NEEDLESS DEMAND

How a focus on need can help solve the housing crisis

Foresight Paper No.8
The objective of the Campaign to Protect Rural England’s Housing Foresight Series is to provide evidence-based research papers that support innovative policy solutions to critical housing issues.

The purpose of the series is not to set out the Campaign to Protect Rural England’s official policy position on the future delivery of housing. Rather, it explores a number of ‘blue-sky’ policy solutions with the aim of inciting and provoking wide ranging discussion over the future shape of housing policy. With this in mind, we welcome comment on the policy solutions identified within the Housing Foresight Series.

Our research papers are designed to examine different areas that are impacting upon the delivery of housing in England. We welcome any recommendations on subject matter for these papers. Please email trinleyw@cpre.org.uk

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8. Needless Demand: How a focus on need can help solve the housing crisis (Published: September 2017)
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Researched and written by Trinley Walker – any errors are the sole responsibility of the author.

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Concealed household: one person or a group of people (not necessarily related) living as part of a larger household, but who would choose to live independently if it were practicable and affordable to do so, sometimes referred to as a ‘concealed family’ (e.g. an adult, possibly with a spouse/partner and/or children, living with his/her parents, or a single adult ‘sofa-surfing’ at a friend’s house).¹

Five-year housing land supply: a means of assessing whether an area is bringing forward sufficient sites for housing development. Local authorities are required to maintain a supply of specific deliverable sites to provide at least five years of housing according to their annual housing requirement (NPPF para 47).

Household: one person living alone or a group of people (not necessarily related) living at the same address who share cooking facilities and a living room, sitting room or dining area (e.g. a family or group of students).²

Housing market area (HMA): a geographical area defined by household demand and preferences for all types of housing, which also reflects the key functional linkages between places where people live and work. HMAs may overlap and often cross administrative boundaries.³

Housing requirement (also local plan housing requirement or housing target): the number of homes planned to be built in an area as set out in its local plan, derived from OAN but taking account (in theory) of constraints on and opportunities for development, as well as any extra growth aspirations held by the local authority; often expressed as an annual figure.

Objectively assessed need (OAN): the required levels of market and affordable housing in a housing market area for the duration of a plan period, in line with other policies set out within the National Planning Policy Framework.⁴

Section 106 agreement: private agreements made between local authorities and developers regarding measures that the developer must take to reduce the impact of developments on a community. The share of affordable units as part of a housing development will form part of this arrangement.⁵

Strategic housing market assessment (SHMA): a study that local authorities must undertake to assess housing needs in relation to the type, scale and mix of housing and range of tenures required for the authority’s population over the local plan period.⁶

¹ Despite frequent references to ‘concealed households’ in housing studies, there is no single agreed definition; the definition here is based on that used by Bramley, G. Housing need outcomes in England through changing times: demographic, market and policy drivers of change, 2016, and the ONS definition of a ‘concealed family’ in 2011 Census analysis: What does the 2011 Census tell us about concealed families living in multi-family households in England and Wales? 2014. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/articles/2011censusanalysis/2014-02-06


³ National Planning Practice Guidance, Housing and economic development needs assessments, 2015. Available at: https://www.gov.uk/guidance/housing-and-economic-development-needs-assessments

⁴ Ibid


1.0 Executive Summary

The beautiful and thriving countryside for which CPRE campaigns depends on making our towns and countryside better places to live, work and enjoy, as well as protecting the countryside for future generations. A key part of achieving this is to provide homes in our cities, towns and villages that meet the needs of the people who want to live there. By providing the right houses in the right places, we will make sure people have places to live, and stop the unnecessary loss of our countryside. However, the Government’s reliance on the market to provide housing has meant that need and demand have come to mean much the same thing in housing policy. This paper sets out to untangle this fundamental misunderstanding and its contribution to our failure to solve the housing crisis.

It sets out the current political and social context and explores the distinction between housing need and demand. By looking at actual need and what is built, it demonstrates that failing to address need is fuelling the housing crisis. The failure to build social housing is also addressed. Case studies are used to illustrate the impact on local authorities’ planning processes and how these can be manipulated by developers to maximise profits.

Housing need is based on basic standards that society considers should be satisfied in order for citizens to be considered adequately housed, in terms of price, size and suitability; housing need is therefore calculable and finite. However, housing demand is based on what individuals and households are able and willing to pay for in the market, which responds most efficiently to those with higher spending power. In effect, demand is also notionally infinite, with investors and high-earning households willing to purchase second and holiday homes while the needs of those with lesser means continue not to be met. This paper calls for a clear distinction between housing need and housing demand.
Indicators of need and demand outlined in this paper show that there are acute housing needs that should be prioritised over meeting demand. This paper argues that planning must be based on the effective quantification of housing need and demand by local authorities. A new approach that would facilitate this is outlined in Chapter 6, followed by an exploration of the specific policy recommendations that could bring this approach into effect. These recommendations are that:

1. Housing need and housing demand are clearly distinguished within the National Planning Policy Framework (NPPF) and accompanying guidance.

2. Identification of need and demand are standardised in the strategic housing market assessment (SHMA) process.

3. Local authorities should make better use of the powers they have to acquire land specifically to meet the shortfall in housing need.

If the current confusion around housing need and housing demand persists, the same failing pattern of development will continue, with developers able to bring forward development that is orientated to meeting demand rather than need. The confusion over definitions means that housing delivery is judged against a single headline figure for the number of homes to be constructed, with the NPPF’s presumption in favour of sustainable development resulting in new permissions counting towards the headline figure, rather than actually addressing need. The result is that the housing crisis will continue – and precious countryside lost.
2.0 Introduction

Given the widely acknowledged housing crisis in this country, it would seem sensible that planning policy is focused on making sure that houses built are delivered in appropriate locations and in accordance with what is needed: size, type, tenure and volume. But this is far removed from the current method of delivery, which, as argued below, is weighted in favour of meeting demand rather than need, resulting in a mismatch between the housing required and the housing that is built.

The Conservative, Labour and Liberal Democrat parties placed housing prominently in their manifestos for the 2017 general election, and each included a pledge to increase social housing. The Government’s recognition that fundamental reform to the housing market is required was also clear from the title of the recent Housing White Paper: ‘Fixing our broken housing market’, which included a commitment to consult on a new methodology for the calculation of objectively assessed housing need, the details of which are still anticipated at the time of writing. However, the White Paper missed an opportunity: it did not set out a comprehensive strategy to create housing supply to meet housing need.

Under current planning arrangements set out in the NPPF and its supporting guidance, the National Planning Practice Guidance (NPPG), the SHMA process leads to the derivation of local authorities’ objectively assessed need (OAN) figure. This is initially a ‘policy-off’ figure – the estimated housing requirement before various constraints have been applied. Once planning constraints such as Green Belt and protected landscapes have been applied, in addition to any supply constraints, the figure becomes the housing target for the respective local plan.

However, the terms ‘housing need’ and ‘housing demand’ are conflated within the NPPF and the NPPG. This confusion means the OAN and resulting housing targets are often disputed at length. Confusion over need and demand is the principal reason why the OAN and targets are so difficult to calculate, and disagreements over the figures are the main reason why local plans fail. As a result, developers are more easily able to lodge speculative proposals for housing development, often on greenfield sites that have not been agreed through local plan processes, and tending to cater for demand rather than need. These proposals are often agreed upon appeal, undermining the plan-led process and doing little to address genuine housing need. More than half of local authorities do not have an up-to-date local plan in place. This process is explored further in CPRE’s Set up to fail (2015).
With local authorities unable to consistently determine housing need, they are vulnerable to developers responding to the market by focusing on building for housing demand. The people most in need of homes don’t get them and countryside is wasted as local authorities are forced to release greenfield sites for housing.

So how ‘housing need’ and ‘housing demand’ are defined and outlined within planning policy is of fundamental importance when we talk about tackling the housing crisis. This issue is of particular relevance in relation to development in rural areas, and especially to areas of high environmental value. Development proposals put forward in these areas may cause harm to the environment through their impact on the landscape or by generating additional traffic or new infrastructure. Planning decision-makers are required to weigh up the potential harm of a proposal against its benefits. The greater the harm caused by a development, the more its benefits matter. It is even more crucial then, that where developments will cause harm to an area, those that are meeting genuine local need for a certain scale and type of housing should be given greater weight than those that are designed to meet demand.

With the housing market consolidating economic and social divisions within society, differentiating between housing need and demand is crucial. This situation is exacerbated by the political decision to rely almost entirely on the market for housing delivery, with local authorities reliant on the private sector to provide affordable housing as part of their market developments. Last-minute renegotiation of Section 106 agreements – the mechanism for providing that affordable housing – often leaves local authorities with less affordable housing than they need.

The Housing White Paper promised a consultation on how OAN should be calculated. This paper shows how important it is to get that right.
3.0 What do we mean by housing need and housing demand?

3.1 Need

Housing is a form of social need. Yet there are accepted standards that apply to access to accommodation that encompass general notions of housing need, the key components of which are:

- Affordability
- Location
- Quality
- Time

**Affordability:** housing need is often conflated with affordability, which is a key component of need but not the only one. That an individual or household is able to afford their housing without the costs impacting too severely on their finances is a measure of affordability. An often cited measure of affordability is that the individual or household should not spend more than 30% of their monthly income on rent or mortgage payments.

**Location:** this is particularly relevant in rural locations, and relates to how far an individual or household should reasonably be expected to travel to find suitable accommodation.

**Quality:** this applies to certain standards of space as well as ensuring that accommodation is fit for purpose.

**Time:** this refers to whether the need exists or is expected to exist in the future. A useful example is Canada, where housing policy applies three of these principles. A household whose housing does not meet one or more of the following measures is classified as being in ‘core housing need’:

- acceptable housing: the household’s dwelling does not require major repairs (such as defective plumbing or structural repairs to walls);
- suitable housing: there are enough bedrooms for the size and make-up of the household;
- affordable housing: accounting for under 30% of household income.
3.2 Demand

Housing demand is tied to financial and economic circumstances. It has been defined by Bramley et al as ‘the quantity and quality of housing which households will choose to occupy given their preferences and ability to pay (at given prices)’.\(^\text{13}\)

Housing demand is affected by a number of market and economic factors that will influence individuals’ willingness and ability to pay. These factors include: wealth, access to credit (for example, ability to obtain a mortgage) and ability to sell their current home (if the specific housing demand is to purchase a property).\(^\text{14}\)

Market demand is also driven by aspiration. Households may aspire to housing that is beyond minimum requirements but that could be said to meet housing need, such as accommodation with multiple kitchens or a large garden. This is aspiration in the market, above a ‘need’ threshold. The aspiration to live in a desirable area is a further component of market demand. Households may aspire to live in a countryside location even if it is not well connected to the relevant bases of employment, and which may require commuting by car.


\(^{14}\) Savills, How do you measure housing demand? Available at: http://www.savills.co.uk/blog/article/197856/residential-property/how-do-you-measure-housing-demand.aspx
3.3 The distinction between need and demand

We can outline a spectrum of need and demand with pure need and pure demand at either end. In policy terms, value judgements will be required about what constitutes need and what the Government’s response to this should be.

**Figure 1. Spectrum of housing need through to housing demand**

These value judgements as expressed in policy terms have implications for different groups. For example, should single young people have the right to live in accommodation separate from their parents at public subsidy? Is this a form of need that warrants intervention by Government? In the current climate, it seems unlikely that public funds would be made available for this purpose, however desirable it may be.

Bramley created a modelling framework that is used to measure the trends of housing need over time and provides an insight into what constitutes housing need. The measures of housing need utilised were: overcrowded households, concealed households, sharing households, households lacking amenities, affordability problems and suitability problems (a. health related, e.g. needing to find alternative accommodation due to difficulty in using stairs; b. family related, e.g. having children under 12 years old and living in a flat); neighbourhood problems (e.g. fear of vandalism).  

Clearly, there aren’t necessarily neat distinctions between different types of housing need, but a clear conceptual distinction can be found in London’s guidance note on undertaking SHMAs which distinguishes housing need from housing demand as: “…(1) housing need, which is the housing that households require even if they cannot afford it, and (2) housing demand, which is the housing that households are able to afford even if they don’t need it.”
For the purposes of the analysis in this paper, this is the distinction that will be adopted. A further useful distinguishing feature is that housing demand is dependent on the economy, whereas need is independent of it. Every household has certain needs or requirements, regardless of income.

It is important to note that the measures of housing need described above apply to an individual household. Yet from the strategic viewpoint, balancing need and demand involves considering individual requirements in the context of collective requirements, which should then be planned for. The latter part of this paper sets out a new approach to strategic planning for housing need and housing demand. While this paper has adopted the above definitions of need and demand, other approaches could, of course, be applied.
4.0 The problem: mismatch between housing need and housing delivery

There is a stark mismatch between the housing that is required and the houses that are being built in terms of: numbers, tenures, sizes and price. Research undertaken by Savills on housing need versus housing delivery in London, for example, also indicates the degree to which the market is not delivering what is required. As Figure 2 shows, while the greatest requirement is for low-cost housing to rent or buy, these are the forms of housing that are forecast to be least built over the next five years.

Figure 2: London completions five-year forecast for 2017-2021

Source: Numbers from Savills Research

Further evidence that developers are using land to build housing that is not meeting need can be understood through assessing new-build housing as a proportion of overall housing transactions. Less than 10% of property purchases relate to new stock.\(^\text{18}\) Therefore, existing housing stock and ‘churn’ is more important in relation to meeting housing need. New-builds delivered by the larger developers are generally not aimed at first-time buyers but households seeking to move to a larger dwelling. So where social and affordable housing is needed, executive homes are built instead. This is a pattern more prevalent in rural areas where housing that meets demand rather than need is more lucrative for developers.

### 4.1 Indicators of housing need and housing demand

#### 4.1.1 Demand

Rates of household formation can reflect affordability and access to housing in that house market pressures delay household formation.\(^\text{19}\) Household formation rates and concealed households can be viewed as a mirror image of one another.\(^\text{20}\) Demand for market housing is highly dependent on economic factors, as can be seen from the timeline in Figure 3.

**Figure 3: The relationship between household formation and concealed households**

Source: Bramley, 2016\(^\text{21}\)

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\(^{19}\) Bramley, G. Housing need outcomes in England through changing times: demographic, market and policy drivers of change, 2016. Available at: http://www.tandfonline.com/doi/abs/10.1080/02673037.2015.1080817

\(^{20}\) Ibid

\(^{21}\) Ibid
4.1.2 Need

First-time buyers

It is increasingly difficult for first-time buyers to gain a foothold on the housing ladder, with young people in particular struggling to buy a home. The first priority of housing policy in relation to meeting need should be that households are adequately housed in relation to the factors that define need outlined earlier in this paper – regardless of tenure. The millennial generation is often labelled ‘generation rent’, and its housing outcomes warrant specific attention. In 2001, 60% of 25 to 34 year olds owned their own homes; by 2015, this figure had fallen to just over 40%. These statistics become more salient in rural communities, where younger people are finding it harder to access affordable housing in the areas where they may always have lived. This is borne out by statistics reported in our previous Housing Foresight Series paper: On Solid Ground, which show that between the 2001 and 2011 censuses, the median age of the rural population of England and Wales rose from 42 to 45, while in urban areas it rose from 36 to 37. That younger households are struggling to access housing is having a negative impact on the social fabric of rural communities and diminishing their diversity.

Instead of having a home of their own, young people and young families are more likely to live in a multi-family household as a concealed household. The rise in the number of concealed households has been exponential. Between the 2001 and 2011 censuses, 70% more concealed households were observed, taking the total number to 289,000 households. Not only are families unable to gain a home of their own, but far more people are living in overcrowded conditions: 675,000 households, according to the English Housing Survey. Many younger people between the ages of 20 and 34 are being forced to live with their parents: one in four of this section of the population – 3.3 million people – compared with 2.7 million in 1996.

That younger people are struggling to access housing is hardly surprising given the huge increase in house prices in relation to earnings for first-time buyers; the average house price is now just under eight times the average salary, which puts ownership out of the reach of many individuals and families. This inability to access owner-occupied housing has forced many more families to fall back on the private rented sector. Between 2000 and 2015, the number of households renting privately almost doubled, from 10% to 19%.29
Yet the need for new housing arises most strongly among young people. Department for Communities and Local Government figures project that, between 2011 and 2031, the net increase in the number of households in England will be 211,000 per annum. This projection is based on the following three components:

- 363,000 pa new households formed by those under 25 in 2011 (under 45 in 2031)
- 53,300 pa additional households formed by those 25-65 in 2011 (45-85 in 2031)
- 206,000 pa fewer households formed by those 65+ in 2011 (85+ in 2031)\(^3\)

As these figures demonstrate, the overwhelming number of newly forming households are young. They rely on cheaper housing stock to meet their needs, rather than the new-builds that are predominantly aimed at those ‘trading-up’ to bigger or better-appointed homes and are thus less suitable for young people and those attempting to get onto the housing ladder. These newly forming younger households also have less secure employment and greater debt. It is no wonder that many of these households end up being concealed with parents or shared households rather than setting up a home of their own.

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Social housing

While remaining high, the number of people on waiting lists for social housing has tailed off in recent years. It has been argued that the reduction is due to the local connection test measures introduced through the Localism Act 2011 rather than a reduction in the volume of people who require social housing. Although local authorities have reduced their social housing waiting list by applying local connection criteria, the number of people on these lists in England in 2016 was recorded as 1,183,777 households. It is likely that this figure is considerably lower than that for actual need for social housing.

Social housing rents have risen dramatically over this period, as Figure 4 demonstrates:

![Figure 4: Affordability of social housing since 2001](image)

Source: National Audit Office

Social rents have risen at a level well beyond annual wage increases, placing increasing strain on household finances and creating a danger that those whose housing need is buttressed by state support risk becoming homeless.
Government policy not to invest resources in social housing to support those in high housing need is exacting costs elsewhere. With high demand for few available units, the failure to meet social housing need is rippling into the private rented sector. In 2016, the National Housing Federation calculated that £9.3 billion of housing benefit was paid to private landlords, double the amount paid out ten years ago, in 2005/2006. The federation found that almost half of households in receipt of housing benefit in the private sector were in part-time or full-time work, compared with just over a quarter in 2008. This demonstrates the stresses that have come to bear on household finances over the past few years.

**Homelessness and temporary accommodation**

A further and very obvious indicator of housing need can be found in the number of individuals who are homeless or living in temporary accommodation. With regard to the former, recently published Government figures show that 59,260 households were accepted as homeless by their local authority in 2016 – a rise of 22%. Figures show that in England at the end of 2016 there were 75,740 households accommodated in temporary accommodation. Rural housing is becoming increasingly unaffordable. Only 8% of housing stock in rural areas is affordable, compared with 20% in urban areas. Levels of deprivation in rural areas can often be overlooked but there are stark inequalities, with people in more remote areas particularly vulnerable to increased deprivation. The dimensions of rural homelessness were recently explored in a research paper published by the Institute for Public Policy Research. In examining rural homelessness, a study lacking from the literature until now, the IPPR found that, in largely rural areas, there was a 52% increase in the number of rough sleepers recorded between 2010 and 2016. The reasons for the large increase in rural homelessness observed over recent years, as outlined in the report are: lower levels of affordable housing, lower levels of housing affordability; shortages in affordable homes and appropriate tenure options; high prevalence of second and holiday homes; and decline in local authority-owned housing stock.

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35 National Housing Federation, The growing Housing Benefit spend in the private rented sector, 2016. Available at: http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/Housing_Benefit_and_the_private_rented_sector.pdf

36 Ibid

37 Shelter policy blog. Want to reduce homelessness? We need longer tenancies, 2017. Available at: http://blog.shelter.org.uk/2017/03/want-to-reduce-homelessness-we-need-longer-tenancies/


39 DCLG, English housing survey, 2011


41 The author caveated these figures on the basis that homelessness is harder to detect and record in rural areas in comparison to urban areas. Levels of rural homelessness are likely to be higher than those in the report.

42 Snelling, C, Right to Home? Rethinking Homelessness in Rural Communities, 2017. IPPR.
5.0 What are the causes of the mismatch between housing need and housing built?

If one accepts that there is a housing crisis, it is clear that this crisis is felt most by those who are least able to afford their own home on the private housing market. Addressing this crisis requires that, in creating new homes, priority is given to homes that are accessible to those most in need. There are three key reasons why current planning and housing policies are failing to address the crisis. The first, which is the central topic of this paper, is that Government fails to distinguish between need and demand in policies for the planning and delivery of new homes. The other two (related) reasons are that funding for the construction of affordable homes has been reduced, and that planning agreements to provide affordable and social housing through private developments are failing to deliver the anticipated amount of low-cost homes.

5.1 Government’s failure to distinguish need from demand within planning policy

How are need and demand addressed within planning policy and how does this interact with the funding scheme for affordable housing set out above? The NPPF and its supporting guidance, the NPPG, conflate the two terms, as this text, taken from the NPPG shows:

‘Need’ as referring to ‘the scale and mix of housing and the range of tenures that is likely to be needed in the housing market area over the plan period – and should cater for the housing demand of the area and identify the scale of housing supply necessary to meet this need’

This conflation can result in confusion in setting out a local authority’s OAN for housing. This is the figure that is translated into a minimum housing target within local plans after various policies have been applied, such as constraints including the Green Belt. The final OAN figure must include: an overall calculation of need, a split of the OAN into tenures and a calculation of affordable need.
The conflation of need and demand in the calculation and application of OAN is a problem in itself because it distracts from the priority activity that is required to resolve the housing crisis: the provision of homes that meet actual local needs. This is of particular concern to CPRE because homes that are planned and/or built that address demand but do not meet need waste valuable countryside, and damage the environment and quality of life in a community without bringing sufficient benefits. The issues resulting from setting housing targets in excess of what is needed or is realistically deliverable have been documented elsewhere, setting targets that fail to prioritise need over demand, or failing to enforce the delivery of sufficient homes to meet need while allowing too many homes that solely meet demand, are two ways to exacerbate this vicious circle of harm to the countryside.

There is a further issue that deserves note. As well as ‘natural’ projections of household growth, OAN often includes arbitrary uplifts based on economic aspirations and so-called market signals. Such figures should be disaggregated to ensure the homes that local communities need are built as a priority. For example, the Oxfordshire SHMA published in 2014 put forward plans for an additional 100,000 houses over a 17-year period, equating to 40% growth in every settlement and double previous estimates. Analysis of the SHMA found that 44% of the additional dwellings were forecast on the basis of planned job growth, which was based on questionable economic analysis.

5.2 Funding arrangements for social and affordable housing

In 2010, the Coalition Government switched funding for social rented homes to the affordable rented programme. Bowie has argued that this programme is a misnomer because, with rents of up to 80% of market rates, they are often out of reach of many households. Before this policy, there was greater central funding available for housing associations to deliver social housing, including to cover the shortfall in capital costs that housing associations could not raise through rental income. This form of funding worked effectively throughout the 1980s. During the 1990s and early 2000s, an increasing proportion of the national housing investment budget was directed towards home ownership initiatives such as shared ownership schemes. Yet the Coalition Government’s intervention still amounted to a 63% real-terms reduction in average capital spending. Bowie illustrates the impact of this through the following example. Before the change in policy, an investment grant could fund 60%-70% (sometimes as much as £150,000-£200,000) of the cost of a new dwelling. Under the new policy, this fell to an average of £30,000, with many parts of the country unable to access grant funding at all. Indeed, some commentators have pondered whether this policy change could be said to be the end of the development of new social housing.

46 CPRE Oxfordshire, CPRE calls on local authorities to reject SHMA. http://www.cpreoxon.org.uk/news/item/2369-local-authorities-must-reject-shma
47 Bowie, D, Radical solutions to the housing supply crisis. Policy Shorts, Bristol, 2017. Available at: https://policypress.co.uk/radical-solutions-to-the-housing-supply-crisis
48 Ibid
49 Ibid
The reduction in the number of newly built social rented units since 2010 is shown in Figure 5.

**Figure 5: Social housing completions**

![Graph showing social housing completions](image_url)

*Source: DCLG Table 1000*

Funding for social housing, which has served as a safety net for those whose housing needs are most acute, has been all but eradicated over recent years. Instead, Government policy has focused on helping more people into home ownership through schemes such as the Help to Buy ISA and Mortgage Guarantee Scheme. Other policies, such as Starter Homes in particular, demonstrate that the Government’s focus is on sub-market ownership products. This leaves many households cut adrift, and homeless charities draw a direct link between the declining stock of affordable social housing and the increasing rates of homelessness and occupancy of temporary accommodation. The Government’s Right to Buy policy, which enables eligible local authority and housing association tenants to buy their home at a discount, has also reduced the volume of social housing stock, further increasing pressure on those with the greatest needs.
5.3 Affordable housing provided through market developments

Government policy has placed the emphasis on private developers to bring forward the required levels of affordable housing across local authorities. Under current planning policy, local authorities are required to establish a housing target as a combination of market housing and affordable housing, as set out in the NPPG.53 Local authorities will then attempt to deliver the majority of affordable housing through securing affordable units as developer contributions on market housing development. The amount of affordable housing that developers will put forward on any site is set out in Section 106 arrangements, with the specific number of units negotiated through viability assessments that factor in all of the costs included within a development, including the cost of acquiring land.

These arrangements are not delivering sufficient affordable housing and are short-changing communities. Local authorities, under pressure to grant planning permission to hit targets, can find it difficult to contest developers who argue that a development is undeliverable on viability grounds if the volume of affordable homes is too high. It is well documented that volume house builders often attempt to reduce the affordable housing requirement on viability (profitability) grounds. The Bureau of Investigative Journalism undertook a major two-year study on this issue which revealed systematic and widespread under-delivery of affordable homes. Of 82 of the biggest housing developments in ten major cities, just 40% were found to comply with local affordable housing targets.54 Often developers will pare down targets and deliver fewer affordable units than initially agreed.

53 NPPG, Housing and economic development needs assessment, 2015 Available at: https://www.gov.uk/guidance/housing-and-economic-development-needs-assessments
Paragraph 029 advises: ‘The total affordable housing need should be considered in the context of its likely delivery as a proportion of mixed market and affordable housing developments, given the probable percentage of affordable housing to be delivered by market housing led developments. An increase in the total housing figures included in the local plan should be considered where it could help deliver the required number of affordable homes.’

Case study: Leeds

The Leeds Core Strategy, adopted in November 2014, set a housing requirement (target) of 4,375 new homes a year in the plan period 2012-28. This is far more than the last two sets of DCLG household projections (2012-based and 2014-based), which imply housing need of fewer than 3,000 homes per year. The reason that the authority, and the examining inspector, opted for a housing target so far above trend-based projections was to match aspirational job growth. Since the core strategy was adopted, delivery has fallen short of the target, and an appeal decision in 2016 (Grove Road, Boston Spa) found that the local authority could not demonstrate a five-year land supply.

Given its failure to deliver and lack of a five-year land supply (see Glossary for explanation), the local authority agreed to review its housing target, and initial results have presented lower housing need estimates. It will take at least a year to complete the review, including consultation and examination, before a new target can be adopted. Until this happens, the local authority does not have a plan and the area will be subject to planning by appeal – where housing allocations are decided by planning inspectors rather than local authority policy. As detailed in the introduction, this will mean that housing need is not met and countryside is likely to be lost unnecessarily.

Case study: New Forest

The New Forest Strategic Housing Market Assessment estimated a need for 9,500 affordable homes (76% social rented and 24% in intermediate tenures), and an overall housing need for the same area of between 14,540 and 17,000. This makes the affordable housing requirement around 60% of the total – more once the total is reduced to account for constraints caused by the Green Belt and National Park.

A 60%-plus affordable housing contribution is clearly not feasible for developers. In these circumstances, some local authorities might propose an increase in the overall SHMA total to deliver the number of affordable homes, even if there was no demand for the additional market homes. Instead, planning consultants GL Hearn suggested that the figures remain unchanged to reflect the authorities’ assessment that some of the households assessed as being in need (i.e. spending more than 30% of their income on housing costs) were already adequately housed and other affordable needs were being met by the private rented sector.

Hence, the local authorities have accepted that they will not be planning to meet their affordable housing needs in full, though they will be seeking the maximum possible contributions on all sites. This means that households that are currently classified as in need of affordable housing will continue to live in sub-optimal housing, and insufficient new households will be catered for. Moreover, land will be used to build houses that most local people cannot afford, just to meet market demand.
6.0 Towards a new approach

As this paper has outlined, the NPPF and NPPG conflate need and demand. While the number of affordable homes needed has to be set out within the OAN, as demonstrated above, what gets delivered is not meeting this need. Furthermore, the system of securing affordable housing through developer contributions is leading local authorities to increase the number of market houses in their plans beyond what is necessary or deliverable, making them vulnerable to falling foul of their five-year land supply requirement. When that requirement is not met, local authorities are forced to release yet more land for development in inappropriate locations, which they may also fail to deliver. On the basis of clarified definitions of need and demand set out in the NPPF, local authorities should embark on the following steps to determine their housing targets:

1. **Housing need**, the housing that households require irrespective of their ability to pay, is determined through detailed assessments at local level and through the analysis of sub-national population projections and the estimated household formation growth over a plan period. It must also take into account unmet need in the form of concealed and shared households, or those living in accommodation that is not fit for purpose.  

2. **Housing demand** is recorded as the market demand for housing that exceeds the minimum requirements to meet housing need (measures that should be set out within a revised definition of housing need). This could be established by examining the long-term trends in the types and location of homes that people are willing to pay for within a housing market area and through reference to the relevant SHMA.

2. Local authorities may also have a genuine desire for economic regeneration or growth, which requires positive management through their development plan. Such aspirations should be genuinely locally led, with the support of the community, and not dictated by unaccountable and opaque local enterprise partnerships. The desired development, including new homes, needs to be calculated on the basis of realistic assessments of the ability of the economy and the capacity of the development industry to meet those aspirations, as well as taking account of constraints such as Green Belt and other planning or environmental designations. Such aspirations should be presented as separate from housing need and demand, and local authorities should not be held to account on delivery that is outside their control.
3. With a baseline quantification of housing need and demand, as well as the housing required to meet realistic economic growth ambitions, a ‘policy-on’ scenario should change the amount and type of housing that is planned for in order to meet policy outcomes insofar as can be realistically and sustainably achieved in the plan period. These policy outcomes should principally include:

- Improving the degree to which affordable housing needs, and the needs of particular groups, are met.
- Complementing the existing housing stock on a place-by-place basis to achieve more sustainable places.
- Providing the right types, tenures and locations of new housing to support the economic and spatial objectives of the area.

4. Local authorities would then be able to plan on the basis of a clear understanding of the requirement for housing need and for housing demand. The OAN should not be a single numerical target but instead should outline housing needed in terms of type, tenure and affordability according to location to become ‘policy-on’ OAN.
7.0 Conclusion and policy recommendations

This paper has considered how planning for the provision of housing could be made more effective by recognising and putting into practice the distinction between the terms housing need and housing demand. This approach has been lacking from the literature to date, though a mass of academic studies have attempted to establish the national levels of housing need and demand.

Summary of recommendations

- Housing need and housing demand should be clearly defined within the NPPF and accompanying guidance.

- Identification of need and demand should be aided through the standardisation of the SHMA process.

- Local authorities should make better use of the powers they have to acquire land specifically to meet the shortfall in housing need.

7.1 Better definitions of need and demand in the NPPF

The conflation of the terms need and demand in current planning policy leads to a number of poor outcomes in relation to the allocation of land. With uncertainty over what is required and what will realistically be deliverable through the market, local authorities are already often setting undeliverable housing targets. This is further compounded by the viability of providing the affordable housing that is most urgently needed, resulting in targets for market housing being inflated beyond what the market can sustain.

As this paper argues, it is vital that need and demand are distinguished in planning policy to ensure that more of the homes that are genuinely required are built. The updated NPPF – that will include revisions based on the Housing White Paper – is expected in 2017 or early 2018 and should include a more precise definition of housing need and housing demand.
This clarity is crucial. As the new approach outlined in section 6 of this paper demonstrates, with a quantification of housing need and housing demand provided from a clear distinction between the two, local authorities will be able to make more realistic plans, with land allocated appropriately for housing that will be delivered on the basis of understood requirements.

7.2 Standardisation of the SHMA process to help identify need

Too often, the housing requirements outlined within SHMAs are not adhered to and the housing target is treated as a single figure, with developers able to propose housing schemes on their terms. Local authorities, under pressure to meet targets, are not easily able to reject proposals that do not meet identified need. Where a local authority has allocated a site for a purpose, part of the planning consent agreed with the developer should be for the delivery of the identified housing required for the specific site.

To this end, it is vital that local authorities’ assessments of housing need hold sufficient clout with developers and are properly adhered to. Local authorities should be able to specify the mix of affordable housing required under Section 106 arrangements, based on the SHMA, as argued by Bramley. To help local authorities make realistic assessments of housing need and demand, a renewed and uniform approach to housing need is required.

The NPPG states that, in assessing housing need, local authorities should look primarily to secondary data, such as the Census, because primary data such as local surveys would involve disproportionate cost. This is questionable given the methodological flaws in rolling forward past trends that are unresponsive to policy changes and events in the shorter term, and there are recognised limitations to basing projections on secondary data only. Although planning departments are operating within harsh resource constraints, it is vital that a bottom-up and accurate understanding of housing need is developed and planned for.

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59 Bramley, G, Ten points to increase housing supply, 2016. Available at: https://rh-sphere.org/2016/01/11/ten-steps-to-increasing-housing-supply-in-england/

60 DCLG, Planning practice guidance, Housing and economic development needs assessment. Available at: https://www.gov.uk/guidance/housing-and-economic-development-needs-assessments

A standardised approach to the SHMA process could draw on an approach to the Housing Needs Index (HNI) that was previously employed by London local authorities to establish affordable housing need. The HNI was a composite index of: multiple deprivation, under-occupation, overcrowding, concealed households, stock conditions, elderly households, households containing an elderly member, private sector housing receiving housing benefit or income support and households in temporary accommodation.

Currently, SHMA approaches vary widely, and one step could be to standardise local authorities’ methodology and approach to SHMAs. The standardisation of the SHMA process has also been called for by Bowie, who noted the additional benefit that estimates of housing need produced at a local level could be aggregated up to a national level. A national housing data monitoring unit, perhaps formed as part of the Homes and Communities Agency, could perform this function.

### 7.3 Local authorities acquiring land to meet need at a fair price

As outlined in section 4 of this paper, there is a gulf between the housing that is needed and the housing that is being delivered. This harms the countryside (with land being released unnecessarily), jeopardises local authorities’ five-year housing and supply, and paves the way for areas to be opened up to speculative development that further undermines the housing needs of communities. Yet, with an unequivocal approach to housing need and housing demand, land could be allocated appropriately and for housing that will realistically be delivered.

Yet under the current funding arrangements and market realities, the development required to meet housing need is unlikely to be delivered. In order to bridge this shortfall, local planning authorities will need be innovative and explore land value capture mechanisms that could provide more favourable economic incentives for the provision of housing that meets identified need.

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63 Ibid


One approach could be to segment land supply in relation to these two groups. Land would be allocated predominantly or exclusively for the purpose of social and/or affordable housing in line with identified local need. Through segmenting land and applying compulsory purchase order (CPO) powers, local authorities will be better placed to deliver housing supply for those in greater need. CPO is a form of land acquisition argued for in the Lyons Housing Review as well as in Shelter’s new housing initiative, New Civic Housebuilding. Obtaining land at a fair value is central to the arguments that Shelter has put forward. Where local authorities have been able to procure land at a level close to its existing use value, innovative developers who deliver schemes with high proportions of affordable housing should be incentivised to put forward proposals. The use of CPO powers to acquire land at a lower value was included in the Conservative Party’s 2017 General Election manifesto as part of a pledge to deliver more local authority housing on brownfield sites in urban locations.

Conclusion

There is a pressing need to deliver housing that meets identified need. Unless housing need and housing demand are clearly distinguished in planning policy, the housing crisis will only be perpetuated: the housing delivered will continue to benefit developers rather than communities. This will harm rural communities especially, given that their social fabric is being undermined by a lack of suitable housing as younger people and families are driven out. At the same time, precious countryside is lost to unnecessary demand-led development. The Government must act to fix this glaring failure of policy.
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