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15 June 2010

Dear David

**Aberdeen City and Shire's Housing Need and Demand Assessment (HNDA):
Final Appraisal by the Centre for Housing Market Analysis (CHMA).**

On behalf of the Scottish Government, the CHMA has completed an appraisal of Aberdeen City and Shire's HNDA. This accords with the HNDA Guidance (2008), Scottish Planning Policy and CHMA's discussions with local authorities. The appraisal relates to the process and methodology on which the housing need and demand estimates are made.

The appraisal is made against the core outputs and process checklist on page eight of the guidance. It is presented as a narrative against these criteria and also identifies strengths and weaknesses, best practice and signposts where more detailed guidance/advice is required. The CHMA is pleased to confirm your HNDA process and methodology as robust and credible. This is detailed in a report accompanying this letter.

The CHMA would welcome the opportunity to meet with you to discuss this appraisal. Please let us know if you would like to proceed in this way. In the meantime, if you have any questions about this appraisal, please do not hesitate to contact me.

Yours sincerely

Dr Andy Park
Senior Economist & Head of CHMA



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Centre for housing market analysis

**Aberdeen City and Shire's
Housing Need and Demand Assessment**

Appraisal

15 June 2010

1. Housing Need and Demand Assessment – Final Appraisal – Introduction

The Centre for Housing Market Analysis (CHMA) was formed in summer 2008 and is part of the Scottish Government (SG) Communities Analytical Services Division (CASD). The Centre was established following Ministerial proposals set out in Firm Foundations and the positive response this received from local authorities (LAs) and CoSLA.

The CHMA's remit is to provide central support to LAs and other key stakeholders, to aid the strategic planning of housing in Scotland. More specifically, the CHMA is dedicated to helping stakeholders produce their HNDAs in accordance with the Guidance published by the SG in 2008. Further details about the Centre's remit can be found on its website at <http://www.scotland.gov.uk/chma>.

During 2008 and 2009 the CHMA undertook a series of HNDA training events and surgeries which were designed to support stakeholders with the planning and production of HNDAs. The CHMA has also met with the majority of LAs and other key stakeholders to discuss draft HNDAs and related issues. The CHMA would like to take this opportunity to thank all of those who have taken the time to participate and engage with us, from both housing and planning departments.

The CHMA has a formal role to appraise the process and methodology used to produce housing need and demand estimates. This does not, however, extend to the estimates themselves. HNDAs have been appraised using the criteria set out on page eight of guidance, namely the HNDA core outputs and process checklist. A narrative is provided for each criterion which also identifies strengths and weaknesses, best practice and signposts more detailed guidance/ advice if required. Where relevant, the CHMA has drawn upon the expertise of colleagues across the Scottish Government. This includes SG Housing Investment Division (HID) and their detailed knowledge of local housing markets.

The process and methodology of an HNDA is appraised *either* as robust and credible *or* as having the potential to be so based on the CHMA's recommendations. Where recommendations are implemented satisfactorily, HNDAs should be appraised as robust and credible following reconsideration by the CHMA.

The Directorate for Planning and Environmental Appeals has commented that, where CHMA has confirmed that an HNDA is robust and credible, the approach used should not be subject to any further procedure at a development plan examination. Any discussion at examination is expected to focus on issues raised in representations that relate to the proposed policies and housing allocations included in the proposed Development Plan and their relationship with the findings of the housing need and demand assessment. It should be noted however that the HNDA Guidance and Appraisal process do not supersede Part 4 of the Town and Country Planning (Development Planning)(Scotland) Regulations 2008.

2. Housing Need and Demand Assessment – Core Outputs

Estimates of current dwellings in terms of size, type, condition, tenure, occupancy and location.

Section 3 provides detailed estimates of the current housing stock in the Aberdeen City and Shire area in terms of size, type, condition, tenure, occupancy and location. A clear profile of the housing stock in both the Aberdeen City and Aberdeenshire Council area emerges and the disaggregation at housing market area level demonstrates its geographic dispersal well.

In line with the Guidance, all of the elements listed above are robustly evidenced using a range of high quality secondary data sources. With the exception of information drawn from the Census, the evidence used is up-to-date. Where possible, trend-based information is presented to show how the profile of housing has changed over time.

Analysis of past and current housing market trends, including balance between supply and demand in different housing sectors and price/affordability. Description of key drivers underpinning the housing market.

Section 2 clearly describes the key demographic and economic drivers underpinning the housing market. Section 3 then looks at a range of indicators of housing market activity in order to provide an insight into the current housing market. The potential impact of factors such as an ageing population, rapid house price growth and the economic downturn are examined and the conclusions drawn are well-reasoned.

House prices and trends are examined using both local intelligence, for example ASPC data and, in the main, LVIU data from the University of West of Scotland. A detailed analysis of price level movements at the entry-level end of the market is provided. This is particularly useful as first-time buyers are crucial to the healthy operation of the housing market. Rental costs and turnover in the private rented sector are tackled well, especially given the general lack of national and local data.

It is noted that the affordability test used to prepare the central estimate of emerging need assumes that a household can borrow 3.5 times their income and can secure a 100 percent mortgage. A robust argument is presented for the use of this assumption. In particular, the current relative unavailability of mortgages at high loan to value ratios is acknowledged, however it is noted that the application of a 2.9 mortgage multiplier and an assumed deposit of 17% produces comparable results. In addition, it is acknowledged that the private rental threshold for the Aberdeen housing market area and the two local authority areas also produces very similar results.

Estimate of total future number of households.

Section 4 provides detailed estimates of the future number of households and their composition over the period to 2031 based on the official GROS 2006-based household projections and the strategic forecasts produced for the Structure Plan team. The potential impact of future demographic trends (the ageing population,

family composition and household size) on housing need and demand is also examined.

It is noted that for the purposes of calculating newly arising need, Newhaven Research have opted to use the high variant strategic household forecasts produced for the Structure Plan team in preference to the official GROS 2006-based household projections. A clear rationale is presented for the use of these forecasts which, once the central gross household formation rates have been applied, has only a minor impact on the annual average numbers of new households projected at the housing market area level over the planning period.

The assessment also notes the emerging findings of the GROS 2008-based household projections and acknowledges the important role that these projections will play in the first review of the assessment.

Estimate of household groups who have specific housing requirements e.g. families, older people, minority ethnic groups, disabled people, young people, etc.

Section 5 is dedicated to the housing requirements of specific households groups. It is well thought-out and provides a range of information on older people, people with physical or learning difficulties, people with substance use and mental disorders, families and lone parents, ethnic minority households, EU migrant workers, gypsy travellers and travelling show people, students, homeless households and lesbian, gay bisexual and transgender households.

It is evident that good use has been made of a variety of local and national data. Excellent use is also made of relevant research studies and prevalence rates, albeit it is noted that the Strategic Housing Market Partnership has highlighted that such rates are not particularly robust for areas with small and/or more dispersed populations.

It is apparent that a proportion of the information used in this section is drawn from the 2001 Census which will not be updated until 2013 at the earliest. The Strategic Housing Market Partnership may therefore wish to consider the use of alternative data sources which are capable of providing reliable, up to date information in time for the planned 2011 update.

Section 7 goes on to present a succinct summary of the potentially distinctive needs and concerns of these sub-groups and the policy options that are available to address these specific concerns. The data and evidence presented in this section, and in section 5, will go a long way towards informing the preparation of the Councils' local housing strategies, and the supporting equality impact assessments.

Estimate of current number of households in housing need.

Section 6 provides detailed estimates of the current number of households in housing need. Backlog need is calculated based on homeless households or those with insecure tenure, concealed households, involuntary sharing single person households, overcrowded households, households living in a property in poor condition and households with mobility impairment or support needs. Households experiencing harassment are not included in the calculation as both local authorities policy is to use

non bricks and mortar actions to deal with harassment and antisocial behaviour. Care is taken to minimise double counting between involuntary sharing single person households and newly forming households falling into need. In accordance with the Guidance, social renters have been excluded from the count of households in need, while transfer lettings have been excluded from the supply side of the equation.

Whilst the data used is derived from the housing registers maintained by each local authority, appendix 8 presents a range of alternative estimates derived from official statistics such as the Scottish Household Survey and Scottish House Condition Survey. This triangulation exercise provides a reasoned justification for the use of the housing register data for each element of the backlog need calculation. Additional comments on the suitability of the housing register data are provided in the section headed 'Contains a full technical explanation of the methods employed, with any limitations noted'.

It is noted that the estimate of current housing need does not discount households that can afford market priced housing or would prefer an in-situ solution. To this end, appendix 8 presents a robust argument for setting the in-situ discount for households living in properties in disrepair and households with mobility problems to zero. A clear rationale is also provided for concluding that zero percent of housing register applicants can afford to buy on the open market.

Appendix 8.b helpfully summarises every line of the estimate of net annual need 2009 to 2018. Each element of the backlog of existing need, emerging need and supply of affordable housing is presented in a useful, easy to read table.

Estimate of future households that will require affordable housing.

Section 6 provides an estimate of the annual shortfall in the supply of affordable housing over the period to 2018 for Aberdeen City, Aberdeenshire and the Aberdeen and Rural housing market areas. It is acknowledged that the Aberdeen City and Shire wide estimate of net annual housing need is lower than the combined local authority area estimates because the housing market area affordability thresholds produce a lower count of the numbers of new households in need than the local authority affordability thresholds.

The two local authority based estimates of net annual need are usefully compared with those from the 'Local housing need and affordability model for Scotland' study. Some possible reasons for differences in the estimates are also examined.

A sensitivity analysis is then presented later in this section which examines the potential impact of:

- An increase in net household growth based on the high variant GROS 2008-based household projections plus an adjustment to the central gross household formation rates;
- Changes in the path of future house prices and thus affordability levels;
- Changes in the annual supply of social rented vacancies.

It is noted that the projected supply of new social rented housing only includes committed supply up to and including 2012 in order to allow policy makers to assess whether there is likely to be a requirement for further new affordable housing provision to address housing need over the long term. The submission letter provides a reasoned justification for adopting such an approach and it is acknowledged that this issue could be revisited in discussion with the Scottish Government's Housing Investment Division in time for the planned 2011 update.

Estimate of future households requiring market housing.

Section 7 provides a breakdown of the total housing requirement to 2031 over a series of five-year planning periods. The figures are derived from the strategic forecast high growth scenario and the Councils' net stock model. The central estimate of affordable housing need is then subtracted from the annual average housing requirement in order to produce an estimate of the annual average requirement for market housing by housing market area and local authority area for the next ten years.

It is noted that housing supply targets and housing land allowances are contained in the Aberdeen City and Shire Structure Plan which has made allowance for a generous supply of new housing considerably in excess of the forecast housing requirement. In particular, it is apparent that although the housing allowances by housing market area detailed in table 7.4 are of a similar level to the housing requirement by housing market area detailed in table 7.1, especially in the short to medium term, the effective land supply on the base date of the Structure Plan will provide a degree of flexibility in terms of how the Aberdeen City and Shire area meets its forecast housing requirement.

Estimate of total future households requiring either affordable or market housing.

Section 6 provides detailed estimates of new households in need that could purchase a LIFT equity share and the results of three affordability tests are summarised succinctly in table 6.20. It is noted that the central estimate of net annual housing need does not take account of intermediate housing units currently under construction and that assuming these dwellings are occupied by households in need over the period, this would reduce the estimate of net annual housing need from 707 to 694.

3. Housing Need and Demand Assessment – Process Checklist

Approach to identifying housing market area(s) is consistent with accepted approaches to identifying housing market areas.

Appendix 2 summarises the approach taken to identify the housing market area boundaries for the Aberdeen City and Shire area. A web link is also provided to the final report produced by DTZ Consulting and Research. The approach adopted by the contractor is consistent with Scottish Government Guidance and the results are helpfully presented in map form.

It is acknowledged that the most recent review of housing market areas was undertaken as recently as 2006/07. Furthermore, it is noted that the Strategic Housing

Market Partnership agreed to support the decision to retain the existing housing market area boundaries for the purposes of undertaking the assessment. The adoption of the Aberdeen and Rural housing market areas is consistent with the current Aberdeen City and Shire Structure Plan which uses these boundaries to inform the housing land allocations within the Structure Plan.

Housing market conditions are assessed within the context of the housing market area and any component markets contained within it.

Section 1 provides a clear rationale for the division of the Aberdeen City and Shire area into the Aberdeen and Rural housing market areas. A reasoned justification is also presented for including the area within the Cairngorms National Park in the Rural housing market area. It is noted that the numbers involved are very small and that this does not have a significant effect on the outcome of the assessment.

Where possible, contextual data analysis and housing needs estimates are provided for Aberdeen City, Aberdeenshire and the Aberdeen and Rural housing market areas. Comparative Scotland level data is also presented, where relevant. This provides a useful benchmark against which to assess the demographic and economic context, and current and future housing market, in the Aberdeen City and Shire area.

Involves key stakeholders.

It is noted that a multi-agency Strategic Housing Market Partnership was established to support and inform the assessment. A summary of the meetings of the Strategic Housing Market Partnership are helpfully contained in table 1.3, while Appendix 1 provides detailed meeting notes and minutes. It is evident that, in addition to local authority housing, planning and economic development interests, a wide range of organisations (including representatives of the home building industry, registered social landlords, the private rented sector, rural property and business interests and community health partnership) were involved at the various stages of development of the assessment. This included agreeing a project plan, analysing and interpreting housing market intelligence, considering the implications of the assessment and agreeing to submit the assessment for appraisal.

Contains a full technical explanation of the methods employed, with any limitations noted.

Section 1 provides a succinct summary of the study methodology. It is noted that while the study has mainly involved desk-based analysis of secondary data, some primary data, in the form of a house buyers survey, has been used to present an insight into housing and locational preferences and other factors that have shaped housing demand. Details of the methodology and sample size utilised to undertake this survey are provided in Appendix 3.

Section 6 describes the model used by Newhaven Research to assess net annual housing need. The modelling work reported in this Section is consistent with the Guidance and it is clear that considerable effort has gone into ensuring that important decisions and assumptions are made clear.

Appendix 8 helpfully outlines the steps that were taken to ensure that the figures derived from the housing registers to inform the estimate of net annual housing need can be used with reasonable confidence. It is apparent that a significant amount of work has also gone into ensuring the underlying integrity of the housing register data. In particular, it is noted that all applications received prior to 2006 and all applications from households residing outwith each local authority area have been discounted. In addition, it is noted that the housing register data was downloaded from the main IT systems of both local authorities during October 2009 to ensure consistency in timing.

Throughout the assessment, there is good signposting to supporting documentation, related research and explanatory notes. The inclusion of a glossary and a list of acronyms further aids readability.

Assumptions, judgements and findings are fully justified and presented in an open and transparent manner, in particular in relation to economic growth, demographic change and migration, income estimates and translation of the assessment of need and demand at housing market area level into housing supply targets.

Throughout the assessment it is evident that considerable effort has gone into ensuring that assumptions, judgements and findings are fully justified and presented in an open and transparent manner. Examples of this include:

- In considering economic growth and employment prospects for the short-term, section 4 acknowledges that the two sources cited offer contrasting views on the region's growth prospects;
- In looking at changes in household formation, section 4 acknowledges that the GRO(S) household projections indicate lower growth than the high-variant strategic household forecasts produced for the Structure Plan team, however section 6 provides a clear rationale for the use of these strategic household forecasts in the central estimate of net annual housing need;
- In modelling the possibility of using different mortgage multipliers, section 6 and appendix 8 acknowledge that there is no robust data on the income distributions of new households broken down by household type and the numbers of earners in a household;
- In considering the likely range of net annual housing need, section 6 provides alternative estimates based on alternative price and relet assumptions.

Uses and reports upon effective quality control mechanisms.

Throughout the assessment it is apparent that a significant amount of work has gone into ensuring that the figures reported in the text tie back to their corresponding tables and graphs correctly. Similarly, it is clear that the data reported in tables and graphs has been thoroughly checked to ensure that it ties back to its original source. The various appendices provide additional evidence that appropriate quality control mechanisms were put in place.

Explains how the assessments findings have or will be monitored and updated (where appropriate).

Section 8 clearly describes how the assessment will findings will be monitored and updated. In particular, it is noted that the assessment will be updated in early 2011 to inform the Main Issues Report for the Strategic Development Plan and the Local Housing Strategies to be prepared by both Councils. Table 8.2 helpfully details the key data sources for the 2011 update, while appendix 9 provides a more comprehensive catalogue of the data sources used in the assessment and the frequency with which they will be updated.

The Housing Market Partnership may wish to consider developing, as part of the 2011 update, a range of key housing indicators for regular reporting through the annual Local Housing Strategy update. Consideration should also be given to how significant changes in the identified indicators would trigger changes to the assessment findings and, consequently, how policies might be amended. The Local Housing Strategy Guidance provides further advice on alignment between the Single Outcome Agreement and Local Housing Strategy outcomes and indicators.

4. Housing Need and Demand Assessment – Robust and Credible Status

Based on an appraisal of the criteria at sections two and three, the CHMA consider that the process and methodology used to produce Aberdeen City and Shire's HNDA is robust and credible.

5. Conclusion and Implications – What Happens Now?

The CHMA has appraised the process and methodology of Aberdeen City and Shire's HNDA as being robust and credible. Should the credibility of the HNDA process or methodology be challenged during consultation on the Development Plan it should be ensured that this appraisal is drawn to the attention of the Directorate for Planning and Environmental Appeals at the point that the development plan is submitted to Scottish Ministers for examination.

The CHMA recommends that the HNDA is made available to stakeholders and our suggestion is that it should be formally published online. This is at the discretion of both Councils' and the Aberdeen City and Shire Strategic Development Planning Authority but should be seen as best practice.

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