

Housing demand and need in England 1991-2011

There is wide interest in how much further growth in owner-occupation is in prospect and how much letting at subsidised rents will be needed. A report by Alan Holmans, now at the Property Research Unit, Cambridge University, forecasts needs for subsidised rented housing, the growth of owner-occupation, and the increase in the housing stock in England in 1991-2001 and 2001-2011.

- f** To meet the demand for homes by private owners, and the need for subsidised renting, about 240,000 new homes a year will be required in the two decades 1991-2001 and 2001-2011.
- f** The demand for new homes by owner-occupiers is forecast at 150-160,000 in 1991-2001 and 130-140,000 in 2001-2011.
- f** The proportion of households that are owner-occupiers will continue to grow, to around 70%; the absolute number of owner-occupier households will increase by 2.7m in the two decades together.
- f** The need for additional 'social' housing will average 90,000 homes a year in 1991-2001 and 100,000 a year in 2001-2011 to keep the backlog of unmet need at its 1991 level. These estimates compare with the Department of the Environment's published estimates of 60,000 to 100,000 for 1991-2001.
- f** The figures rise to an average of about 117,000 homes every year for the 20 year period if the backlog of unmet need for separate homes - between 400,000 and 500,000 in 1991 - is to be eradicated over the two decades.
- f** Production of social housing in the 1990s, to date, has run at levels well below the identified need - averaging about 60,000 a year for the four years 1991/92 to 1994/95. This increases pressure for a higher output from now until 2011.
- f** But the rate of growth of owner-occupation will be much slower - about 3% over the 20 years from 1991, compared with nearly 10% for the 10 years up to 1991. The reasons include instability of incomes, more mortgage defaults, and fewer local authority and housing association tenants having sufficient incomes to buy (even on 'Right-to-Buy' terms).
- f** A growth in the number of homes available for rent from private landlords would absorb some of the households unable to purchase. But if extra privately rented accommodation is occupied by those who would otherwise be requiring subsidised housing from local authorities or housing associations, government will need to support the rents through Housing Benefit - so cost savings cannot be anticipated.

Purpose of estimates of housing demand and need

Present and future need for what may be termed 'social' housing is a central part of the context for decisions on public expenditure on housing, both in relation to expenditure on other services and to taxation and borrowing. The future number of owner-occupiers and demand for new houses to purchase are essential elements in an assessment of future demands for mortgage finance. New house-building in the private and social sectors combined is important for the construction industry and in the longer term for land-use policy. Regional planning conferences have called for national assessments of the increase in the housing stock for which land-use planning should provide, so that they should have a framework for their regional strategies. For that purpose a long time horizon is needed, hence including 2001-2011 as well as 1991-2001. For social housing the value of including 2001-2011 is to show whether the need estimated for 1991-2001 is higher than is likely in the longer term. If it is, then postponing to the next decade meeting some of the need arising in 1991-2001 could be contemplated more readily than if newly arising need in 2001-2011 is likely to be as high or higher.

Social housing is now provided by local authorities and housing associations, though the White Paper *Our Future Homes* envisages provision as well by private owners, as in Germany (where the term originated). Provision depends on policy, and the estimates made are of the number of dwellings that would need to be provided to achieve long-established housing policy aims, variously formulated as a 'separate house for every family that wishes to have one' (in 1945); 'a decent home for every family at a price within their means' (in 1971); and 'a decent home within the reach of every family' (in 1995). The forecast of new building for private owners, on the other hand, is a forecast of demand made effective by income, financial assets, and access to credit. The working assumption is that - except possibly in the very short term - supply will meet the demand, as it has done hitherto other than in exceptional circumstances such as the war and immediate post-war years.

Method for estimating housing demand and need

A forecast of new house-building in total has to be in two parts: effective demand for houses for private owners; and needs for social housing. Needs for social housing also have two components: unmet needs in the base year, conventionally termed the 'backlog' of need; and newly arising need, generated by events in the forecast period, particularly increases in the total of households and changes in the mix of types of household. Both the forecasts of effective demand and of newly arising need for social housing depend heavily on the forecast (technically

'projection') of households in future years. The centre-piece is the forecast of the distribution of total households in 2001 and 2011 by tenure (Table 1). This distribution is forecast in two stages, the first by dividing households into owner-occupiers and tenants, and the second by dividing tenants into private sector and social sector tenants.

Newly arising need for social sector dwellings is forecast as a residual, the number that will not have access to adequate housing through purchase or through renting from a private landlord. If the social rented sector does not provide for them in sufficient numbers, some of them will be inadequately accommodated, for instance in rooms in multi-occupied houses or families living as part of someone else's household (for example, with in-laws); or in hostels and bed-and-breakfast hotels.

The method used for the first stage, dividing households in 2001 and 2011 into owner-occupiers and tenants, depends on the way in which the proportion of households that are owner-occupiers varies with the type of household and with age. Comparatively few new entrants to owner-occupation are over age 45 other than sitting tenants buying at heavily discounted prices, and few owner-occupiers above that age move to renting. So at ages 45-49 and upwards the proportions of households that will be owner-occupiers (sitting tenants apart) in 2001 and 2011 can be forecast by rolling forward the proportions in 1991. Household heads aged 45-49 in 1991, for example, will be aged 55-59 in 2001 and 65-69 in 2011; and the proportion that will be owner-occupiers (excluding sitting tenant purchasers) very similar in all three years.

At the younger ages the proportions have to be forecast by taking a view about what can be expected in the light of economic and social conditions. Rising real incomes work to raise the proportion, though the effect of incomes is diminished by the increases being greatest at the higher levels of income and smaller at the lower levels where there are households on the margins of owner-occupation. The greater instability of incomes that results from 'flexible' employment markets cuts the other way, as do high real interest rates, reduced tax relief, and reduced payment of mortgage interest through income support. The central forecast is of no net change between 1991 and 2001 and between 2001 and 2011 in the proportions of younger households that are owner-occupiers, except for some postponement of house purchase at the younger ages. The Department of the Environment made alternative assumptions of a 3 or 4 percentage point increase between 1991 and 2001 in proportions of owner-occupiers at ages under 45, and a 2 or 3 percentage point decrease. The number of owner-occupier households that entered the tenure through purchase as sitting tenants from local authorities, new towns, and housing associations is forecast separately

Table 1: Forecast of the tenure of households in England in 2001 and 2011

	(thousand)		
	1991	2001	2011
Owner-occupiers	12,873	14,324	15,570
Private sector tenants	1,866	1,940	1,990
In hostels, etc	20	3	3
Social rented sector	4,456	4,779	5,206
All households	19,215	21,046	22,769

Owner-occupation

Table 1 shows an increase of 2.7 million owner-occupier households between 1991 and 2001. This is a large increase in absolute terms, but would raise the overall proportion of owner-occupiers by only 1.4 percentage points. Different assumptions would produce a somewhat larger increase, but would still predict a near plateau in the proportion of households that are owner-occupiers, in the low 70s percent. The reasons are basically:

- economic and social change, including the larger number of households forced out of owner-occupation through mortgage default (almost 300,000 in 1990 to 1994), makes further substantial increases in the proportion of younger households that are owner-occupiers unlikely;
- past sales by local authorities to sitting tenants and the economic circumstances of new social sector tenants mean that there are many fewer potential Right-to-Buy purchasers than formerly; and
- the private rented sector has ceased to contract and is likely to grow slowly. There was always an inherent tension between maximum growth of owner-occupation and revival of the private rented sector. If however the focus is on the proportion of households accommodated by the private sector in total rather than just owner-occupiers, Table 1 shows a static prospect.

Need for social sector dwellings

The number of additional social sector dwellings to meet newly arising needs can be derived directly from the net increase in households in the social rented sector. Allowance must be made for changes in the number of vacant dwellings and for replacement of demolished dwellings, with a further adjustment for sales to sitting tenants. This adjustment is needed because the forecast in Table 1 of social rented sector tenants is net of tenants buying their houses (forecast at 950,000 in the two decades), who take their houses with them when they move to owner-occupation.

Table 2: Newly arising need for additional social sector dwellings

	(thousand)	
	1991-2001	2001-2011
Net increase in households (Table 1)	323	427
less: Reduction in vacant dwellings	-6	-
add: Demolished dwellings replaced	120	120
add: Adjustment for sales to sitting tenants	463	485
Total additional dwellings	900	1,032

In round terms, newly arising needs for social sector dwellings are estimated at an average of 90,000 a year in 1991-2001 and 100,000 in 2001-2011. Dwellings released by moves away to buy through the Cash Incentive Scheme and Tenants Incentive Scheme (CIS and TIS) count towards these totals, but can make only a modest contribution. The bulk would have to come from new building.

Provision of 90,000 additional social sector dwellings (less any net release through CIS and TIS) in 1991-2001 would leave the backlog of unmet needs at substantially its 1991 level. This backlog, which is very heterogeneous, was probably in the region of 400,000 to 500,000. To reduce it to literally zero would probably not be feasible. A significant net reduction would require at least 100,000 new social sector dwellings annually in 1991-2001, and more in the next decade.

All tenures together

The forecast for all tenures together is shown in Table 3. New building (which includes conversion gains) in the social sector is taken from Table 2, and does not include provision for reducing the backlog of unmet need. The net increase in the stock of privately owned dwellings exceeds the net increase in households in the owner-occupied and private rented sectors owing to a forecast increase in the number of secondary residences. Little change is forecast in the number of vacant dwellings. The risk of substantial increases in vacant dwellings due to geographical mismatches is much reduced by the very widespread increase in the number of households that is now foreseen.

Table 3: New building and the increase in the housing stock

	(thousand)	
	1991-2001	2001-2011
New building, etc		
Private sector	1,547	1,324
Social sector	900	1,032
Total new building, etc	2,447	2,356
Demolition and changes of use	490	490
Net increase in stock of dwellings	1,957	1,866

Table 4: Provision of social housing and new building for private owners 1991/92 to 1994/95

	(thousand)				Average
	1991/92	1992/93	1993/94	1994/95	
Provision of social housing Total	40.7	73.0	67.7	75.6	64.3
Total excluding low cost home ownership	39.4	67.6	59.7	65.6	58.1
New dwellings completed for private owners	132.0	115.7	114.2	122.9	121.2

Total new building (including conversion gains) is forecast at around 240,000 a year (England figures) if newly arising needs for social housing are met, and a net increase in the housing stock averaging 190,000 a year, somewhat more than the average for 1981-1991, but about the same as the longer term average from 1961 to 1991.

Provision of social housing and new building for private owners since 1991 Although some of the details, notably about conversions, are uncertain, there is no doubt that thus far both new building for private owners and provision of social housing since 1991 have run well below the annual averages corresponding to the estimates in Tables 2 and 3 for the 1991-2001 decade. Figures for the first four years are shown in Table 4; those for 1994/95 are subject to revision.

Low-cost home-ownership at past average rates is built into the forecast of owner-occupation and renting, so provision counting towards the estimate of need ran at about 60,000 a year. In the private sector an addition has to be made for conversions; but even with them the average is unlikely to have exceeded 130,000 a year. The early 1990s were a period when the market for owner-occupied housing was depressed, so figures well below trend are not surprising; in 1979/80 to 1982/83 the annual average was only 110,000. The shortfall of provision of social housing appears (from information about housing benefit) to have been taken up to a considerable extent by the private rented sector, though in what kind of accommodation is not yet known.

About the study

The study assessed future levels of housing demand and need using demographic analysis. A 'modified net stock' method was used to estimate the number of new dwellings needed in 1991-2001 and 2001-2011 if unmet need is to remain unchanged.

Further information

The full report, *Housing Demand and Need in England, 1991 to 2011* by Alan Holmans, is published for the Foundation by York Publishing Services Ltd (price £11.00).

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