

## Key drivers of the housing market

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## Chapter 25. Key drivers of the housing market

### 25.1 Introduction

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As outlined in chapter 22, *Planning context for housing delivery*, targets and trajectories are useful tools to plan, monitor and manage housing delivery in the Cambridgeshire sub-region. However without acknowledging some of the external factors which affect the housing market and the building industry, we miss crucial stages on the path from targets to delivery. This chapter aims to set out a brief summary, and links to, information on these external influences.

The first SHMA published in 2008 summarized Kate Barker's review of housing supply, published in March 2004, and some of the responses to the review, to help consider issues and interventions which aimed, at the time, to help us deliver the housing numbers projected in future. Since then, following global and national recession, the housing market has entered a period of significant downturn, including the following symptoms:

- Significant drop in the number of property sales, particularly at the lower end of the market.
- Reduced mortgage availability, alongside rapid increase in the size of deposits required and changes to the loan to value ratio.
- A slump in starts on site, redundancies in the building industry, and a rush to make homes under construction wind and water tight, so as to stop development until the market recovers sufficiently.
- Increased negative equity for existing home owners.
- Increased demand for affordable rented, intermediate tenure housing and low cost housing.
- Increased need for housing advice and in some areas, increased homelessness.

These changes necessitate a complete review of this chapter, and its part in our strategic housing market assessment. Much research and analysis has taken place in the past year, nationally, regionally and locally. This updated chapter provides a brief summary of some of the key research, with links to full reports, in an attempt to round-up the causes and effects of some of the drivers to these recent market changes. By its nature this will be an area which needs long-term analysis and relevant action at each of the three geographical levels.

### 25.2 National

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<b>How can we achieve long-term stability in the housing market for vulnerable households?</b>
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This is work in progress by the JRF Housing Market Taskforce, with the final report due to be published in winter 2010/2011. Key issues:

- The UK housing market has a negative impact on vulnerable households in both its high and low extremes.
- During a boom, households can feel pressured to take on risky mortgages to become home owners. In a downturn, they face the threat of rising arrears,

repossessions, homelessness, overcrowding, use of temporary accommodation and competition for low-cost rented accommodation.

- Without intervention this cycle will continue.
- Current interest in the housing market is focused on short-term changes to help stabilise the market. Insufficient thought has been given to how to protect and support vulnerable households in the long term.
- JRF has established a 'Housing Market Taskforce' – a small group of interdisciplinary experts who will build on existing evidence with new analysis, ideas and consultation with specialists. The Taskforce will:
  - identify the principles that should support a more 'socially sustainable' housing market, i.e. one in which extreme fluctuation between 'boom and bust' is avoided and vulnerable households are less exposed to its consequences;
  - set out possible policy approaches to achieve these principles.

The JRF Housing Market Taskforce's final report is due to be published in winter 2010/2011.

For more background, [read the Investigations summary](#).

Summary available from: <http://www.jrf.org.uk/work/workarea/housing-market-task-force>

#### **Housing market recessions and sustainable home-ownership, July 2008**

Drawing on evidence from previous periods of instability, this study reviews how the government might respond to housing market recessions in the short term, and what longer-term measures it might take to promote sustainability through the housing market cycle.

This round-up considers how the government might respond to housing market recessions in the short term, and what longer-term measures it might take to promote sustainability through the housing market cycle. The authors ask what lessons can be learned from past experiences that could inform the current period of instability. Key points:

- The housing market recession of 1989–93 had far-reaching social and economic consequences, arising from the adverse impact of possessions on households and the impact of declining housing wealth on consumption.
- The rise in mortgage arrears and possessions prompted short-term government intervention that included:
  - the payment of mortgage interest payments as part of the state safety net directly to those lenders that agreed to exercise greater forbearance;
  - the suspension of stamp duty on nearly all house purchases;
  - a boost to the housing association development programme to take properties off the market.
- Home-ownership has changed since the last recession:
  - levels of home-ownership have stagnated, but home-owners' risk profile has deteriorated;
  - the government has introduced new low cost home-ownership schemes to support its expansion, but safety nets have weakened;
  - new products, such as sub-prime mortgages, have emerged;
  - lenders rely more on international wholesale markets for funds.

- Home-ownership faces immediate challenges arising from the ‘credit crunch’ and rising possessions, which have prompted short-term responses:
  - the Bank of England has extended liquidity to lenders to stimulate the market;
  - lenders have agreed to review their voluntary codes of practice on arrears management;
  - government has announced a comparatively small housing market package to take properties off the market;
  - lenders and advice agencies have called for the state safety net to be strengthened.
- Home-ownership faces longer term challenges that require a balanced debate about what level of home-ownership is sustainable under current conditions, and how this might be increased with improved mortgage products and safety nets. Specific issues include:
  - how to enable people to access to owner-occupation;
  - further consolidation and regulatory change in the mortgage industry;
  - the need for longer-term mortgage products;
  - the need for safety nets that mesh with actual risks and distribute costs equitably and responsibilities appropriately so as not to encourage irresponsible behaviour.

Click here to [Download as PDF, 24 pages, 0.55 MB](#)

<b>Building blocks - Exploring ways to deliver more affordable homes in the housing downturn, 2008</b>
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Nationally, regionally and locally, housing and planning experts, civil servants and elected representatives are dealing with the continuing housing crisis. Now the dramatic shifts in our economic environment require us to develop new ideas and a fresh approach to how we tackle this situation.

This paper is based on a report commissioned by Shelter from leading housing expert Kelvin MacDonald. Case studies throughout the paper offer examples of good practice that is happening on the ground.

We hope this paper will stimulate further discussion, ideas and, most importantly, contribute to the development of a plan of action in all regions to maximise affordable housing delivery in today’s economic environment. We must act now to prevent the housing crisis in this country from getting even worse.

The discussion paper is organized into the following sections. The full text is available via the link at the end of this summary.

- How we use our land
- Making use of unsold market stock
- Using the planning system
- Putting local policy in place to support affordable housebuilding
- Taking charge of delivery
- Being creative with finance
- Building mixed communities
- Delivering infrastructure and affordable homes

The full discussion paper is available from:

[http://england.shelter.org.uk/professional\\_resources/policy\\_library/policy\\_library\\_folder/building\\_blocks](http://england.shelter.org.uk/professional_resources/policy_library/policy_library_folder/building_blocks)

**Uncharted Territory - Managing mortgage arrears and possessions, July 2009**

As the current housing market recession has deepened, there has been a concerted attempt to mitigate the detrimental consequences. The Government has implemented a series of initiatives designed to reduce possessions and since 2004, lenders have been governed by statutory regulation that requires them to treat borrowers fairly.

Despite all this activity, there is no clear overview about how arrears and possessions are at present being experienced and managed by borrowers and lenders. This lack of a systematic evidence base hampers understanding of the likely impact of the current initiatives and discussion about what else might be done, both in the short and longer term, to ensure home ownership is sustainable. The research informing this report aimed to fill this gap.

Full paper is available from:

[http://england.shelter.org.uk/data/assets/pdf\\_file/0018/203706/Uncharted\\_Territory\\_Summary.PDF](http://england.shelter.org.uk/data/assets/pdf_file/0018/203706/Uncharted_Territory_Summary.PDF)

**Investment and planning obligations: responding to the downturn, HCA, July 2009**

This document sets out the approach the Homes and Communities Agency (HCA) will take to help local authorities meet immediate housing need and ensure that when the upturn begins, a recovering market is not hampered by a proliferation of lapsed consents, or delays due to a glut of re-applications. Based on existing policy guidance it suggests recommendations for maintaining more affordable housing from planning permissions and associated S106 obligations alongside HCA investment. The report has been produced for staff and partners of the national housing and regeneration agency.

Working with Local Planning Authorities through the HCA's Single Conversation – a place-based approach to investment – the Agency will support housing and regeneration priorities for an area by investing in ways that unlock schemes that are currently unviable, using public investment alongside private investment, to help make best possible use of developer contributions through planning permissions and planning obligations.

The HCA's preferred option is to defer planning obligations on phased developments so that the majority of them are carried out on later phases, once the viability of those phases has been considered and the market starts to recover.

Other options for local authorities to consider include adjustment of the affordable housing tenure mix as in some instances increasing the proportion of affordable housing linked to HCA investment can improve cash-flow and help make a development viable again; granting planning consent for an initial period longer than three years; or extending the life of existing consents..

The document reiterates the HCA's commitment to flexibility and an acknowledgement that this may include higher levels of investment in the short-term. However it cautions that a lack of financial viability alone will not mean simply replacing S106 requirements with HCA funding, and emphasises that flexibility will be on a 'something for something' basis, with the HCA seeking a higher level of affordable housing, or a financial return on it's investment. It concludes that a collaborative approach is essential to success, including:

- Transparency – using planning tools which all parties agree are fair and accurate, and a single viability model
- Clarity on drivers – with each party understanding what the other seeks to achieve from the scheme
- Clarity on returns – with visibility on what each partner expects to take away from the scheme
- Risk and reward share – to ensure an equitable deal.

Source:

[http://www.homesandcommunities.co.uk/public/documents/Investment\\_and\\_planning\\_good\\_practice\\_note.pdf](http://www.homesandcommunities.co.uk/public/documents/Investment_and_planning_good_practice_note.pdf)

### **National Housing and Planning Advice Unit**

The National Housing and Planning Advice Unit (NHPAU) has been established in response to Kate Barker's Review of Housing Supply (2004). Our task is to help make market housing more affordable and to address the trend in the rise in the number of people prevented from getting onto the property ladder. We do this through providing independent advice to both government and regions about the impact of planned housing provision on affordability, as well as researching specific practical and policy issues.

The NHPAU's objectives are:

- To advise Government and the English regions on the implications for the level and broad distribution of future house building of the Government's national ambitions for long-term market affordability and housing supply.
- To provide and publish authoritative, non-binding advice to Government, and regional partners (the relevant Regional Assemblies, Regional Development Agencies, Mayor of London and Government Offices) on:
  - a distribution of regional targets which are consistent with the Government's overall ambitions for housing affordability and supply;
  - the methodology for translating regional affordability targets into housing numbers;
  - its assessment of the implications of the recommended regional affordability targets for the level and broad distribution of future house building in the region.
- To develop its advice in dialogue with the regional partners.
- To provide authoritative advice to the Examination in Public on the RSS, including advice on the affordability implications of regional proposals for housing.
- To encourage the compilation of nationally-consistent regional evidence in support of the preparation of the RSS and associated regional strategies.
- To disseminate and help Government and the Regional Assemblies develop consistent methodological practice in assessing the implications for economic, social and environmental sustainability at different spatial scales of different quantities and distributions of house building.
- To commission research and disseminate good practice in support of the above activities.

**More homes for more people: advice to Ministers on housing levels to be considered in regional plans (July 2009)**

At the end of July 2009 the NHPAU released its new Housing Supply Range Advice based on up-to-date evidence. The main conclusion is that the recession and the fall in house prices have not solved the problem of housing affordability. In fact, the requirement for house building has increased slightly. While house prices have recently dropped, affordability and access to housing have continued to worsen. When credit markets unlock, pent up need and demand from marginalised buyers coupled with a shortage of housing supply will result in a further round of affordability problems over the long term.

The impact of the recession and new household figures were considered as NHPAU recommended a small increase in new home numbers. The NHPAU makes its recommendations in a new report which gives updated advice to Government on future housing supply.<sup>1</sup>

The analysis updates the Unit's first advice in June 2008. Revisions were necessary to take the recession into account - which was found to have had little effect on housing need - and the impact of new projected household figures, published by the Government in May 2009. To maintain relevance to planners the revised advice covers the period up to 2031 - when most regional plans currently under review will end.

The Unit's advice gives a range of housing supply numbers for each of the English regions. The figures are ranges to be tested alongside other key pieces of evidence as regional plans are prepared and updated. They are not regional house building targets. The new ranges are, on average, 3% to 5% higher than the previous ranges, although the changes vary from region to region.

In a letter to Minister for Housing John Healey MP - which forms the introduction to the report - Professor Steve Nickell, chair of the NHPAU and former member of the Bank of England Monetary Policy Committee, states:

"The recession will have little impact on the number of homes that we need to build over the next 20 years. Declining affordability is having increasingly severe impacts. Worsening overcrowding; lengthening social housing waiting lists; first time buyers finding it harder to get on the housing ladder; and adult children living with parents for longer, are direct effects. But there are also likely to be increasingly serious wider economic and social consequences if we do not manage to bring the supply and demand for housing back towards balance and start tackling the backlog of unmet demand."

The Department for Communities and Local Government will now consider the NHPAU's advice and decide how it should be reflected in formal guidance to be given by Government on the preparation of regional plans. The advice can be accessed from the Unit's web pages at [www.communities.gov.uk/nhpau/keypublications/reports/](http://www.communities.gov.uk/nhpau/keypublications/reports/).

Public Attitudes to Housing 2009, NHPAU, July 2009, reports that 51% of homeowners and 31% of non-homeowners would oppose more homes being built in their area. Available at [www.communities.gov.uk/nhpau/key\\_publications/research/](http://www.communities.gov.uk/nhpau/key_publications/research/)

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<sup>1</sup> *More Homes for More People: Advice to Ministers on Housing Levels to be Considered in Regional Plans, NHPAU, July 2009*

**Table 1:** Comparison of new and old housing supply ranges

England regions				Average annual net additions		
	June 08 minima, average 2008-26	New minima, average 2008-31	% change	June 08 maxima, average 2008-26	New maxima, average 2008-31	% change
North East	6,700	7,200	7%	7,500	8,200	9%
North West	26,600	26,400	-1%	29,500	29,900	1%
Yorkshire & Humber	23,800	26,400	11%	26,400	29,400	11%
East Midlands	23,400	25,100	7%	24,600	26,800	9%
West Midlands	19,000	19,600	3%	22,600	23,200	3%
East of England	30,600	31,600	3%	39,200	40,000	2%
London	33,800	33,100	-2%	42,600	44,700	5%
South East	37,800	38,000	1%	49,700	53,800	8%
South West	29,800	30,400	2%	34,800	34,500	-1%
<b>England</b>	<b>231,500</b>	<b>237,800</b>	<b>3%</b>	<b>276,900</b>	<b>290,500</b>	<b>5%</b>

### How the NHPAU developed its updated supply range

In developing its advice the NHPAU used:

The Affordability Model, commissioned by the CLG and developed by Reading Business School, which relates data about the housing market, labour market and demographic trends. The starting point for analysis is to understand what level of supply would be required to achieve stabilisation of affordability, over the RSS time horizon, in each region.

The Demographic Method - based on household projections, this traditional approach used by planning authorities was expanded to take into account other factors, such as planning to tackle constrained demand over the RSS time horizon, for example as exhibited through overcrowding or sharing. In addition, allowance is made for factors such as vacancies and second homes.

**NHPAU Annual Publication: More homes for more people - building the right homes in the right places, 8 July 2009**

The NHPAU has published its second annual publication which looks at the current state of the nation's housing market, the changes we have seen over the last year and how the NHPAU should evolve to further support Government, regions and local planning bodies going forward. The Unit has also published a report on the Public Attitudes to Housing based upon the results of a recent YouGov survey.

Link: <http://www.communities.gov.uk/nhpau/keypublications/reports/morehomes/>



**New studies from NHPAU, 11 May 2009**

NHPAU has produced a [paper](#) investigating this year's changing economic context on housing requirements, affordability and availability and a [literature review](#) to help develop a greater understanding of the role of named providers in the delivery of new housing supply.

**Building Homes in a Downturn – new National Housing Federation (NHF) project**

This project seeks to address the issues currently being experienced in the housing sector with regards new supply of housing, particularly affordable housing. The project seeks to:

- Build on the best elements of the current system
- Guarantee the financial viability of housing associations
- Preserve their independence
- Deliver the optimum number and quality of new homes
- Offer a mix of homes at a range of prices, for both renting and ownership
- Create homes in both rural and urban areas, meeting a range of needs
- Provide security for residents and lenders in the event of financial difficulty.

Link: <http://www.housing.org.uk/default.aspx?tabid=494>

**House prices to 'rise by 20% by 2014', 3 August 2009**

The average house price in England will rise 20% to £227,800 in 2014 despite substantial falls in 2009 and 2010 – according to a new forecast published Monday 3 August by the National Housing Federation.

According to the research, house prices will fall by 12.2% this year and fall a further 4.6% next year before stabilising in 2011 with a 1.1% rise. House prices will then increase by:

- 7.5% in 2012
- 8.4% in 2013, and
- 6.8% in 2014

– with the average price at the end of the period being £38,000 higher than the forecast average of £189,800 for 2009.

Some homeowners who bought during the peak of the market in 2007 are likely to experience continued negative equity throughout all or most of the period covered by the research.

According to independent economists Oxford Economics, who produced the figures for the Federation:

- House prices in England in 2013 will be 3% below their pre-credit crunch peak of 2007, but by 2014 they will be 3% higher.
- An average price property in London purchased in 2008 for £331,500 will drop to £268,600 in 2010, before rising to £354,900 by 2014.
- The average East Midlands home will be worth less in 2014 at £165,300 than it was in 2007 at £172,500.

The new research published by the Federation, which represents England's housing associations, shows how the recession has increased housing need.

- While demand is growing, supply of new housing is falling – with only around 60% of the new homes required being built each year.
- The failure of the nationalised banks to lend is preventing affordability from improving for first time buyers and those who want to buy shared ownership properties – even as some house prices fall.
- More than 250,000 households are expected to form each year until 2026, adding further to housing demand.
- Five million people could be on housing waiting lists by 2010. The 2008 waiting lists were 40% higher than in 2003 and comprised of 1.77m households.

According to Oxford Economics, the average house price in the English regions in 2014 will be:

- North East – £155,700 (compared to £148,100 in 2007)
- North West – £159,300 (£162,000 in 2007)
- Yorkshire & Humberside – £175,600 (£163,600 in 2007)
- East Midlands – £165,300 (£172,500 in 2007)
- West Midlands – £180,500 (£178,400 in 2007)
- East of England – £235,400 (£231,100 in 2007)
- London – £354,900 (£329,200 in 2007)
- South East – £293,600 (£267,000 in 2007)
- South West – £225,400 (£224,500 in 2007).

Federation chief executive David Orr said: “Our new research shows that while house prices are falling in the short term, they will inevitably increase in the long term because of a fundamental under-supply of housing. Even though house prices are falling, and are set to remain sluggish in some areas for the foreseeable future, affordability is not improving for many low-to-middle income households.

“For millions of people who want a home, getting a mortgage can be like winning the lottery. First time buyers and those wanting to buy shared ownership properties remain victims of a deep freeze in mortgage lending. Until lending is freed up, young and lower income households without access to large deposits will be locked out of the market.”

He added: “We welcome the Government's recent promise of a national affordable house building drive, but if we are to avoid run-away house prices in the future when the economy picks up, ministers must ensure we build the right numbers of homes for social rent now, so that housing supply meets demand.

“They must also make sure that housing associations, who build the majority of affordable homes, get the right level of funding and income to enable them to deliver the number of homes we so desperately need.”

<http://www.housing.org.uk/default.aspx?tabid=212&mid=828&ctl=Details&ArticleID=2312>

**Mind the gap – housing supply in a cold climate, Sept 2009**

A Discussion Paper by David Pretty CBE and Paul Hackett for the Smith Institute, the Town and Country Planning Association, and PricewaterhouseCoopers

Executive Summary

An adequate supply and choice of good-quality housing is vital for our economic and social well-being. However, in recent decades we have fallen well short of providing anywhere near the number of new homes needed. Indeed, the gap between housing demand and housing supply in England has widened, especially for affordable homes. The shortfall is now set to get much worse. With housing production at an 80-year low, the housing supply backlog is likely to approach 1 million by the end of 2010.

This unprecedented level of under-supply has serious social and economic consequences, not least in pushing up housing waiting lists and overcrowding to record levels. The lack of new homes will hamper economic prosperity, exert considerable upward price pressure, exacerbate wealth inequalities, constrain public service delivery, and thwart homeownership.

As a result of the mortgage famine and the economic downturn, housing completions in 2009 are likely to be under 100,000, a 40% drop from the recent peak. While housing supply has fallen, demand has increased. We now need to build at the rate of at least 250,000 new homes a year to match annual population growth, and at an even higher rate to replace our ageing housing stock and meet the accumulated backlog.

The supply-demand shortfall for 2009 alone (excluding the backlog) is likely to be around 150,000 homes – equivalent to the size of Nottingham.

The housing market is showing early signs of recovery, and house prices could return to 2007 levels within five years. But, because capacity in the housing sector has been dramatically reduced, it could (without sustained public intervention) take at least seven years for housing production to get back to pre-slump levels, let alone match housing needs.

The Government has reacted quickly to the housing crisis, and its emergency 'Kickstart' programme is helping. But more action is needed to help boost supply and ensure that we continue to build more sustainable homes in mixed communities, not the mono-tenure housing of the past.

While there are no quick fixes, the Government (and its main delivery agency, the Homes and Communities Agency) should consider the following measures:

- Maintain public intervention and investment in both private and affordable housing at current levels. Cuts in the total housing budget (which support new supply) risk creating a major housing crisis at a time when the economy is starting to recover.
- Take more action to boost mortgage availability and help for creditworthy buyers (especially first-time buyers), including a new 'National Home Deposit Savings Scheme' and the extension of Stamp Duty thresholds for first-time buyers only.
- Ensure that more land is released and that land supply is better managed to increase the supply and variety of new homes and to reduce the percentage of apartments in future output. It is important to protect green belt and maintain brownfield targets, but there will be a need for the release of more greenfield sites – especially in high demand areas.

- Accelerate the release of public land and make more land available for the creation of new public-private housing delivery vehicles.
- Give greater support for local authority land deals (where councils offer land at low cost or in lieu of a share of a development) and help with establishing new Local Housing Companies and other joint ventures.
- Improve the planning applications process, along the lines of the recent Killian Pretty review, including extending the period for existing planning consents. Avoid any major planning reforms which would create uncertainty and disrupt supply.
- Ease the impact of regulation through support for rescheduling Section 106 agreements and adjusting the housing tenure mix to improve viability. Also review ways of easing the impact of future regulations on new housing supply.
- Give further support to grow the private rented sector, including new tax incentives to increase institutional investment and support for alternative new housing models, such as Community Land Trusts.
- Ensure that councils have the skills and expertise they need for new council building, and that production of council homes is additional and not at the expense of housing associations or private output.
- Enable councils to secure rental incomes from new build (and future sales to private buyers) to support the use of new funding models, such as Accelerated Development Zones and other tax incremental financial schemes.
- Recent proposals on dismantling the Housing Revenue Account could provide extra funding for new build, although much depends on the scope of the reforms and how housing debt is reallocated.
- Strengthen the role of the Homes and Communities Agency in risk-sharing partnerships and co-funding of new financial tools to support housing-led growth.
- Encourage new entrants to the sector through tax incentives or special land deals, including extra help for the emerging self-build sector.
- Resource a major campaign to inform and raise awareness about the need for major new settlements and more new housing generally.

The analysis, commentary and recommendations in this report are predicated on a series of discussions with over 100 senior representatives from across the housing sector.

Full report available at

[http://www.hbf.co.uk/fileadmin/documents/Email\\_Links/Mind\\_the\\_Gap -  
\\_Housing\\_supply\\_in\\_a\\_cold\\_climate-TCPA\\_Smith\\_Institute\\_DAP\\_Paul\\_Hackett.pdf](http://www.hbf.co.uk/fileadmin/documents/Email_Links/Mind_the_Gap_-_Housing_supply_in_a_cold_climate-TCPA_Smith_Institute_DAP_Paul_Hackett.pdf)

**National Association of Estate Agents (NAEA): More must be done to halt decline in home desire, 02 October 2009**

More than one in four adults in some British cities no longer have any desire to own their own home, new figures reveal. The recession, coupled with high house prices and a lack of mortgage lending mean that across swathes of British cities, thousands of adults have given up on owning a home.

In Cardiff, 30% of adults no longer wish to own property, compared to 27.7% in Manchester and 25% in both Brighton and Belfast. At the other end of the table, just 10.3% of adults in Southampton said that they did not want to own property, while 11.1% of Londoners agreed. Nationally, 16% of adults say that they have no desire to own a property.

Peter Bolton King, chief executive of the National Association of Estate Agents, said: “The recession has left many people feeling that they cannot get onto the property ladder. But the recession alone cannot shoulder the blame. The Government has so far refused to create a level playing field for house-hunters by reforming stamp duty, a tax on aspiration.

“These figures show the danger of that sort of approach – as many people in British cities are simply giving up. Likewise, the major lenders are not doing enough to help responsible people borrow appropriately to finance house purchasing.

“These figures provide a snapshot of the state of the nation. They can be turned around and the NAEA would strongly urge the Government and the lenders to do more to harness the emerging indicators of recovery seen across the housing market. “It will be a sad day if any British man or woman gives up on acquiring their castle.”

#### *About the research*

The research was compiled by an independent research company. 1,800 British adults were surveyed on their attitudes to home ownership.

Percentage of adults who do not want to own property:

- |                    |                     |
|--------------------|---------------------|
| ▪ Cardiff 30%      | ▪ Edinburgh 15.8%   |
| ▪ Manchester 27.7% | ▪ Newcastle 15%     |
| ▪ Belfast 25%      | ▪ Bristol 14.8%     |
| ▪ Brighton 25%     | ▪ Nottingham 13.8%  |
| ▪ Leeds 24.3%      | ▪ Birmingham 13.3%  |
| ▪ Norwich 24%      | ▪ Liverpool 12.5%   |
| ▪ Sheffield 21.4%  | ▪ London 11.1%      |
| ▪ Glasgow 20%      | ▪ Southampton 10.3% |
| ▪ Plymouth 20%     |                     |

<b>The Financial Services Authority’s Mortgage Market Review: A submission by the Council of Mortgage Lenders (Executive summary)</b>
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Mortgages now and into the future will necessarily be more expensive compared to before the credit crunch with –

- Less generous lending criteria, reflecting a more restricted availability of funds.
- Higher pricing reflecting higher risks.
- More differentiation between different borrower groups in pricing, so higher risk first time buyers will pay more.
- A more intrusive (and costly) supervisory approach by the FSA.

As we go through this adjustment to new pricing for the future, lenders have been accused of « profiteering ». In fact, it reflects a necessary adjustment in the market which will not be reversed, and will likely be accentuated, by the outcomes of the Turner and mortgage market reviews.

The CML supports the FSA's three key outcomes of the mortgage market review (see paragraph 25), but believes it will be challenging to achieve them for reasons explained in this response.

The mortgage industry recognises the need for a review, but any changes should be targeted carefully. We believe that the mortgage conduct of business (MCOB) rules overseen by the FSA have largely fulfilled their purpose and do not need substantive amendment if enhanced supervision of firms is effective (although some improvements could undoubtedly be made to learn from practical experience since 2004).

The market is no longer as highly competitive as the number of active lenders and intermediaries has reduced substantially. Mortgage rationing has directly affected the number and types of mortgage products available in the market.

A vibrant and competitive market is one that consists of a range of different business models, which caters for a wide range of customers, and is free to innovate and adapt to changing circumstances. Structuring regulation in the wrong way can undermine all of these features.

It is important to focus on both responsible lending and borrowing, and there is a real risk that European Commission proposals may diverge from, rather than complement, national measures in the UK.

The review should look at the future treatment of higher risk mortgages, but we are not persuaded that the FSA should assume that banning particular product features, such as high loan to value, or prescribing sales requirements, such as income verification rather than self certification, adequately addresses potential consumer detriment. These approaches to product regulation risk being blunt tools to address past problems no longer prevalent in the market.

As the FSA is aware, structural changes to capital and liquidity approaches will have a significant impact in the mortgage area of firms' business. It is therefore important that the cumulative impact of these proposed changes, and any measures to regulate lending, are not too onerous or out of proportion to the risks of consumer detriment or business sustainability.

It is arguable that the overall effect of the measures suggested for building societies in the FSA's specialist sourcebook consultation recently would substantially undermine the mortgage market if applied generally, and societies' competitiveness if applied in isolation.

There are a number of areas where regulation of the intermediary sector could be improved to encourage better behaviours across this distribution channel. However, the changes in the market have shrunk the sources of advice to consumers and new regulatory measures are unlikely to reverse this trend.

Detailed consideration will need to be given to whether the retail distribution review for investment advisers should be read across in part or in whole to mortgage advisers.

There is a strong case to extend the FSA's scope to cover secured loans, if the FSA can demonstrate that its enhanced supervision programme is properly embedded. The case for regulation of buy to-let is less straightforward due to the nature of this commercial market.

<b>CML's market commentary, 18 September 2009</b>
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It has been largely a story of more of the same for the UK housing and mortgage markets over the last month. Activity levels continue to rise gently from the lows around the turn of the year

and prices increased over the summer months - supported by a restricted supply of property on the market.

But, by any historic comparison, it remains a quiet market. Turnover remains well below "normal" levels and mortgage lending remains constrained. In fact several commentators have raised the possibility that recent developments might be a false dawn, citing the continuing lack of mortgage finance and weak economic backdrop hitting potential borrowers' confidence.

The outlook certainly remains difficult. The need to gradually unwind support to the economy, not least addressing the public debt, will limit the speed of the recovery for the economy at large and the housing market. But tentative signs of activity in funding markets offer some hope for improvement.

Market developments continued to move in line with expectations over the last month. The housing market has shown further signs of improvement, with a range of evidence suggesting that it is in far better health than around the turn of the year. House prices have risen over the course of the summer. Estate agents are now reporting a rising trend, supporting data from most of the price indices. And activity levels continue to pick up, with house purchase mortgage approvals rising for the sixth consecutive month in July to the highest level since April last year.

But we remain wary of how much further this can go. Some of the firmness in house prices has been driven by a lack of properties coming onto the market. Potential movers might have been reluctant to sell at lower prices, while there was anecdotal evidence of some choosing to rent their homes. RICS has recently reported more sellers, which could alter the balance between supply and demand.

Some commentators have warned of the possibility of a period of renewed weakness. The Ernst & Young ITEM Club predicted a modest fall in prices over the first half of next year, describing the recent bounce as unsustainable and driven by a lack of supply and cash-buyers who have a limited supply of funds. ITEM predicted that the lack of mortgage finance and a reluctance to commit to significant purchases while the outlook for employment remains fragile will weigh on the market.

We believe the difficulties in raising lending volumes and a still weak economic outlook will continue to hold back a recovery in activity. Transactions volumes remain some way below what could be considered "normal". Despite the modest pick up recently, 2009 will still see a very low level of housing market turnover.

This was highlighted by negative net lending figure for July, showing that mortgage repayments outstripped new lending for the first time on record. Despite press comment to the contrary, it is not predominantly a sign that households are repaying more - underlying repayments are broadly steady. It is more indicative of the low levels of new lending currently taking place. Please see our recent News & Views article for a more detailed explanation. Our estimate for gross lending of £12.6 bn in August shows lending volumes remain subdued and that another negative seasonally adjusted net lending figure is possible.

The likelihood of a significant pick-up in lending remains weak, but the prospects for wholesale funding markets are improving. This could result in a gradual easing in constraints on the supply of funding over time. However, demand from consumers and a prudent approach to lending criteria are likely to mean that the market remains subdued.

Recent evidence suggests that we have probably turned the corner on the economy, even if it is liable to be a slow improvement. In appearing before the Treasury Select Committee, Mervyn King said that the third quarter is likely to see some growth in the economy, breaking a

run of five consecutive quarters of contraction. However, many international commentators expect the UK recovery to lag somewhat behind other advanced economies.

And the Bank of England only expects a gradual acceleration of activity as well. Indeed, RBS CEO Stephen Hester noted there is an argument that there needs to be a slow recovery so the economy can rebalance and fix underlying problems, allowing households, businesses and the government to reduce debt. As signs of life emerge, there has been a noticeable shift in political circles to addressing the imbalances created by stimulus measures. All the major parties have acknowledged that steps will need to be taken to reduce the budget deficit and get the public finances back onto a more sustainable trajectory. Significant public spending cuts seem the most likely path.

The growing political consensus in favour of fiscal retrenchment has had positive ramifications for the cost of servicing the national debt. Moody's made clear it has no plans to downgrade the UK, and the markets remain willing to buy UK debt. This reduces pressure to take immediate action. Authorities globally will also need to look at exit strategies for the range of support in place. The tone of the recent meeting of central bankers in the US suggest that they have strategies in place, but see little need to act quickly. A gradual and measured withdrawal seems the most likely outcome.

<http://www.cml.org.uk/cml/publications/marketcommentary>

#### **CML's housing and mortgage forecasts, June 2009**

The CML's forecasts are summarised below. The complete forecast can be found at <http://www.cml.org.uk/cml/publications/marketcommentary/160>.

	2006	2007	2008 (estimated)	2009 (forecast)
Residential property transactions, UK, millions	1.685	1.627	0.9	0.7
Gross advances, £bn	345	364	261	145 (145)
Net lending, £bn	110	108	40	-5
<b>Arrears, over 3 months at end period</b>				
Number	113,000	127,800	182,600	360,000
% of all mortgages	0.96	1.08	1.57	3.24
<b>Possessions in period:</b>				
Number	21,000	25,900	40,000	65,000 (75,000)
% of all mortgages	0.18	0.22	0.34	0.54

Source: Bank of England, National Statistics, HM Revenue and Customs, CML



Notes:

The HMRC series relates to residential transactions over £40k. It is a new series which started in April 2005. Figures for arrears and possessions relate only to first charge mortgages held by lenders who are members of the CML. They do not include arrears and possessions relating to other secured lending or to firms that are not CML members. May 2008 forecasts, where comparable, shown in brackets.

Source: <http://www.cml.org.uk/cml/publications/forecast>

### The Highbury Group

The Highbury Group is an independent group of housing planning and development experts from public, private and academic organisations who have drawn up a proposal to ensure housing and affordable housing output is maintained in the current market context. Many members have experience of the last downturn in the 1989-1992.

Website link: <http://www.londonmet.ac.uk/depts/dass/subjectareas/housing/highbury-group-on-housing-and-the-credit-crunch.cfm>

### Government must act now to maintain housebuilding - 3.12.2008

The Highbury Group, an independent group of housing and planning 'experts' has submitted a proposal to the Homes and Communities Agency, which focuses on how the HCA can make most effective use of the full range of its powers and assets.

Against a background of falling housing starts, uncertainty in the mortgage market and almost complete seizure of the housing land market, the paper makes proposals for how the Homes and Communities Agency can work with housing associations and other affordable housing providers to buy land and

- Increase provision of affordable housing
- Improve quality of development
- Maintain housing completion rates
- Help support the construction industry

The bringing forward of additional housing investment resources in the pre-budget statement creates new opportunities. The proposal, which is set out in full in the attached paper, has the following key components:

1. The Homes and Communities Agency request a call for sites for development. These sites must be made available at or below current market value and already have planning consent for residential development. The proposal should meet regional and local planning policy requirements in relation to quantum, mix and type of affordable housing provision.
2. HCA provides loan funding to a housing association or other affordable housing provider to buy the land.
3. Developer enters into a contract to the housing association to build under license.

4. HCA provides grant to the housing association to support the provision of affordable housing
5. HCA or local authority provides or guarantees mortgages for purchasers of market and shared ownership homes.
6. A programme to develop 10,000 homes would require funding of an estimated £380m for land acquisitions and would help maintain construction activity across the regions.

The Highbury group is drafting further submissions to the Homes and Communities Agency with further proposals relating to intervention in the context of the credit crunch. These include:

- Development of major greenfield sites in growth areas and eco-towns
- The situation in London
- Measures to support the mortgage market

#### Conclusions

- There is a need for the HCA to take action to maintain housing trajectories and support employment in construction and related industries
- Developers are keen to release land and, if purchased by RSLs, it could be developed to provide additional affordable housing and/or higher quality development than is specified in current planning consents
- RSL led development where the developer takes a Design and Build role offers better value for money than S106 schemes where the developer is in the lead and takes a speculative profit.
- A loan fund of £380m over two years could fund provision of 10,000 homes split between market and affordable housing.
- The scheme is applicable in both urban and rural areas and there would be merit in having a special allocation for rural areas in order to bring forward exceptions sites in villages and market towns which are likely to offer particularly good value for money.
- The scheme could help support development of major sites in the growth areas but additional upfront public funding may be required to finance essential infrastructure provision. This could be in the form of a grant, a loan or an equity stake in the development.
- Viability of housing development is ultimately dependent on the strength of the housing market and ease of access to mortgage funding. There is a potential role for the HCA to use its powers to guarantee loans to facilitate the development of market housing within schemes financed through the loan fund in order to maximize scope for cross subsidy, reduce the call on grant funding and help maintain housing trajectories.
- Special issues apply in London and we will return to these in a future paper.

Full paper available at: [http://www.londonmet.ac.uk/londonmet/library/r69786\\_24.DOC](http://www.londonmet.ac.uk/londonmet/library/r69786_24.DOC)

## 25.3 Regional

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### Home Truths 2009 – East of England, 21 September 2009

Regional house prices have fallen 16%, but the recession and credit crunch have stopped in its tracks any positive benefit to the housing market. With unemployment up by a third, house prices still high by past standards, affordable mortgages hard to come by, private rents 75% higher than social rents and national repossessions rising, social housing is the only alternative for many people in the East.

Some of the main findings of the report:

- The average house price in the East of England in 2008 was £225,967, still nearly 11 times the average regional income
- A 90% mortgage to buy a home in the cheapest part of the market requires an income 75% higher than the regional average
- 147,845 households were on social housing waiting lists in the East in 2008 and over 5,000 households were accepted as homeless last year
- The number of overcrowded families in the region jumped by more than 11% in the period to 2008, the second largest increase in the country

<http://www.housing.org.uk/Uploads/File/HomeTruths/EofE%20HOME%20TRUTHS%202009.pdf>

### Housing Market update for the East of England (EERA)

This newsletter aims to give the latest news regarding housing market in the East of England. Each newsletter includes:

- A set of headline market indicators that provide some insight into the state of the market.
- Articles and features that focus on specific geographic areas or local housing markets.
- Analysis on a particular theme or aspect of housing.

Page to access all bulletins:

<http://www.eera.gov.uk/News/newsletters/housing-market-update-for-the-east-of-england/housing-market-update-east-england/>

Spring 2009 bulletin available at:

<http://www.eera.gov.uk/GetAsset.aspx?id=fAAzADAANQA3AHwAfABGAGEAbABzAGUafAB8ADAAfAA1>

Winter 2009 bulletin available at:

<http://www.eera.gov.uk/GetAsset.aspx?id=fAAzADcAMAA1AHwAfABGAGEAbABzAGUafAB8ADAAfAA1>

### Monthly Economic Outlook, Insight East, October 2009

#### Signs of improvement in the East of England's economy

Much evidence suggests that the East of England's economy is starting to come out of recession, with output and orders increasing for the fourth consecutive month, a considerable improvement in business confidence and further stabilisation in the region's housing market. Recent improvements have prompted some commentators to predict that UK GDP statistics for 2009 Q3 – released later this month – will show the first rise in UK GDP since the start of 2008.

Talk of 'recovery' continues to be a feature of most discussions with businesses, according to Business Link East and the East of England Forecasting Model projects a mild recovery of 0.3% in both the UK and the East of England in 2010. However, in practice many businesses are continuing to be very cautious, are still focusing on survival and not expecting to see much material growth over the next year.

The region's labour market remains weak. Unemployment is at its highest level since mid-1996, rising by 20,000 people in the three months to July. Claimant unemployment also increased in August after falling from May to July. Most evidence suggests that the outlook for the region's labour market remains weak for the coming year but that the worst of the job cuts may be over.

<http://insighteast.org.uk/viewArticle.aspx?id=17451>

### HCA Monthly Housing Market Bulletin, 29 September 2009

This bulletin provides HCA staff with the latest information on housing market trends, the economy and the housebuilders' industry.

From September 2009's bulletin:

The housing market has started to see house price rises over the past few months and both the Halifax and the Nationwide recorded house price rises in August. House prices remain 19.4% off their August 2007 peak according to the Halifax. It is unclear whether the current upturn will be sustained or there will be a double dip once the Bank of England's Bank Rate climbs from its current record low of 0.5%. According to the Council of Mortgage Lenders there were 56,000 loans for house purchase in July, up 19% on a year earlier the first time lending for house purchase was up on a year ago for two years. However, mortgages approvals fell back slightly in August according to the Bank of England after rising for nine months. Housebuilders have been quick to try to capitalise on the current market upturn with placing and rights issues being undertaken recently by several housebuilders including Barratt (£720 million), Redrow (£150 million) Galliford Try (£119 million) and Bovis (£60 million). Asking rents are now at their highest level for six months and have started to recover as house prices rise again and so some owners who reluctantly become landlords in the housing market downturn sell up. The UK continued to be in recession with GDP falling by 0.6% in Q2 2009 after falling 2.5% in Q1 2009 and unemployment reached 7.9%.

<http://www.homesandcommunities.co.uk/public/documents/Monthly-Housing-Bulletin-Sept09.pdf>

To access all HCA Monthly Housing Market bulletins, go to  
[http://www.homesandcommunities.co.uk/housing\\_market\\_research](http://www.homesandcommunities.co.uk/housing_market_research)

**The Impact of Current Market Conditions on Housing Issues, EERA, Summer 2009**

Summary:

In summer 2009 EERA surveyed all housing authorities in the East of England region to assess the impact of market conditions on a range of housing services including homelessness, intermediate tenure and development. The questions were primarily seeking information on April to June 2009 compared to April to June 2008, and were designed to enable the region to:

- Gauge whether government support packages are helping.
- Identify blockages to effective intervention.
- Identify innovative solutions.

The aim is to achieve a balance between ease of completion (i.e. structuring questions around existing data sets) and gathering information, perhaps anecdotal in nature, on issues that will help to identify new and emerging trends for which data may be less readily available. The data can be, and has been, used in a number of different ways:

- To inform briefings on the “state of the region”, for example at the Regional Economic Forum or in response to parliamentary questions.
- To complement published data by providing local intelligence.
- To provide evidence to support regional bids for a greater share of central bidding pots.
- To facilitate the sharing of good practice between local authorities and sub-regions.

The next iteration of the questionnaire will be issued in mid November 2009 and seek information on the second quarter of 2009-10. It will focus on those questions that enable trends to be established, e.g. Mortgage Rescue, Money Advice, Starts on Site, Stalled Sites.

To access the full report, please go to

<http://www.eera.gov.uk/News/newsletters/housing-market-update-for-the-east-of-england/housing-market-update-east-england/>

## **25.4 Local**

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**Cambridge Sub-region’s housing market bulletin**

Sub-regional bulletins produced to provide comparison between England, the East of England and the Cambridge housing sub-region, on basic market indicators produced by Hometrack. Links provided below:

**November 2008**

[http://www.cambridgeshirehorizons.co.uk/documents/publications/horizons/november\\_2008\\_bulletin\\_1.pdf](http://www.cambridgeshirehorizons.co.uk/documents/publications/horizons/november_2008_bulletin_1.pdf)

**October 2009**

[http://www.cambridgeshirehorizons.co.uk/documents/crhb/publications/summer\\_edition.pdf](http://www.cambridgeshirehorizons.co.uk/documents/crhb/publications/summer_edition.pdf)