

# Housing demand and need in the West Midlands: 2009 revision to regional estimates for 2006 to 2026

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## I. Purpose and method

1. The occasion for revision to estimates of demand and need for housing in the West Midlands is the issue by the Department for Communities and Local Government of new estimates of the number of households in future years (household projections). These projections are 2006-based in the sense of being derived from 2006-based projections of the population produced by the Office for National Statistics (ONS). They supersede the 2004-based household projections that were the demographic base of estimates of housing demand and need in the West Midlands. Other changes are revised estimates of the number of new households from which estimates of need for intermediate housing are derived; and revised estimates of dwellings needed in the social sector to offset the effect of Right-to-Buy sales on the number of re-lets available for meeting needs for tenancies.
2. Circumstances in the housing market and in the whole economy are very different from what they were in 2007 when the previous estimates of housing demand and need in the West Midlands in 2006 to 2026 were prepared. The immediate prospect is very different from the long term trends that were the basis of the 2004-based household projection used in 2007, and of the 2006-based household projections that are the demographic base of the work described in this report. The assumptions in these projections, discussed in more detail in the next section, are considered to be valid in the long term of two decades. But clearly modifications are needed for the shorter term to reflect falls in house prices relative to incomes and the reduced demand for shared ownership. In looking at the way in which the slump in the housing market may impact on estimates of housing need, it is necessary to keep clear the distinction between the demand and need side of the housing system and the supply side. The reduction in the prices that house builders can obtain for new houses and the number of houses they are building will clearly have a major impact on the scope for meeting needs for social sector housing through Section 106 agreements. But that is a supply side effect; the need for social sector housing is not reduced if the obstacles to meeting it are greater.
3. The method for estimating newly arising demand and need for housing in the West Midlands is the same as in previous work. It depends on the fact that housing tenure, and specifically the division between the social and market sectors varies systematically with type of household and age. Married couple households are the most likely to be in the market sector, age for age; and lone parents with dependent children the least. For each type of household, the proportion of households in the social sector is greatest in the lower age ranges and the highest. The projected total of households in the West Midlands in 2026, analysed by household type and age, is divided between the market sector and social sector. The sector totals in 2026 are then compared with the corresponding totals in 2006. The net increase in households in each sector is the main

component of demand and need for housing in the 20 year period. As well there is an allowance for the number of vacant dwellings to rise as the housing stock increases, and in the market sector more dwellings used as second homes. The effect of past RTB sales on re-lets has also to be brought in here. By these means an estimate is built up of the net increase in the dwelling stock in each sector that would meet newly arising need and so leave the backlog of current un-met need unchanged in total. Replacement of dwellings demolished or lost in other ways has to be added to give the total of dwellings to be provided by new building, conversions, and changes of use. Figures for demolitions are problematic. CLG has ceased to publish them even at national level. Government housing targets, 240,000 a year by 2016 and 3 million by 2020 are in terms of net additions to the housing stock, and that example is followed in this report.

## **II. The demographic base and numbers of households**

4. The demographic base for the present estimate of demand and need for housing in the West Midlands is the 2006-based household projections issued by the Department for Communities and Local Government (CLG) in March 2009. These projections were derived from 2006-based projections of the population issued by the Office for National Statistics (ONS). They differ from the 2004-based projections that were the demographic base of the estimates of housing demand and need produced in 2007 in two ways. The 2006-based population projection for England is substantially higher than the 2004-based projection it superseded; and the estimates and assumptions by ONS about how the national total of net inward migration from outside the United Kingdom is divided between countries and regions were revised in 2008. The difference between the present estimates of the number of households in the West Midlands in 2026 and those used in 2006 is therefore partly the effect of a higher national population projection and partly revised estimates of the proportion of emigrants out of the United Kingdom that come from the West Midlands and of the proportion of immigrants that go to the West Midlands. Studies by ONS showed that a considerable proportion of immigrants who say that their destination in the UK is in London move out before very long. Revised estimates of migration flows assume that more of them go to places outside London. New population estimates and projections were issued by ONS, and new 2004-based household projections for the West Midlands (and other regions) were issued in February 2008. Very similar assumptions about the regional incidence of international migration were included in the 2006-based population projections and hence the household projections derived from them.
5. The higher projected increase in the population nationally is the result of higher birth rates being assumed, lower death rates at the high ages, and higher net inward migration. Regional birth rate and death rate assumptions follow the changes in the national assumptions. In a twenty year projection changes in the assumption about births make very little difference. In a 2006-based projection of households in 2026, less than 0.5 percent of households will be headed by persons born after the 2006 start date. The assumption about death rates affects the number of households as well as the total. The more rapid fall in male death rates relative to female death rates in recent years is projected to continue, which results in more married couple households and fewer one-person widow households as on average wives are widowed later. It is the migration assumption that has the greatest impact, however. The "headline" assumption (net inward migration to the UK in the medium term) is raised to 190,000 a year from 140,000. Within the 190,000, migration between the European Union "accession"

countries is assumed to be in balance, taking one year with another in the medium term. Fluctuations around the trend level are to be expected. The migration assumption is not necessarily called into question if net inward migration falls back as a consequence of the recession in the British economy.

6. The 2006-based household projection for the West Midlands, analysed by type of household, is shown in Table 1. The previous projection for 2006 used in 2007 is shown for comparison.

**Table 1 2006-based household projections for the West Midlands: analysed by household type**

	(thousands)					
	2006	2011	2016	2021	2026	2026 2004- based
Married couple households	1,021	993	977	970	963	944
Cohabiting couple households	215	258	291	316	338	326
Lone-parent households	191	193	202	210	216	212
Other multi-person households	138	144	150	155	160	156
One-person households	682	753	833	914	991	977
<b>Total</b>	<b>2,237</b>	<b>2,340</b>	<b>2,454</b>	<b>2,566</b>	<b>2,668</b>	<b>2,616</b>

Note: Minor discrepancies are caused by rounding

Source: Tables provided by CLG

7. The official projections summarised in Table 1 show that the number of households in the West Midlands is projected to increase by 431,000, an average of 21.6 thousand a year, as compared with 379,000, 19,000 a year as estimated in 2007. However, there are reasons for thinking that this projection probably over-states the likely increase in households in future years. It is therefore modified for use in estimating demand and need for housing in the future (Table 3). The increase in households is derived from the population estimates by applying past trends in the relationship between household numbers and the size and the structure of the population in terms of sex, age, and marital status, in technical terms "households representative rates". A household representative rate of 90 percent for widows aged 80-84, for example, means that 90 percent of widows aged 80-84 in the private household population (as opposed to living in institutions) are (or will be) household representatives. All households have, by definition, one household representative, and the total of household representatives equals the number of households, also by definition. The concept is explained in full in Annex B of *Projections of Households in England to 2016* by the Department of the Environment (published by H.M. Stationery Office in 1995). Household representative rates in future years are estimated from trends derived from information from the 1971, 1981, 1991, and 2001 censuses, plus in later years from the Labour Force Survey.
8. That the household projections are derived from trends estimated from data from the 2001 and earlier censuses is important in considering what effect on the household projection can be expected from the surge in house prices between the late 1990s and 2007 and then the slump in the housing market and the recession in the whole economy. The trends projected were derived from information about a period three decades long, that includes three house price booms (in 1972-73, 1978-80, and 1985-89) before the

most recent boom; and three housing market slumps, in 1974, 1980-82, and 1990-93. In the early 1980s and early 1990s there were sharp recessions in the economy as a whole as well as in the housing market. Trends estimated over the period from the 1971 and 2001 censuses thus include the effects both of booms, slumps, and recessions. That at the time of writing (April 2009) the housing market is in a state of slump and the economy in recession are not in themselves reasons for objecting to a trend-based estimate of the increase in households in a period as long as two decades, though in the early part of 2006-2026 there could well be impacts from the economy on the rate of increase in the number of households.

9. Between 2001 and 2006 the actual number of households in England is estimated to have increased by 175-200,000 less than the number previously projected for 2006 from the official mid-year estimates of the population. In these years the projection model over-estimated the increase. It is not possible to produce a direct estimate of this specifically for the West Midlands by the same method for lack of sufficiently reliable data. A pro-rata proportion from the figure for England would put the difference between previous projections and current estimates in the West Midlands at about 16,000. This implies there is a total of 2,221,000 households in 2006, instead of 2,237,000 shown in Table 1. The assumptions of the household projection system appear to have over-stated the increase in households in the West Midlands between 2001 and 2006 by rather over 3,000 a year. Two separate reasons, not mutually exclusive, may be suggested for over-statement. There is evidence (see A.E. Holmans with C. Whitehead, *New and higher projections of the population in England: a first look at their implications for households and housing*, published by the Town and Country Planning Association in 2008) that recent immigrants from outside the United Kingdom have lower household formation rates, age for age, than the population as a whole. Also in 2001-06 the rate of rise of house prices in the West Midlands relative to income was a long way above trend, which might have held down household formation relative to trend through some of the people who wished to live as independent households being unable to afford separate accommodation. Since 2006 the rise in house prices slowed, and then went into reverse, but the economic recession is probably exerting restraining pressure on household formation.
10. The implications of the two possible causes mentioned above for lower than projected household formation have different implications for the increase in households over a period as long as from 2006-2026. Lower household formation rates among newly arriving migrants can be expected to continue, and this will cause the long term trend to be lower than in CLG's projections where no allowance is made for new recent immigrants having lower household formation rates. But the effect of worsened affordability and then the recession in the economy is likely to come to an end as the fall in house prices works through and the economy recovers from the recession. There is not the information with which to divide the shortfall of the increase in households between the effect of immigrants' household formation rates and the effect of affordability of housing and then the recession. For working purposes it is reasonable to divide the shortfall equally between them. This would attribute 1,600 a year to the immigration effect, which would operate for the whole 20 year period, i.e. 32,000 in total. But for the main projection, the affordability and recession effect is taken to operate only to 2011, i.e. 1,600 a year, 8,000 in total. For the whole period to 2026 CLG's projection these deductions total 40,000. Table 2 shows modified projected household totals. These totals are for the purpose of estimating net increases in numbers of household, so

to start with projection figure of 2,237,000 is appropriate even though it over-states the actual number of households.

**Table 2 Modified projection of households in the West Midlands**

	(thousands)				
	<b>2006</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
CLG projection (Table 1)	2,237	2,340	2,454	2,566	2,668
Deduction for immigration effect	0	8,000	16,000	24,000	32,000
Deduction for affordability and the economic recession	0	8,000	8,000	8,000	8,000
<b>Modified total</b>	<b>2,237</b>	<b>2,324</b>	<b>2,430</b>	<b>2,543</b>	<b>2,628</b>

11. Because evidence thus far indicates that the present recession is more severe than the previous recession (in the early 1990s), it is reasonable to consider what the prospect would look like if the impact of the recession on household formation were to continue beyond 2011. An alternative calculation is therefore shown in Annex B, with the effect of the recession continuing at the same rate as in 2006-11 until half-way through the next five year period and not coming to an end until 2016. With this assumption, the projected total of households in 2026 in the West Midlands is reduced to 2,622,000. The modified estimate of the net increase in households between 2006 and 2026 is thus put at 391,000. No catching up of the 8,000 shortfall in 2006-11 due to worsened affordability and then the recession is built into the calculation.

12. For estimating the division of projected households in 2026 between the market and social sectors, figures for types of household in 2026 are required that are consistent with the modified total in 2026. The total deduction of 40,000 shown in Table 2 has therefore to be allocated between household types. Information about the ages of immigrants and from the Labour Force Survey shows that the shortfall of households in 2006 below the projections was predominantly at the younger ages. The deduction in 2026 is therefore apportioned equally between the under 25 and 25-44 age groups. Within each age group the division between types of household is pro-rata to projected numbers of households in these age ranges in the West Midlands in 2026 as shown in CLG's projection. Table 3 shows households by type in 2006 and 2026 as in Table 1, and in 2026 as modified.

**Table 3 Modified estimate of households in 2026: analysis by type of household**

	<b>2006</b>	<b>2026 CLG projection</b>	<b>Deduction</b>	(thousands) <b>2026 modified</b>
Married couple households	1,021	963	5	958
Cohabiting couple households	215	338	10	328
Lone-parent households	181	216	8	208
Other multi-person households	138	160	4	156
One-person households, male	312	501	8	493
One-person households, female	371	491	5	486
<b>Total</b>	<b>2,237</b>	<b>2,668</b>	<b>40</b>	<b>2,628</b>

Note: Minor discrepancies due to rounding

Source: CLG 2006-based projections and see text

### **III Division of the net increase in households between market and social sectors and estimate of newly arising need and demand for housing**

13. The modified projection total of households in 2026 is divided between the social and market sectors in two stages: first the totals for each household type as in the CLG projection; and then the deductions. The two stages are needed because the age distribution of the deductions is not the same as for all households, and the division between the social and market sectors varies with age.
14. The division between the market and social sectors according to type of household and age of the head (or “representative” or reference person) was estimated from information from the Survey of English Housing (SEH) for 2003/04, 2004/05, and 2005/06, combined together to increase the sample size. Estimates of the division in 2026 between market and social sectors in categories of households defined by household type and age are made by working forward from the base year. Few households move between tenures at ages above the mid-40s other than by purchase as sitting tenants through the Right-to-Buy. The proportion of married couple households aged 50-54 in the market sector will therefore be approximately the proportion among couples aged 60-64 in 2016 and aged 70-74 in 2026. Deriving proportions in future years in this way from proportions in the base year is termed “rolling forward” the base year proportions. Up to age 40-44 the division between market and social sector is assumed to remain as in the base year, and at ages 45 and above by “rolling forward” the proportions in the base year. In practice “rolling forward” is required only for married couple and one-person households. Lone parents are by definition parents of dependent children, are defined as under age 16 or 16-18 in full-time education, hence there are few lone parents old enough to be affected by rolling forward. The same is so of cohabiting couple households, though for a different reason. The growth of un-married cohabitation is too recent for many cohabiting couples to have reached the high ages. For lone parents, cohabiting couples and “other multi-person households”, the base year proportions of market sector and social sector households are taken to apply.
15. These proportions are estimated as trends derived from data from the 1971, 1981, 1991, and 2001 census, as noted in paragraph 8 above. Using these trends to estimate proportions in the market and social sectors in future years is in effect to assume that taking one year with another the rise in real incomes, unemployment rates, and house prices in relation to income will be similar to what was experienced between 1971 and 2001. There were housing booms and slumps and economic recessions in this period. The assumption in this paper is that the housing market and the economy as a whole will recover and that the long term trend will not be materially affected. In the shorter term household formation at the younger ages is likely to be depressed. “Rolling forward” will not be affected, as it applies to people who already have their houses.
16. Whilst the future division by tenure is estimated by the method, the future requirements for different sizes and types of dwelling is not. This is partly because the categories of household type used in the official household projections do not generally indicate anything about the size of the household, or the presence of children. It is also because the relationship between household type and size, and dwelling type and size is weak, especially in the private sector.

17. The first-stage division of households between the market and social sectors in 2006, 2016, and 2026 is shown in Table 4. Differences between the figures for 2006 and those in the housing demand and need estimates produced in 2007 (Table 2) are the result of the household totals for 2006 then being a 2004-based projection, whereas the present figures are derived from the official mid-year estimate of the population.

**Table 4 First-stage division of households between the market and social sectors by type of household**

(thousands)

	Married couple households	Cohabiting couple households	Lone-parent households	Other multi-person households	One-person households		Total
					Male	Female	
<b>2006</b>							
Market sector	817	169	59	89	196	213	1,542
Social sector	204	46	122	49	116	158	695
<b>Total</b>	<b>1,021</b>	<b>215</b>	<b>181</b>	<b>138</b>	<b>312</b>	<b>371</b>	<b>2,237</b>
<b>2016</b>							
Market sector	798	229	66	97	258	265	1,713
Social sector	179	62	136	53	146	164	740
<b>Total</b>	<b>977</b>	<b>291</b>	<b>202</b>	<b>150</b>	<b>404</b>	<b>429</b>	<b>2,454</b>
<b>2026</b>							
Market sector	801	266	70	103	323	313	1,876
Social sector	162	72	146	57	178	178	793
<b>Total</b>	<b>963</b>	<b>338</b>	<b>216</b>	<b>160</b>	<b>501</b>	<b>491</b>	<b>2,668</b>

Note: Minor discrepancies are due to rounding  
Source: Table 3 and see text

18. The deductions from the official projections (Table 3, values for 2016 put in by interpolation) have to be apportioned between the market and social sectors. This is done from the sector proportions by type of household in the under 25 and 25-44 age ranges. Table 5 shows the calculation.



**Table 5 Sector division of deductions and final household totals analysed**

	(thousands)						
	Married couple households	Cohabiting couple households	Lone-parent households	Other multi-person households	One-person households	Total	
<b>2016</b>							
<b>First stage</b>							
Market sector	798	229	66	97	258	265	1,713
Social sector	179	62	136	53	146	164	740
<b>Total</b>	<b>977</b>	<b>291</b>	<b>202</b>	<b>150</b>	<b>404</b>	<b>429</b>	<b>2,454</b>
<b>Deductions</b>							
Market sector	3	4	1	2	2	2	14
Social sector	0	1	3	0	1	1	6
<b>Total</b>	<b>3</b>	<b>5</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>20</b>
<b>Modified</b>							
Market sector	795	225	65	95	256	263	1,699
Social sector	179	61	133	53	145	163	734
<b>Total</b>	<b>974</b>	<b>286</b>	<b>198</b>	<b>148</b>	<b>401</b>	<b>426</b>	<b>2,434</b>
<b>2026</b>							
<b>First stage</b>							
Market sector	801	266	70	103	323	313	1,876
Social sector	162	72	146	57	178	178	793
<b>Total</b>	<b>963</b>	<b>338</b>	<b>216</b>	<b>160</b>	<b>501</b>	<b>491</b>	<b>2,668</b>
<b>Deductions</b>							
Market sector	4	8	3	3	5	3	26
Social sector	1	2	5	1	3	2	14
<b>Total</b>	<b>5</b>	<b>10</b>	<b>8</b>	<b>4</b>	<b>8</b>	<b>5</b>	<b>40</b>
<b>Modified</b>							
Market sector	797	258	67	100	318	310	1,850
Social sector	161	70	141	56	175	176	779
<b>Total</b>	<b>958</b>	<b>328</b>	<b>208</b>	<b>156</b>	<b>493</b>	<b>486</b>	<b>2,628</b>

Note: Minor discrepancies due to rounding  
 Source: Tables 3 and 4, and see text

19. In Table 6 a comparison is made between the division between the market and social sectors in 2006 and 2026. 2016 is omitted for reasons of space.

**Table 6 Households in the market and social sectors in 2006 and 2026**

(thousands)

	<b>Market sector</b>	<b>2006 Social sector</b>	<b>Total</b>	<b>Market sector</b>	<b>2026 Social sector</b>	<b>Total</b>
Married couple households	817	204	1,021	797	161	958
Cohabiting couple households	169	46	215	258	70	328
Lone-parent households	59	122	181	67	141	208
Other multi-person households	89	49	138	100	56	156
One-person households, male	196	116	312	318	175	493
One-person households, female	213	158	371	310	176	486
<b>Total</b>	<b>1,543</b>	<b>695</b>	<b>2,238</b>	<b>1,850</b>	<b>779</b>	<b>2,629</b>
Proportions of total (percent)	68.9	31.3	100.0	70.4	29.6	100.0

Source: Tables 4 and 5

20. The projected net increases of 307,000 households in the market sector of the housing system and 83,000 in the social sector, 390,000 in total, is the principal component of the estimate of newly arising demand and need for housing in the West Midlands over the period from 2006 to 2026. The other components are:

- (a) Increases in the number of dwellings used as second homes
- (b) Changes in the number of vacant dwelling
- (c) Replacement of social sector re-lets lost as a consequence of past Right-to-Buy sales

In earlier years social sector provision was included to offset a reduction in the supply of private rented sector dwellings available to households needing Housing Benefit. The number of private sector tenants receiving Housing Benefit has ceased to fall, so nothing is included under this heading. The reasons are discussed in paragraph 3 above.

21. Council Tax information is available from CLG about the number of second homes in the West Midlands from 2002 to 2007. The figures for each year are shown owing to the extreme difficulty of discerning a trend rate of increase; 2002, 7,118; 2003, 7,085; 2004, 8,752; 2005, 14,774; 2006, 15,856; 2007, 15,615. Obviously the number of second homes in the West Midlands did not increase by 6,000 between 2004 and 2005; but even apart from that the year to year changes look very erratic. If 2004 to 2005 is left out altogether, the average year to year change is 619. If the steep increase of 6,000 between 2004 and 2005 is interpreted as bringing to account under-recording that had gone on since Council Tax came into being (1993), then the deficiency would have grown at about 600 a year. From this the trend rate of increase in second homes is put at 600 a year, all in the market sector.

22. The assumptions about vacant dwellings are the same as made in 2007 (*Household Projection Based Estimate of Housing Demand and Need in the West Midlands Region 2006-26: Unconstrained*, paragraph 36), as no new information has come to hand about

2006, the base year. As with the household projection, this a trend value for 2006-26 taking one year with another, not a value that would be expected in each individual year. As note in the source cited the average overall vacancy rate for local authority housing according to the Housing Strategy Statistical Appendix was 1.8 percent in the local authority stock and in the Registered Social Landlords (RSL) stock 2.1 percent. In only two places, Walsall and Wolverhampton were there markedly higher figures. The assumption made is that the number of vacant dwellings will remain unchanged. For the market sector the same assumptions are made as in 2007, that the average ratio of vacant dwellings to the net increase in the market sector stock will be the same as in the existing stock, excluding places where the vacancy rate was over 4 percent. This ratio is 2.8 percent.

23. The estimate of the number of social sector dwellings required to offset the “loss” of re-lets caused by part Right-to-Buy sales depends on the number of households in the social sector that will dissolve. If they had stayed in the social sector dissolution of these households would release a dwelling for re-letting. But since they have transferred to owner-occupation the dwellings released go into the market for houses for sale and meet part of the demand for houses to occupy by the owners or for renting out. Estimating the number of households that will dissolve is complex and has to be done at national level. The most recent revision of this estimate is in Annex A of *Housing Need in England Technical Report on Sources and Methods* (A.E. Holmans – Cambridge Centre for Housing and Planning Research). It is estimated there that dissolutions of households that become owner-occupiers through the Right-to-Buy will total 486,000 in 2006 to 2026. This total may be shared between regions pro-rata to total RTB sales from 1979/80 to 2005/05 inclusive. Total sales in England as a whole in this period were 1,735,000, and in the West Midlands 208,000, so the estimate for the West Midlands in 58,000.
24. The components of the estimate of newly arising demand and need for net additions to the housing stock in the market and social sectors in shown in Table 7. The net addition to the stock appears now to be the received measure of housing requirements, as in official targets of a net increase in the stock of 240,000 a year by 2016 nationally, and 3 million new homes by 2020. Replacing dwellings demolished in regeneration schemes and in other ways would result in additional need, and so higher figures for new building and conversions.

**Table 7 Estimate of new housing provision required to meet newly arising demand and need in the West Midlands in 2006-26: two-sector analysis**

	Revised estimate (2009)			2007 estimate		
	Market sector	Social sector	Total	Market sector	Social sector	Total
Net increase in households	307	83	390	308	63	371
Second homes	12	0	12	10	0	10
Vacant dwellings	9	0	9	9	0	9
Offset to "loss" of re-lets due to past Right-to-Buy sales	-58	+58	0	-60	+60	0
<b>Increase in dwelling stock to meet newly arising demand and need</b>						
20 year total	<b>270</b>	<b>141</b>	<b>411</b>	<b>267</b>	<b>123</b>	<b>390</b>
Annual average	<b>13.5</b>	<b>7.1</b>	<b>20.6</b>	<b>13.4</b>	<b>6.2</b>	<b>19.5</b>

25. The method that produced the estimate of future demand and need for housing in the West Midlands is very similar to the first part of the calculation by the National Housing and Planning Advice Unit (NHPAU) of the upper boundary of its 'range for testing'. For all regions figures for the annual average net addition to the housing stock was calculated by a 'demographic analysis' and an 'affordability analysis'. In the West Midlands the demographic analysis gave the higher figure and was therefore adopted for the range for testing. NHPAU's figure compared (i) the official 2004-based projected increase in households plus (ii) an increase in the number of second homes, plus (iii) an increase in vacant dwellings, plus (iv) enough dwellings to eliminate backlogs of un-met need by 2026, including provision for potential households unable to form because they were priced out of the private housing market. Of these (i), (ii) and (iii) are comparable to Table 7. A comparison is made in Table 7a, with the components of demand and need expressed as annual averages.

**Table 7a Comparison of NHPAU Upper Boundary with Table 7: Annual Averages**

	(thousands)	
	<u>NHPAU</u>	<u>Table 7</u>
Net increase in households	18.6	19.5
Second homes	0.2	0.6
Vacant dwellings	0.7	0.5
Eliminate backlog	3.3	not included
<b>Total</b>	<b>22.8</b>	<b>20.6</b>
(Total excluding eliminating backlog)	(19.5)	<b>(20.6)</b>

26. If provision for eliminating the backlog of housing need is not included, the estimate of the needed net increase in the housing stock in this paper (Table 7) is 1,100 a year more than NHPAU's figure. Nearly all of the difference is due to the modified 2006-based household projections being used instead of the 2004-based projections.

27. Replacing the 2004-based household projection used in 2007 by the 2006-based projection modified has the effect of raising the estimate of the needed addition to the housing stock by 19,000 over the 20 year period, just under 1,000 a year. That the difference is concentrated in the social sector is the result of changes in the mix of household types and ages. For example, there are fewer married couples – who are most likely to be in private sectors housing - and more cohabitantes; see Tables 1 and 3 above.

## **IV Intermediate Housing**

28. Intermediate housing is provision, usually with subsidy, for households that can afford significantly more than the rent for dwellings rented from housing associations, but not housing of adequate standard at market prices. It emerged as a category housing need as a result of the surge in house prices relative to incomes after the late 1990s, which resulted in households who hitherto could have expected to be able to afford home ownership being unable to do so. At the time of writing house prices have fallen a considerable way from their peaks and are still falling. Sales of dwellings on shared

ownership terms, an important part of intermediate housing, are reported as being very depressed. But what was said above about estimates of housing demand and need referring to the long term and not short term swings upwards and downwards applies to intermediate housing as well. The depressed effective demand for intermediate housing here and now does not in itself imply that earlier estimates such as those made for the West Midlands are demonstrably no longer valid for the long term.

29. The estimates of need for intermediate housing are derived from the income distribution for new households and their housing tenure. The basic assumption is that a substantial proportion (taken as two-thirds in 2007) of new households who are private sector tenants are renting because they cannot afford to buy and would prefer low cost home ownership if available. Low cost home ownership thus far has not been provided on a large scale (just over 20,000 a year in 2005/06 to 2007/08 in England as a whole), so for the most part it has operated as a supply-determined system. In such a situation it is not possible to assess what the demand would prove to be if intermediate housing were available on demand (at the going price, of course). So firm evidence about what proportions of new households would take up intermediate housing if it were readily available is lacking, so it is necessary to make assumptions as was done in 2007 for the West Midlands, and in 2008 for England as a whole in work published by Shelter (*Home for the Future: A New Analysis Demand and Need in England*).
30. In the 2007 Report, the number of households that might need intermediate housing was estimated from the housing tenure of new households with net incomes above the level at which average Registered Social Landlord rents plus £25 a week would equal 30 percent of net income but below the level at which the user cost of dwellings bought for the lower quartile house price would equal 30 percent of net income. Net income is the income of the household reference person and spouse or partner after deducting income tax and employee's National Insurance contributions. User cost is the payment on a 90 percent mortgage, plus interest foregone on the 10 percent deposit, plus an allowance for buildings insurance and mortgage payment protection insurance. The reason for adding £25 a week to the average rents is that without such an addition, some households taking up intermediate housing would require almost as much subsidy as for renting. A characteristic of intermediate housing is that it should be more lightly subsidised than renting. The same procedure is used here. In the 2007 Report average rents and user costs were as in 2003/04, 2004/05, and 2005/06, with three years combined to match the years for which information about new households was taken from the Survey of English Housing (SEH).
31. In this revision, rents and user costs for 2005/06, 2006/07, and 2007/08 are taken, for reasons for timeliness. No new information about the incomes and housing tenure of new households has become available, so changes in gross median pay in the West Midlands (from the Annual Survey of Hours and Earnings (ASHE)) are used to allow for the change in income levels between 2003 and 2006 and 2005 to 2008. The upper and lower boundaries of the income range for intermediate housing are worked out in the way described in the previous paragraph. These net incomes are converted into gross incomes (because the SEH information about incomes is about gross incomes) on the assumption that at the lower boundary (average RSL rents plus £25 a week) the household would have one member earning, and that at the upper boundary the household would be a two earner couple.

32. The other part of the estimate of the number of new households with incomes within the income range for new households is the number of new households formed annually in the West Midlands. The figure from published SEH data for 2003/04, and 2005/06 combined is 37,000 out of a total for England of 400,000 a year. Calculations about need for intermediate housing are therefore made from the figure of 37,000 new households a year in the West Midlands.
33. In the West Midlands in total, average housing association rents in 2005/06, 2006/07 and 2007/08 were £65.67 a week. With £25 a week added, this rounds to £91 a week. If 30 percent of net income is spent on rent, the weekly net income required to afford this rent would be £303. Average user costs for an owner-occupied dwelling with a price equal to the lower quartile would be £154.41, £154 a week rounded. With 30 percent of net income the weekly income required would be £513. The weekly gross incomes that correspond to these net incomes are (approximately) £405 and £700 a week.
34. The numbers of new households with incomes within these ranges, as estimated from SEH with the income bands adjusted as described in paragraph 30 above are shown in Table 8. Decimal places are shown solely to keep down rounding discrepancies.

**Table 8 Estimate of new households with income, below, within and above the range for intermediate housing**

	Owner-occupiers	Social sector tenants	Private sector tenants	(thousands) All new households
Income below range for intermediate housing	4.1	9.5	7.4	21.0
Income within range for intermediate housing	6.2	1.2	2.1	9.5
Income above range for intermediate housing	5.3	0.4	0.8	6.5
<b>Total</b>	<b>15.6</b>	<b>11.1</b>	<b>10.3</b>	<b>37.0</b>

Source: CCHPR from data supplied by CLG

35. Not all of the households within the income range for intermediate housing would necessarily want it if offered to them. Owner-occupiers are unlikely to do so unless under strong financial pressure. In 2007 it was assumed that 10 percent of owner-occupiers would want intermediate housing, and that two-thirds of new households within the income range who were private sector tenants would do so. No fresh evidence has emerged to suggest different proportions. They imply that 600 owner-occupiers and 1,400 private sector tenants would need intermediate housing, 2,000 in total. The 1,200 new households in the social rented sector are an overlap between need for social sector renting and intermediate housing. There is no presumption that they "ought" to be in intermediate housing. Whether a long term commitment like purchase of a dwelling or share ownership terms can be afforded depends on stability of income and not just on the level at a point in time. But if they are included with owner-occupiers and private sector tenants as needing intermediate housing, the total would come to 3,200 a year. This is an average over a 20 year period. But realism suggests a lower figure in 2006-11, as with household formation (paragraphs 9 and 10 above). An average of 1,600 a year is therefore put in for 2006-11 and 3,200 a year in the rest of the 20 year period. In total this sums to 56,000 between 2006 and 2026.

36. As noted above (paragraph 28) the depressed state of demand for low cost home ownership does not in itself invalidate an estimate of need for intermediate housing over a period two decades long based on house prices and rents in 2005/06 to 2007/08. It seems appropriate, however, to look as well at the implications for intermediate housing of house prices remaining permanently lower than in 2005/06 to 2007/08, and rising more slowly than incomes in the long term. This analysis is presented in Annex C.

## V. Three-sector analysis of newly arising demand and need for housing in the West Midlands 2006-2026

37. The estimate of need for intermediate housing is brought together with the division between the market and social sectors (Table 7). Two versions of the three-sector analysis are shown in Table 9, according to whether new households in the social rented sector with incomes within the range for intermediate housing (the “overlap”) are put in the social sector or intermediate sector. Taken over the whole period, the percentages can be taken to mean that 43% of new housing should be affordable: 29% social housing, and 14% intermediate.

**Table 9 Three-sector analysis of newly arising demand and need for additions to the housing stock in the West Midlands 2006-2026**

		(thousands)			
		<b>A</b>		<b>B</b>	
		Overlap in social sector		Overlap in intermediate sector	
		Number	Percent	Number	Percent
<b>2006-2026 totals</b>					
<b>(a)</b>	Market sector	235	57	235	57
<b>(b)</b>	Intermediate sector	35	9	56	14
<b>(c)</b>	Social sector	141	34	120	29
<b>(d)</b>	“Affordable housing (=b)+(c)”)	(176)	(43)	(176)	(43)
	<b>Total</b>	<b>411</b>	<b>100</b>	<b>411</b>	<b>100</b>
<b>Annual averages</b>					
	Market sector	11.8	57	11.8	57
	Intermediate sector	1.8	9	2.8	14
	Social sector	7.1	34	6.0	29
	“Affordable housing	(8.8)	(43)	(8.8)	(43)
	<b>Total</b>	<b>20.6</b>	<b>100</b>	<b>20.6</b>	<b>100</b>

## VI Unitary authority and district area of newly arising demand and need for housing in 2006-2026: three-sector analysis

38. The regional totals of newly arising demand and need for housing in the social and market sectors, and the intermediate sector, are divided between the areas of the Unitary Authorities and Districts in the West Midlands in Table 10. The principal components of the analysis are: (a) CLG’s 2006-based projections of households; (b)



the base year proportions of households in the market and social sectors; (c) average housing association rents; and average user costs for owner-occupiers based on lower quartile house prices. Minor elements are the increase in the number of dwellings used as second homes. The base year proportions of households in the market and social sectors were used to divide households in 2006 between the sectors. Proportions were estimated for 2026 by adding to the base proportion of households in the market sector the increase in the proportions between 2006 and 2026 in the West Midlands as a whole (1.5 percent, see Table 6). Projected households in 2026 were scaled to agree with the modified total (Table 3) and multiplied by the market sector proportion in 2026 to give a total of market sector households in each area in 2026. The net increases between 2006 and 2026 are obtained by subtracting the total in 2006. The increases in the number of households in the social sector are similarly obtained by subtraction. The increases in numbers of vacant dwellings are not changed from those shown in the 1997 report. The slightly different regional figures for the increase in the number of dwellings used as second homes and the offset to re-lets "lost" as a consequence of past Right-to-Buy sales (paragraphs 20 and 22) are apportioned in the same way as in the 2007 report.

39. The regional total of need for intermediate housing is apportioned between the Unitary Authority and District areas by reference to an indicator derived from the total of households (average of 2006 and 2026 to represent the average for the whole period) and the difference between the average user cost for owner-occupiers buying houses at the lower quartile price and average housing rents plus £25 a week. Lower quartile house prices and therefore user costs vary much more between areas than do housing association rents. For rents (average of 2005/06, 2006/07, and 2007/08 the range is from £56 a week in Newcastle-under-Lyme to £77 a week in Warwick. For user costs (average for the same years) is from £96 a week in Stoke-on-Trent to £234 in Stratford-on-Avon; for the difference between housing association rents plus £25 a week and user costs for owner-occupiers the range is from £10 a week in Stoke and £134 in Stratford. Stoke is perhaps an extreme instance in comparing housing association rents and owner-occupiers' user costs. The next smallest difference is in Sandwell, where it is £43 a week.
40. Table 10 shows the three-sector estimate of housing demand and need in Unitary Authority and District areas. Like the figures on the West Midlands region in Table 8 they are for the net increase in the housing stock, and do not include dwellings needed to replace losses from the stock. They depend heavily on CLG's household projections, which are trend-based and so cannot take account of any local circumstances that might prevent past trends from continuing. In the table that overlap between the social sector and intermediate sector is included in the intermediate sector.

**Table 10 Estimate of newly arising demand and need in Unitary Authorities and Districts in the West Midlands in 2006-2026: three sector analysis**

	(thousands)			
	Market sector	Intermediate sector	Social sector	Total
Hereford UA	9.6	2.8	3.5	15.9
Stoke-on-Trent UA	5.3	0.4	4.4	10.1
Telford and Wrekin UA	9.0	1.3	4.4	14.7
<b>Shropshire</b>				
Bridgnorth	1.5	0.9	0.7	3.1
North Shropshire	3.7	0.8	1.3	5.8
Oswestry	5.1	0.5	1.3	6.9
Shrewsbury and Atcham	3.9	1.4	1.6	6.9
South Shropshire	3.9	0.8	1.1	5.8
<b>Staffordshire</b>				
Cannock Chase	5.5	0.8	2.7	9.0
East Staffordshire	7.5	1.1	2.9	11.5
Lichfield	5.6	1.4	2.0	9.0
Newcastle-under-Lyme	4.5	1.0	2.6	8.1
South Staffordshire	3.1	1.5	1.4	6.0
Stafford	6.9	1.7	2.3	10.9
Staffordshire Moorlands	3.6	0.9	1.4	5.9
Tamworth	3.4	0.7	1.6	5.7
<b>Warwickshire</b>				
North Warwickshire	3.0	0.6	1.4	5.0
Nuneaton and Bedworth	6.6	0.8	2.7	10.1
Rugby	5.7	1.1	2.3	9.1
Stafford-on-Avon	8.4	2.5	2.7	13.6
Warwick	11.7	2.6	3.9	18.2
<b>West Midland County</b>				
Birmingham	43.8	8.5	29.4	81.7
Coventry	12.4	2.6	6.6	21.6
Dudley	5.8	2.4	4.4	12.6
Sandwell	9.4	1.8	7.6	18.8
Solihull	8.1	3.2	3.6	14.9
Walsall	4.3	1.9	4.0	10.2
Wolverhampton	4.3	1.1	4.0	9.4

**Worcestershire**

Bromsgrove	6.3	1.6	2.0	9.9
Malvern Hills	4.0	1.5	1.4	6.9
Redditch	3.9	0.8	2.2	6.9
Worcestershire	3.8	1.5	1.5	6.8
Wychavon	7.1	2.2	2.6	11.9
Wyre Forest	4.3	1.2	2.6	8.1
West Midlands region	235	56	120	411

Source: Annex A, Tables A.1, A.2, and A.3

## **Annex A Components of unitary authority and district level estimates of newly arising demand and need for housing in 2006-2026**

1. The net increase in the number of households in the market and social sectors (two-sector analysis) is derived from estimates of the market and social sector households in 2006 and 2026. For 2006 the same proportion of market and social sector households, based on the 2001 census, were used as in the 2007 Report. The household totals in 2006 in the present work are slightly different in that they are derived from the official mid-year estimate for 2006 for each Unitary Authority and District, whereas in 2007 the figure for households in 2006 was a 2004-based projection. The totals of households in 2026 were taken from the 2006-based projection, scaled down to agree in total with the “modified” household total for 2026 (see Tables 2 and 3). The proportions of households in the market and social sectors in 2026 were estimated by the same method as in 2007, by adding to the market sector proportion in the base year the percentage point increase between 2006 and 2026 in the West Midlands region as a whole. This is estimated at 1.5 percent (see Table 6), from 68.9 percent in 2006 to 70.4 in 2026. The difference between 69.0 percent in the base year in the 2007 Report and 68.9 percent in Table 6 is due to slight differences between the composition of the population of the West Midlands region in the 2006 mid-year estimate and in the 2004-based projection used in 2007.
2. The other components of the estimate of newly arising demand and need in the two-sector analysis are; the change in the number of vacant dwellings in both sectors; and the “offset” to re-lets lost as a result of past Right-to-Buy sales, which scores plus in the social sector and minus in the market sector. The same assumptions about vacant dwellings were made as in 2007 (paragraph 21); the increase in dwellings used as second homes is 2,000 higher than in 2007 (Table 10); and the number of dwellings to offset the “loss” of re-lets due to past Right-to-Buy sales 2,000 lower (paragraph 23). The totals were distributed between Unitary Authorities and Districts as in 2007.
3. The estimate for the region of need for intermediate housing was distributed between Unitary Authorities and Districts by reference to an indicator which combines the number of households (mid-point between 2006 and 2026) and the difference between average housing association rents and owner-occupiers’ user costs based on lower quartile house prices (see paragraph 22). This is the same method as used in 2007. But the numbers of households are different (2006-based projection) as are the average rents and user costs (2005/06, 2006/07, and 2007/08 in place of 2003/04, 2004/05, and 2005/06).

**Table A.1 Newly arising demand and need for market sector housing before allowance for intermediate sector**

	(A) Market sector	(B) Intermediate sector	(C) Vacant dwellings	(D) Total	(thousands) Total (=(A)+(B)+(C)- (D))
Hereford UA	11.9	1.0	0.4	2.0	11.3
Stoke-on-Trent UA	8.2	0.0	0.0	2.6	5.6
Telford and Wrekin UA	10.5	0.7	0.3	1.7	9.8
<b>Shropshire</b>					
Bridgnorth	2.3	0.2	0.2	0.6	2.1
North Shropshire	4.5	0.2	0.2	0.7	4.2
Oswestry	5.5	0.3	0.1	0.5	5.4
Shrewsbury and Atcham	5.3	0.5	0.2	1.2	4.8
South Shropshire	4.6	0.2	0.1	0.5	4.4
<b>Staffordshire</b>					
Cannock Chase	6.4	0.4	0.3	1.1	6.0
East Staffordshire	8.9	0.5	0.0	1.2	8.2
Lichfield	6.9	0.5	0.3	1.2	6.5
Newcastle-under-Lyme	6.5	0.0	0.0	1.4	5.1
South Staffordshire	4.6	0.5	0.3	1.4	4.0
Stafford	8.3	0.6	0.3	1.2	8.0
Staffordshire Moorlands	4.8	0.5	0.2	1.3	4.2
Tamworth	4.2	0.3	0.1	0.8	3.8
<b>Warwickshire</b>					
North Warwickshire	3.6	0.4	0.2	0.8	3.4
Nuneaton and Bedworth	7.5	0.6	0.4	1.4	7.1
Rugby	6.7	0.5	0.3	1.1	6.4
Stafford-on-Avon	10.6	0.7	0.0	1.3	10.0
Warwick	14.1	0.6	0.0	1.4	13.3
<b>West Midland County</b>					
Birmingham	55.9	0.0	2.4	9.2	49.1
Coventry	17.3	0.0	0.0	3.3	14.0
Dudley	10.0	0.0	0.8	3.5	7.3
Sandwell	13.2	0.0	0.0	2.7	10.5
Solihull	12.0	0.0	0.5	2.4	10.1
Walsall	8.0	0.0	0.0	2.5	5.5
Wolverhampton	7.3	0.0	0.0	2.3	5.0

**Worcestershire**

Bromsgrove	7.8	0.5	0.2	1.2	7.3
Malvern Hills	5.2	0.4	0.2	0.9	4.9
Redditch	4.8	0.3	0.2	0.9	4.4
Worcestershire	5.2	0.5	0.2	1.2	4.7
Wychavon	8.9	0.6	0.3	1.3	8.5
Wyre Forest	5.5	0.5	0.3	1.2	5.1
West Midlands region	307	12	9	58	270

**Table A.2 Newly arising need for social sector before allowance**

		(thousands)	
	<b>Net increase in households</b>	<b>Offset to "lost" re-lets</b>	<b>Total</b>
Hereford UA	2.6	2.0	4.6
Stoke-on-Trent UA	1.9	2.6	4.5
Telford and Wrekin UA	3.2	1.7	4.9
<b>Shropshire</b>			
Bridgnorth	0.4	0.6	1.0
North Shropshire	0.9	0.7	1.6
Oswestry	1.0	0.5	1.5
Shrewsbury and Atcham	0.9	1.2	2.1
South Shropshire	0.9	0.2	1.1
<b>Staffordshire</b>			
Cannock Chase	1.9	1.1	3.0
East Staffordshire	2.1	1.2	3.3
Lichfield	1.3	1.2	2.5
Newcastle-under-Lyme	1.6	1.4	3.0
South Staffordshire	0.6	1.4	2.0
Stafford	1.7	1.2	2.9
Staffordshire Moorlands	0.4	1.3	1.7
Tamworth	1.1	0.8	1.9
<b>Warwickshire</b>			
North Warwickshire	0.8	0.8	1.6
Nuneaton and Bedworth	1.6	1.4	3.0
Rugby	1.6	1.1	2.7
Stafford-on-Avon	2.3	1.3	3.6
Warwick	3.5	4.9	8.4
<b>West Midland County</b>			
Birmingham	23.4	9.2	32.6
Coventry	4.3	3.3	7.6
Dudley	1.8	3.5	5.3
Sandwell	5.6	2.7	8.3
Solihull	2.4	2.4	4.8
Walsall	2.2	2.5	4.7
Wolverhampton	2.1	2.3	4.4

**Worcestershire**

Bromsgrove	1.4	1.2	2.6
Malvern Hills	1.1	0.9	2.0
Redditch	1.6	0.9	2.5
Worcestershire	0.9	1.2	2.1
Wychavon	2.1	1.3	3.4
Wyre Forest	1.8	1.2	3.0
<b>West Midlands region</b>	<b>83</b>	<b>58</b>	<b>141</b>

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**Table A.3 Newly arising need for intermediate housing 2006-2026**

	(thousands)		
	<b>Market sector</b>	<b>Social sector</b>	<b>Total</b>
Hereford UA	1.7	1.1	2.8
Stoke-on-Trent UA	0.3	0.1	0.4
Telford and Wrekin UA	0.8	0.5	1.3
<b>Shropshire</b>			
Bridgnorth	0.6	0.3	0.9
North Shropshire	0.5	0.3	0.8
Oswestry	0.3	0.2	0.5
Shrewsbury and Atcham	0.9	0.5	1.4
South Shropshire	0.5	0.3	0.8
<b>Staffordshire</b>			
Cannock Chase	0.5	0.3	0.8
East Staffordshire	0.7	0.4	1.1
Lichfield	0.9	0.5	1.4
Newcastle-under-Lyme	0.6	0.4	1.0
South Staffordshire	0.9	0.6	1.5
Stafford	1.1	0.6	1.7
Staffordshire Moorlands	0.6	0.3	0.9
Tamworth	0.4	0.3	0.7
<b>Warwickshire</b>			
North Warwickshire	0.4	0.2	0.6
Nuneaton and Bedworth	0.5	0.3	0.8
Rugby	0.7	0.4	1.1
Stafford-on-Avon	1.6	0.9	2.5
Warwick	1.6	1.0	2.6
<b>West Midland County</b>			
Birmingham	5.3	3.3	8.6
Coventry	1.6	1.0	2.6
Dudley	1.5	0.9	2.4
Sandwell	1.1	0.7	1.8
Solihull	2.0	1.2	3.2
Walsall	1.2	0.7	1.9
Wolverhampton	0.7	0.4	1.1

**Worcestershire**

Bromsgrove	1.0	0.6	1.6
Malvern Hills	0.9	0.6	1.5
Redditch	0.5	0.3	0.8
Worcestershire	0.9	0.6	1.5
Wychavon	1.4	0.8	2.2
Wyre Forest	0.8	0.4	1.2
<b>West Midlands region</b>	<b>35</b>	<b>21</b>	<b>56</b>

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## Annex B: Implications for estimate of future housing demand and need in the West Midlands of a longer-lasting impact from the recession on household formation

1. In part II of the paper (paragraph 10) the assumption is made that adverse changes to the affordability of housing and then the economic recession will diminish the growth in households by 1,600 a year in 2006 to 2011, but with no further effect after. It is clearly possible that the effect of the recession on household formation will last longer than this, particularly as the present recession appears to be having a greater impact on the economy of the West Midlands than did the previous recession in the early 1990s. An alternative assumption is that the impact of the recession will not start to diminish until part way through the next five years, 2011-16, and that there will be a continuing though smaller effect in the rest of the period to 2016. A full return to past trends in household formation would not occur until 2016. The number of households in the West Midlands would then follow the course shown below, which is similar to Table 2 of the paper. It is assumed that the downward impact of the recession in household formation would amount to 1,600 a year (as in 2006-11) for the first half of 2011-16, and on average half of that for the rest of the period to 2016.

**Table B.1: Modified projection of households in the West Midlands with longer lasting recession effect (thousands)**

	<u>2006</u>	<u>2011</u>	<u>2016</u>	<u>2021</u>	<u>2026</u>
CLG projection	2,237	2,340	2,454	2,566	2,668
Deduction of immigration effect	0	8	16	24	32
Deduction for affordability and the economic recession	0	8	14	14	14
<b>Modified projection</b>	<b>2,237</b>	<b>2,324</b>	<b>2,424</b>	<b>2,528</b>	<b>2,622</b>

2. The additional deduction from the projected total of households has to be apportioned between categories of households and then divided between the market and social sectors. This is shown in B.2, below. Units are shown to reduce the effect of rounding.

**Table B.2: Effect of revision to projection of households on division between market and social sectors.**

	<u>Original deduction</u>	<u>Additional deduction (pro-rated)</u>	<u>Market sector</u>	<u>Social sector</u>
Married couple households	5,000	750	620	130
Cohabiting couple households	10,000	1,500	1,180	320
Lone parent households	8,000	1,200	390	810
Other multi-person households	4,000	600	380	220
One person households, male	8,000	1,200	770	430
One person households, female	5,000	750	480	270
<b>Total</b>	<b>40,000</b>	<b>6,000</b>	<b>3,820</b>	<b>2,180</b>

Note: Proportions of market and social sector households are taken from Table 6 of the paper.

3. The additional deductions due to longer lasting effects of the recession round to 4,000 in the market sector and 2,000 in the social sector. This is a mechanical calculation. It does not take into account, for example, of people forced out of accommodation in the market sector turning to the social sector. The revised version of the estimate of newly arising demand and need (Table 7 in the main report) is shown in Table B.3

**Table B.3: Newly arising demand and need for housing in the West Midlands: modified estimate for longer lasting effect of economic recession on household formation**

	<u>Market Sector</u>	<u>Social Sector</u>	<u>(thousands)</u> <u>Total</u>
Net increase in households	303	81	384
Second homes	12	0	12
Vacant dwellings	9	0	9
Offset to "loss" of relets due to past RTB sales	-58	+58	0
<b>Increase in dwelling stock required to meet newly arising demand and need</b>			
<b>20 years total</b>	<b>266</b>	<b>139</b>	<b>405</b>
<b>Annual average</b>	<b>13.3</b>	<b>7.0</b>	<b>20.3</b>

## Annex C: Implications for demand and need in the intermediate sector of a longer-lasting change in the relationship between house prices and incomes in the West Midlands

1. This annex considers how different the prospect would be if after a steep fall in house prices in the present recession, there would be increases in house prices in the longer term at a lower rate than the rise in incomes. The estimates in the main report rest on an assumption that in the longer term house prices will come back to a level not far below the peak of the recent boom, and will run at the same rate as incomes taking one year with another. A very different view was put forward by Green Balance in their report for the West Midlands Regional Assembly *Affordability and Housing Supply* (paragraph 7.16): 'It is difficult to see how the housing market over the next ten years could possibly be similar to the last ten. The probability of a return to the affordability levels [i.e. house prices in relation to incomes] experienced in recent years is minimal.' Other commentators have put forward similar views. This view does not directly translate into an assumption about future house prices.
2. For present purposes, the assumption is made that house prices will fall to about 20 percent lower, relative to incomes, than the house prices in 2005/06, 2006/07 and 2007/08 that were the basis of the estimate in the main report of need for intermediate housing. House prices on this alternative basis are assumed to rise at half the rate of rise of real incomes, i.e. by about 1 percent in real terms, and therefore to fall further relative to incomes. Over a 20 year period this fall in house prices relative to incomes is arithmetically equivalent to house prices having fallen by a further 10 percent initially and then rising with incomes.
3. On this assumption the upper band of the income range for intermediate housing would be about £390 a week, and the corresponding gross income about £550. The division of new households with incomes below, within and above the range for intermediate housing would be as in table C.1, which may be compared to Table 8 in the main report. The number with incomes below this range is unchanged.

**Table C.1 Estimate of new households with income, below, within and above the range for intermediate housing**

	<u>Owner- occupiers</u>	<u>Social sector tenants</u>	<u>Private sector tenants</u>	(thousands) <u>All new h/holds</u>
Income below range for intermediate housing	4.1	9.5	7.4	21.0
Income within range for intermediate housing	2.3	1.2	1.5	5.0
Income above range for intermediate housing	9.1	0.4	1.4	11.0
<b>Total</b>	<b>15.6</b>	<b>11.1</b>	<b>10.3</b>	<b>37.0</b>

Source: CCHPR from data supplied by CLG

4. On the same assumptions about the proportions of owner-occupiers and tenants with incomes in the range for intermediate housing that actually need it, 0.2 thousand owner occupiers and 0.5 thousand private sector tenants annually would need intermediate housing. That the figure for social sector tenants in the range for intermediate housing is

the same is because they have incomes not much above the lower boundary and so are unaffected by the downward revision to the upper boundary.

- Table C.2 shows a three-sector analysis of newly arising demand and need in the West Midlands with the lower assumption about house prices and therefore households in the intermediate sector. This may be compared to Table 9 in the main report.

**Table C.2 Three-sector analysis of newly arising demand and need for additions to the housing stock in the West Midlands 2006-2026**

	(thousands)			
	<b>A</b>		<b>B</b>	
	<u>Overlap in social sector</u>		<u>Overlap in intermediate sector</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
<b>2006-2026 totals</b>				
(a) Market sector	256	62	256	62
(b) Intermediate sector	14	3	35	9
(c) Social sector	141	34	120	29
(d) "Affordable housing (=b)+(c)	(155)	(38)	(155)	(38)
<b>Total</b>	<b>411</b>	<b>100</b>	<b>411</b>	<b>100</b>
<b>Annual averages</b>				
Market sector	128	62	12.8	6.2
Intermediate sector	0.7	3	1.8	9
Social sector	7.1	34	6.0	29
"Affordable housing	(7.8)	(38)	(7.8)	(38)
<b>Total</b>	<b>20.6</b>	<b>100</b>	<b>20.6</b>	<b>100</b>