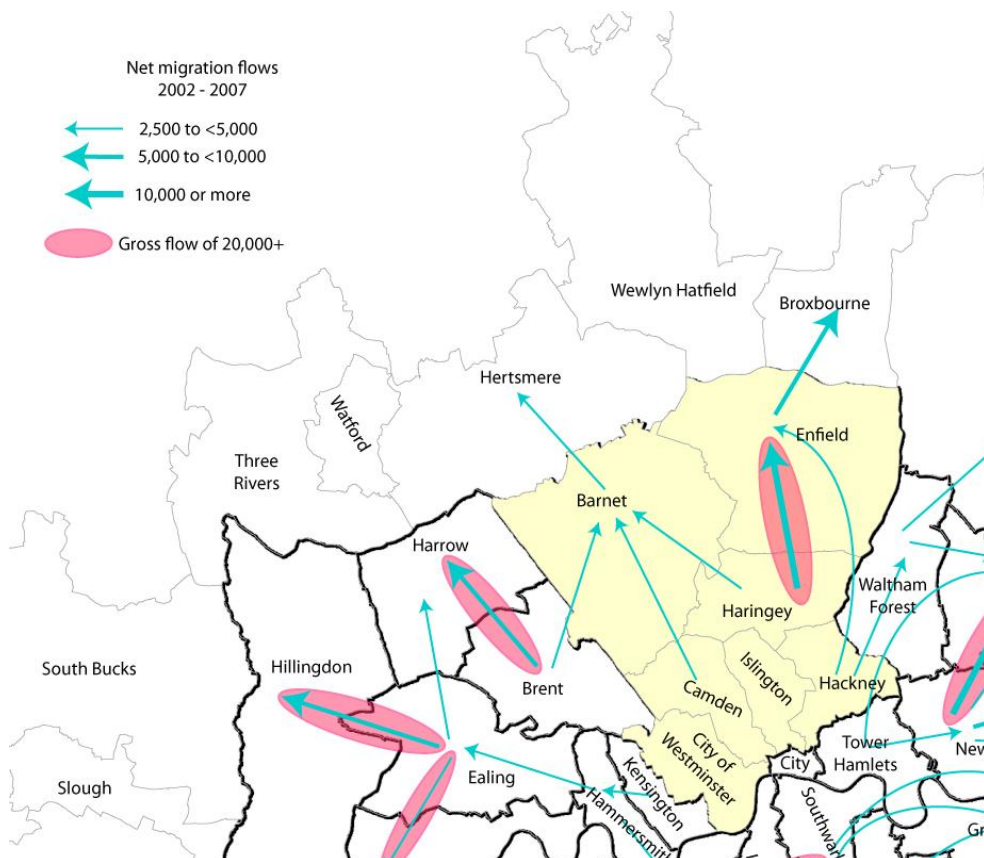
13. Recently improved price to income ratios has not benefited first time buyers as they are faced with tougher lending criteria and finding larger deposits. Generally, inner London’s average house prices and affordability ratios differ from those of outer London.

Figure 4
 Average house prices for North London by quarter: Q1 2000-Q1 2010 (Source: HM Land Registry)



14. There are also different rates of recovery in prices following the credit crunch between inner and outer London driven by the premium housing market in inner London.
15. Households that cannot afford open market housing, whether owner occupied or rented, need some form of subsidy. This may be in the form of either housing benefit or access to social rented housing or intermediate affordable housing. Intermediate affordable housing is that which is affordable to households that can afford more than a social rent but not open market housing. Intermediate affordable housing is normally shared ownership based and is currently mostly available under the Newbuild HomeBuy scheme.
16. Some households will choose to pay a larger proportion of their income than benchmark affordability levels in order to live in the home of their choice. Others will trade off tenure and cost in order to afford housing in their neighbourhood of choice. Many young single person or two person households without children cannot afford self contained housing and live in shared housing. Shared housing typically includes low cost rooms in houses or flats and accommodates younger workers, international migrant workers students etc. Some single people with higher income choose to share housing in areas of more expensive housing.
17. The housing market drivers of employment affordability and demographic change results in flows of people in, out and within the sub-region. The evidence suggests that flows of younger one and two person households are mainly into inner London and the outflow of households from inner London into outer London and the commuter belts are older households and households with children. The migration flows of households are summarised in Figure 5.

Figure 5
 Migration Between Boroughs in North London 2002-2007 (Source: ONS Migration Statistics Unit)



Estimating the five year requirement for additional housing

18. Demand side estimates take account of existing households living in unsuitable housing plus estimates of net additional household formation and net migration. Supply side estimates are based upon vacancies together with new build and demolitions.

Existing households living in unsuitable housing in North London

19. Approximately 139,700 households are living in unsuitable housing due to one or more factors. The main factors are:

- overcrowding (58,500 households);
- dwelling that is in major disrepair (32,000 households);
- dwelling that is too expensive (30,000 households).

20. Only a proportion of households living in unsuitable housing need to move. The study identified a total of 65,846 households in need. This figure includes 54,836 households who were found to be unsuitably housed, requiring alternative housing and who cannot afford market housing. This forms part of the overall housing requirement at the rate of 10% of these households per annum.

Figure 6

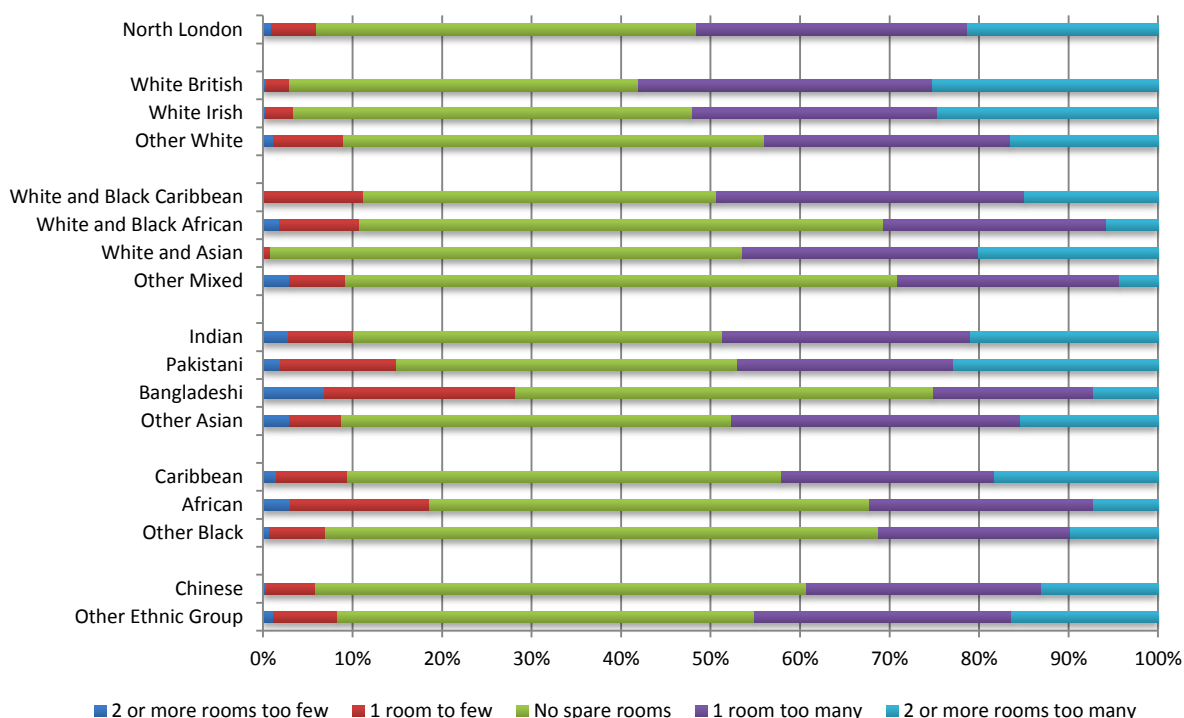
Summary of Existing Households in Housing Need (Source 1: North London Household Surveys. Source 2: Local Authority P1E Homelessness Data Q3 2009. Source 3: Local Authority Housing Strategy Statistical Appendix (HIP) Data 2008)

Local Authority	Number of Households
Households currently living in unsuitable housing that need to move and cannot afford to rent or buy market housing ¹	54,836
Households accepted as statutorily homeless currently housed in housing leased temporarily from the private sector (PSL housing) or Households accepted as statutorily homeless temporarily housed in Bed & Breakfast or hostel accommodation ²	10,872
Single people currently sleeping rough ³	138
Total	65,846

Overcrowding

21. Overcrowding is an important policy issue for North London and it affects some household groups more than others.
22. For example 28% of Bangladeshi, 15% of Pakistani and 18% of African households have at least one room too few for their needs. A more severe degree of overcrowding occurs as 7% of Bangladeshi households have 2 or more rooms fewer than they need.
23. Overall 6% of all households in the sub-region are overcrowded. This includes 3% of White British households being overcrowded (Figure 7 below).

Figure 7
Overcrowding by ethnic group (Source: Local Authority Survey Data)



Demand from additional households

24. A further step in estimating future housing requirements is an assessment of the growth in the number of households and the likely supply of housing as summarised in Figure 8.

Figure 8
Summary of additional households seeking dwellings over 5 years by household and supply flows (Source: ORS Housing Market Model, North London Strategic Housing Market Assessment 2010. Note: Figures may not sum due to rounding)

Housing Type	Inward Flow	Outward Flow	Net Requirement
5-Year Requirement			
Migration – households moving to and from the sub-region	207,842	212,735	(4,893)
Indigenous change – household formations and dissolutions	79,083	24,646	54,437
Established household moves	244,734	244,734	-
Total	531,659	482,115	49,544

25. Overall growth in the sub-region is due to indigenous (local) households rather than migrating households although this may vary by local authority. The growth in indigenous households is due to more households forming than dissolving. The impact of migrant workers (not just of EU origin) is ignored within the above data as there are questions about their permanency in the light of the global recession. International migration is analysed within the full SHMA report.

Estimating the 5 year supply of housing

26. A number of assumptions have been applied to the SHMA regarding the supply of housing. According to PPS3 only supply from dedicated affordable housing (local authority or RSL social rented and intermediate housing) should be regarded as supply for households in housing need and on low income. However, part of the private rented sector provides housing for households

that can only afford housing at prices equivalent to dedicated affordable housing products. Private rented sector lettings up to lower quartile rent levels can be assumed to supplement the supply of intermediate affordable housing. Private rented sector tenancies with housing benefit (HB) support might be considered as supplementing the supply of social rented housing on the basis of affordability but without the security of tenure, Figure 9.

Figure 9

5-year gross housings supply by origin and tenure (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Cross boundary moves include only wholly moving households)

Housing Supply	Source of Housing Supply				Total
	Established Household moves	Household dissolution	Out-migrants from sub-region	Cross-boundary out-migrants	
Market sector					
Market housing above lower quartile	112,196	9,891	136,749	35,411	294,247
Intermediate affordable and private rented sector lower quartile prices					
Low Cost Home Ownership properties	870	67	1,382	358	2,677
PRs LQ, no HB	43,969	1,793	47,324	12,254	105,340
Sub-Total	44,839	1,860	48,706	12,612	108,017
Social rent and HB supported private rented sector					
Rent from LA or RSL	20,986	10,580	17,071	5,036	53,673
HB support to rent in PRS	10,641	2,315	10,209	3,013	26,178
Sub-Total	31,627	12,895	27,280	8,049	79,851
Total	188,662	24,646	212,735	56,072	482,115

27. Supply from the private rented sector, is not easy to quantify. The private rented sector is made up of several niche markets (see the Rugg Report) which can change rapidly in response to market conditions. Niche markets of particular relevance to estimating the future housing requirement are private rented sector sub-market housing, tenancies with housing benefit support and those leased directly to local authorities for households in urgent housing need awaiting a social rented tenancy (PSL). Further niches considered in the SHMA report are student housing and shared housing.

The London Mayor's proposed minimum targets for the supply of additional housing

28. The following minimum targets have been proposed by the London Mayor. These are based upon the minimum capacity of each Local Authority to deliver new homes. These targets do not include potential sites that may come forward during the year that could not be planned for when setting targets.

Figure 10
 Future supply of dwellings by borough (Source: GLA London Plan Consultation Draft 2009)

	Annual Conventional supply	Vacants returned to use	Annual Additional self-contained dwellings	5-year dwelling delivery	% of sub-regional delivery
Barnet	2,048	79	2,127	10,635	31.50%
Camden	500	0	500	2,500	7.40%
Enfield	530	22	552	2,760	8.20%
Hackney	1,124	31	1,155	5,775	17.10%
Haringey	792	28	820	4,100	12.10%
Islington	922	0	922	4,610	13.70%
Westminster	594	81	675	3,375	10.00%
TOTAL	6,510	241	6,751	33,755	100.00%

- ^{29.} The SHMA estimates that 49,544 dwellings are required to meet current and recent trends for the 5 year housing requirement (Figure 8). The Mayor's minimum 5 year target is 33,755 dwellings across the sub-region (Figure 10).

Scenarios for modelling future housing requirements

- ^{30.} There are uncertainties about the recovery of the global economy, the UK housing market and the impact of the policies of the Coalition Government and the London Plan. Therefore any estimate of housing requirements based upon a single set of assumptions will not describe the range of possible outcomes. Accordingly the SHMA provides estimates of future housing requirements using a range of different assumptions or scenarios relating to supply.

Scenario 1A: affordable housing requirements using the supply of dedicated affordable housing (social rent and intermediate affordable housing (as defined by PPS3))

Scenario 1B: scenario 1A adapted to take account of intermediate housing policy contained in the London Plan

Scenario 2A: affordable housing requirements using the standard assumptions for the ORS Housing Market Model; dedicated supply and effective supply from the private rented sector

Scenario 2B: Housing Requirements Using Standard ORS Housing Market Model adapted to take account of intermediate housing policy contained in the London Plan

Scenario 3: Using assumptions regarding a reduction in housing benefit claimants in the private rented sector.

- ^{31.} The processes used to arrive at the findings for each scenario are complex and only the headline results are reported here. A detailed and transparent account is found in the full SHMA report and its technical appendix.

Supply Scenario 1A: meeting affordable housing requirements using supply of dedicated affordable housing (social rent and intermediate affordable housing (as defined by PPS3))

32. This scenario (Figure 11) compares the gross requirement for affordable housing with the projected supply from dedicated affordable housing products. There is a large shortfall of dedicated intermediate affordable and social rented dwellings. This result can be considered to be comparable to the findings of housing needs assessments. The results of this scenario estimate an affordable housing requirement of 152,419 dwellings over 5 years, or around 4,350 dwellings per annum by borough on average.

Figure 11

Net 5-year Net Affordable Housing Requirements Based on Supply from Dedicated Products (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Only Low Cost Home Ownership and Council or RSL Social Rent form the supply of Affordable Housing)

Housing Type	Gross Requirements	Gross Supply from Dedicated Products	Net Requirements
Intermediate affordable	110,807	2,677	108,130
Social rent	97,962	53,673	44,289
Affordable housing Total	208,769	56,350	152,419

Scenario 1B: scenario 1A adapted to take account of intermediate housing policy contained in the London Plan

33. Scenario 1A can be developed to reflect the direction of travel for intermediate housing policy in London as it affects North London. The draft replacement London Plan states that;
- new intermediate homes should be affordable to households whose annual income is in the range £18,100 – £61,400; and
 - for homes with more than two bedrooms, which are particularly suitable for families, the upper end of this range will be extended to £74,000.
34. The upper income thresholds for homes set out in the draft replacement London Plan are much higher than those estimated by the SHMA for North London market rents for 1 and 2 bedroom homes. The reference to 1 and 2 bedroom homes is important as this forms most of the recent supply of Newbuild HomeBuy according to evidence obtained by the HomeBuy agent. If we count all households with incomes between the upper end of the income band defined by PPS3 and the intermediate housing income threshold identified in the draft replacement London Plan, 154,073 additional households are estimated to require intermediate housing in North London over the next 5 years (Figure 12).
35. This means that based upon affordability assumptions in total around 262,000 households over the next 5 years are likely to have income within range required for intermediate housing. The model does not imply any preference for intermediate housing from this group, only that they qualify for intermediate housing on affordability grounds.

Figure 12

Net 5-year Net Affordable Housing Requirements Based on Draft Replacement London Plan Upper Income Limits and Supply from Dedicated Products (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Only Low Cost Home Ownership and Council or RSL Social Rent is counted as Supply of Affordable Housing)

Housing Type	Gross Requirements up to PPS3 Thresholds	Gross Requirements above PPS3 Thresholds, but below London Plan Thresholds	Gross Supply from Dedicated Products	Net Requirements
Intermediate affordable	110,807	154,073	2,677	262,203
Social	97,962		53,673	44,289
Affordable housing Total	208,769	154,073	56,350	306,492

Scenario 2A: affordable housing requirements using the standard assumptions for the ORS Housing Market Model dedicated supply and effective supply from the private rented sector

36. In this scenario we include the supply of affordable housing in scenario 1A and supply from housing benefit supported and lower quartile private rented dwellings is included.
37. The net requirement for affordable housing reduces from scenario 1A estimate of 152,419 to 20,901 dwellings. The tenure requirement can be expressed as a ratio of the entire requirement and in this scenario the ratio is (Figure 13) is that the market, intermediate affordable, social housing requirement ratio is 58:6:37.

Figure 13

5-year Net Housing Requirement by Origin and Tenure (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Figures may not sum due to rounding)

Housing Affordability/Supply	Source of Housing Requirement/Supply		Net Requirement	%
	Gross Requirements	Gross Supply from All Sources		
Market (Requirements and supply of owner occupation and rents above market thresholds)	322,890	294,247	28,603	57.7%
Intermediate affordable and private rented sector lower quartile prices				
Intermediate affordable (can afford above social target rents but cannot afford market rents or owner occupation)	110,807			
Dedicated supply of Low Cost Home Ownership properties		2,677		
Supply of PRS LQ, no HB		105,340		
Sub-Total	110,807	108,017	2,790	5.6%
Social rent and HB supported private rented sector				
Social rent (can afford no more than social target rents)	97,962			
Supply of Rent from LA or RSL		53,673		
Supply of HB support to rent in PRS		26,178		
Sub-Total	97,962	79,851	18,111	36.6%
Total	531,659	482,115	49,544	100%

Scenario 2B: Housing Requirements Using Standard ORS Housing Market Model adapted to take account of intermediate housing policy contained in the London Plan

38. Figure 14 identifies the market housing requirement split between those who qualify for intermediate housing products under the draft replacement London Plan and those who do not. An additional 154,073 households over the next 5 years are projected to qualify for intermediate housing under the draft replacement London Plan proposals, but under PPS3 affordable guidance require market housing. Another 168,817 households require market housing if draft replacement London Plan income thresholds are used.

Figure 14

5-year Net Housing Requirement by Origin and Tenure (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Figures may not sum due to rounding)

Housing Requirement	Sub-category	Source of Housing Requirement/Supply		Total	%
		Gross Requirements	Gross Supply from All Sources		
Market	Existing owner occupiers and those with incomes above draft replacement plan thresholds	168,817		28,603	57.7%
	Can afford market housing under PPS3 definitions, but below London Plan intermediate thresholds	154,073	294,247		
Intermediate affordable	As described in PPS3	110,807	108,017	2,790	5.6%
Social rent	As described in PPS3	97,962	79,851	18,111	36.6%
Total		531,659	482,115	49,544	100%

39. Not all of the 154,073 households will want to access intermediate housing products. Figure 15 shows 4 possible scenarios with the first showing the base case outlined above where intermediate housing is only for those who qualified for intermediate affordable under PPS3 definitions. For example, if only 2% of the 154,073 households form the active demand for intermediate housing the ratio between market, intermediate (intermediate affordable and draft replacement London Plan) and social housing would be 51:12:37.

Figure 15

Impact of Assumptions Around London Plan Definitions of Intermediate Housing (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Figures may not sum due to rounding)

Housing Requirement	Base Case- 0% of additional eligible households access intermediate	2% of additional eligible households access intermediate	5% of additional eligible households access intermediate	10% of additional eligible households access intermediate
Market	28,603 (57.7%)	24,982 (50.4%)	20,899 (42.2%)	13,196 (26.6%)
Above PPS3 Intermediate Threshold / Below London Plan Intermediate Threshold	0 (0%)	3,081 (6.2%)	7,704 (15.5%)	15,407 (31.1%)
Intermediate affordable	2,790 (5.6%)	2,790 (5.6%)	2,790 (5.6%)	2,790 (5.6%)
Social rent	18,111 (36.6%)	18,111 (36.6%)	18,111 (36.6%)	18,111 (36.6%)
Total	49,544	49,544	49,544	49,544

Breakdown of North London Housing Requirements by Housing Type and Size

40. The housing mix is estimated for each of two sets of assumptions;
- standard assumptions for the ORS Housing Market Model; and
 - assumptions relating to the that anticipated reduction in the local housing allowance for private rented sector tenants:
 - A: housing benefit supported private rent above lower quartile rents are relet as market housing over the 5 year period; and
 - B: private rented sector dwellings above the lower quartile rents become part of the market supply, but the former households continue to receive housing benefit by moving to dwelling in the lower quartile of the private rented sector.

Sub-regional housing mix using standard assumptions for the ORS Housing Market Model

41. Figure 16 (below) states the net requirement on the assumption that the proportion of all households in receipt of housing benefit remains at the current level and that existing need is addressed over a 10-year period. The market housing requirement comprises all households who are identified as requiring market housing under PPS3.

Figure 16:
5-year Housing Requirement by Housing Type and Size, (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Figures may not sum due to rounding)

Housing Requirement	Type of Housing			All Sectors
	Market	Intermediate	Social	
Net Requirement (Surplus)				
1 bedroom	(4,997)	9,356	10,875	15,234
2 bedrooms	26,103	(944)	1,775	26,934
3 bedrooms	3,396	(7,925)	3,366	(1,164)
4+ bedrooms	4,141	2,304	2,094	8,539
Total	28,643	2,790	18,110	49,544

42. The estimated net requirement for 1 bedroom social rented housing and 3 bedroom intermediate (assumed to be housing within the lower quartile of private sector rents) need further consideration. The 1 bedroom social rented requirement (10,875 dwellings) contains a number of non-pensioner single person households where no-one has a health problem and who are not currently living in social housing. These households would not typically be considered a priority for social rented housing across North London.
43. It is estimated that there are 2,344 households that would be considered a priority for 1 bedroom social housing. The other 8,531 single person households who can afford no more than social rents are likely to have their housing needs meet in housing benefit supported self contained private rented housing or converted or shared family housing or larger apartments that are not self contained.
44. It is likely that the potential surplus of 3 bedroom intermediate (lower quartile private rent) dwellings in the sub-region will be used meet demand from single person households in this

way. This is also consistent with changes to the local housing allowance announced in October 2010 which will see any single person aged under 35 years only being entitled to 'room rate' rather than the local housing allowance limit for a one bedroom self contained home. The current minimum age for a single person to be entitled to HB for self contained dwellings is 25 years.

45. If it is assumed that three single persons will occupy 1 bedroom each in a 3 bedroom dwelling, reducing the surplus of 3 bedroom intermediate dwellings. If the 8,531 are allocated to 3 bedroom dwellings (3 per dwelling) then only 2,844 dwellings are needed. This reduces the total housing requirement by 5,687 (8,531-2,844). This is reflected in Figure 17 where the total housing requirement is 5,687 lower than in Figure 16 and the social housing requirement is 8,531 lower.

Figure 17:

5-year Housing Requirement by Housing Type and Size, Allocating Households not qualifying for Social Rent to converted or shared 3 bedroom homes (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Figures may not sum due to rounding)

Housing Requirement	Type of Housing			All Sectors
	Market	Intermediate	Social	
Gross Requirement				
1 bedroom	110,652	39,866	34,155	184,673
2 bedrooms	118,714	37,965	34,555	191,234
3 bedrooms	64,073	21,470	17,406	102,949
4+ bedrooms	29,451	14,349	3,315	47,115
Total	322,890	113,650	89,431	525,971
Gross Supply				
1 bedroom	115,649	30,510	31,811	177,970
2 bedrooms	92,611	38,909	32,780	164,300
3 bedrooms	60,677	26,551	14,040	101,269
4+ bedrooms	25,310	12,045	1,221	38,576
Total	294,247	108,017	79,852	482,115
Net Requirement (Surplus)				
1 bedroom	(4,997)	9,356	2,344	6,703
2 bedrooms	26,103	(944)	1,775	26,934
3 bedrooms	3,396	(5,081)	3,366	1,681
4+ bedrooms	4,141	2,304	2,094	8,539
Total	28,643	5,635	9,579	43,857

Scenario 3: Using assumptions regarding a reduction in housing benefit claimants in the private rented sector

46. The June 2010 budget announced major changes to the operation of the Local Housing Allowance (LHA) system. One of the major changes scheduled to occur is that LHA maximum rents eligible for Housing Benefit (HB) will be set at the 30th percentile of local rents while currently they are set at the 50th percentile.

47. This will reduce the maximum LHA level in all areas. This in turn will see some of these dwellings re-let in the open market without HB support because their occupiers will not be able to afford to meet the difference between their LHA and the actual rent being charged. This will have major consequences for the market and afford housing requirements. This change will potentially reduce the supply of subsidised housing and increase housing need as existing households seek to occupy housing that they can afford which may prove unsuitable for example due to disrepair or overcrowding. Only limited scenario testing can be undertaken at this time as the market response is uncertain.
48. In practice, rents at the 30th percentile are close to those at the 25th percentile (lower quartile) threshold for sub-market housing as stated in practice guidance. Therefore the estimated supply up to the lower quartile threshold used earlier in this report is used as an approximate value.
49. The consequence for the modelled results is that if we exclude vacated housing benefit private rented properties above the lower quartile from the potential social housing supply the requirement for social housing rises to 17,616 over 5 years. Therefore, for boroughs to reduce the number of households receiving housing benefit in the private rented sector without being able to reduce the demand for this type of accommodation will require an additional provision of social rented dwellings compared with the results outlined in Figure 17.

Figure 18:
5-year housing requirement by housing type and size, allocating households not qualifying for social rent to intermediate housing and returning housing benefit Supported housing above lower quartile private rented housing rents to market housing and allocating these households to social rented housing (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Figures may not sum due to rounding)

Housing Requirement	Type of Housing			All Sectors
	Market	Intermediate	Social	
Net Requirement (Surplus)				
1 bedroom	(7,103)	9,356	4,450	6,703
2 bedrooms	21,597	(944)	6,281	26,934
3 bedrooms	1,994	(5,081)	4,768	1,681
4+ bedrooms	4,118	2,304	2,117	8,539
Total	20,606	5,633	17,616	43,855

50. When the likely occupancy patterns of stock are considered, the house size-type matrix could be refined with the following initial adjustments:
- the surplus of 1 bedroom market housing can be offset by households technically only able to afford 1 bedroom intermediate housing,
 - the surplus of 2 bedroom intermediate housing can be offset to households who can afford 2 bedroom market housing,
 - the surplus of 3 bedroom lower quartile dwellings is assumed to be occupied by households who can afford 3 bedroom market housing and (some with the help of housing benefit) and by single people sharing it on a non self contained basis.

Figure 19:

5-year Housing Requirement by Housing Type and Size, allocating households not qualifying for social rent to intermediate housing and returning housing benefit supported housing above lower quartile private rents to market housing and allocating these households to the effective social supply (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Figures may not sum due to rounding)

Housing Requirement	Type of Housing			All Sectors
	Market	Intermediate	Social	
Net Requirement (Surplus)				
1 bedroom	0	2,253	4,450	6,703
2 bedrooms	20,653	0	6,281	26,934
3 bedrooms	0	0	1,681	1,681
4+ bedrooms	4,118	2,304	2,117	8,539
Total	24,771	4,557	14,529	43,855

51. Next we test an alternative assumption that while those dwellings which are above the lower quartile private rent are returned to the market supply, the households concerned continue to receive housing benefit by moving to dwelling in the lower quartile of the private rented sector. This in turn would convert a further part of the lower quartile rented sector into being part of the effective social supply.
52. The impact of these changes is shown in Figure 20 with a much greater requirement for intermediate housing and lower requirement for social rent when compared with Figure 18. The logic behind this position is that increasing competition for lower quartile private rented dwellings from those households who were previously receiving housing benefit support in dwellings above market thresholds will create shortages of cheaper rented dwellings. This in turn will make it harder for households who can afford more than social rents to access cheaper private rented dwellings and hence there is a greater requirement for designated intermediate affordable dwellings for these households.

Figure 20:

5-year Housing Requirement by Housing Type and Size, Returning Housing Benefit Supported Above Lower Quartile Private Rent to Market and Assuming Growth in Lower Quartile Private Rented Sector with Housing Benefit Support (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Figures may not sum due to rounding)

Housing Requirement	Type of Housing			All Sectors
	Market	Intermediate	Social	
Net Requirement (Surplus)				
1 bedroom	(7,103)	11,462	2,344	6,703
2 bedrooms	21,597	3,562	1,775	26,934
3 bedrooms	1,994	(3,679)	3,366	1,681
4+ bedrooms	4,118	2,327	2,094	8,539
Total	20,606	13,672	9,579	43,857

53. Applying the same process of re-allocations outlined in Figure 19 to the results shown in Figure 20 provides us with the results shown in Figure 21. This provides more balance between social rent and intermediate housing.

Figure 21:

5-year Housing Requirement by Housing Type and Size, moving Housing Benefit Supported Above Lower Quartile Private Rent to Market and Assuming Growth in Lower Quartile Private Rented Sector with Housing Benefit Support (Source: ORS Housing Market Model, North London Housing Requirement Assessment 2010. Note: Figures may not sum due to rounding)

Housing Requirement	Type of Housing			All Sectors
	Market	Intermediate	Social	
Net Requirement (Surplus)				
1 bedroom	0	4,359	2,344	6,703
2 bedrooms	21,597	3,562	1,775	26,934
3 bedrooms	0	0	1,681	1,681
4+ bedrooms	4,118	2,327	2,094	8,539
Total	25,715	10,248	7,894	43,855

Summary of findings

⁵⁴ The evidence suggests that;

- the sub region consists of inner and outer London local authorities and in particular, inner London contains extremes of wealth and poverty;
- house prices differ between local authority areas. Inner London has considerably higher prices than outer London. This is a main driver for flows of older households and those who have children to outer London and the commuter belts;
- this has led to a response from entrepreneurs to provide cheaper housing by subdividing dwellings, a public policy response of resisting conversion of family housing; enabling families to remain living locally, and the choice of many single person households to flat share;
- the general direction of travel of public policy is to ensure that housing development is sustainable and development causes minimum harm to the environment. This means that policy aims are about more than meeting housing requirements identified by the SHMA, for example, achieving mixed tenure developments and incentives such as generous intermediate housing policies to contain 'city flight';
- this in turn means that a serious gap exists in London's housing - housing for lower paid workers vital to the local economy who cannot access social housing and who cannot afford decent market housing. Large households are worst affected.
- there is currently a significant shortage of affordable housing. Delivery of additional housing over the 5 year period will be a minimum of 33,755 dwellings which is considerably less than the lowest estimate of requirements estimated by the SHMA (49,544 dwellings);
- there is a mismatch between dwelling types and sizes and the households that are likely to require them in the last 5 years and the housing requirements have been estimated to address this imbalance;

- if the total housing requirement is not provided it is likely that either demand for the sub-division of larger dwellings will increase, households will seek to live in alternative areas, or households will fail to form;
- the report highlights the extent of overcrowding and the fact that it affects some BME groups disproportionately. It is the most frequent reason given by households who consider themselves to be living in unsuitable housing;
- proposed changes to the local housing allowance (LHA) will have major implications for the housing market and for future housing requirements. For example if vacated housing benefit assisted private rented properties are excluded from the potential social rented housing supply, the requirement for social housing rises to 17,616 dwellings over 5 years.

55. In summary;

- the SHMA has demonstrated that in whole housing terms the sub region is cohesive and that failure to meet estimated affordable housing requirements will impact upon market housing. This coupled with the potential reduction in housing benefit support for private rented sector housing may free up housing supply for the identified gap, although the impact on households that can only afford social housing living in the private rented sector may be severe, especially if they are large families on low income.