

# Aberdeen City and Shire

## Housing Need and Demand Assessment

### Executive Summary

August 2010

## **1. Introduction**

- 1.1 This document is an Executive Summary of the Housing Need and Demand Assessment 2010 (HNDA) undertaken by Aberdeen City and Aberdeenshire Councils, the Strategic Development Planning Authority (SDPA) and the Aberdeen City and Shire Strategic Housing Market Partnership (SHMP) with additional input from Newhaven Research.
- 1.2 The Scottish Government requires that development plans and local housing strategies are informed by a HNDA. Scottish Planning Policy (2010) sees this integrated approach as enabling closer alignment between the preparation of development plans and local housing strategies. In March 2008 the Scottish Government issued "Housing Need & Demand Assessment Guidance" which local authorities must adhere to if the HNDA is to be assessed by the Scottish Government's Centre for Housing Market Analysis (CHMA) as being robust and credible.
- 1.3 This is the first HNDA prepared for the Aberdeen City and Shire area using the new guidance to provide an integrated assessment of future housing need and demand over the next 10 years. The HNDA will provide an evidence base that both local authorities and their partners can use to inform policy discussions and decisions in relation to both market and affordable housing.
- 1.4 The primary purpose of this HNDA is to inform the new Local Development Plans (LDP) and Local Housing Strategies (LHS) being prepared by the two Councils. This current assessment will be updated to inform the main issues report of the next Strategic Development Plan (SDP) and the local housing strategies of the two councils which are to be published in early 2011. This HNDA was completed in June 2010.
- 1.5 The format of the executive summary follows that of the full HNDA by covering the following 9 chapters:
  1. Introduction
  2. Demographic and Economic Context
  3. Current Housing Market
  4. Future Housing Market
  5. Housing Requirements of Specific Household Groups
  6. Central Estimates of Net Annual Housing Need
  7. Housing Requirements
  8. Monitoring and updating the assessment
  9. Conclusions

## **2 Demographic and Economic Context**

- 2.1 This section of the Executive Summary details the demographic and economic context within which the HNDA was developed and the background information used to inform the three estimates (lower, central and upper) of the HNDA.

2.2 The study area comprises the combined areas of Aberdeen City and Aberdeenshire Council. This was sub-divided into the two current housing market areas (see Figure 1), which were used as an appropriate basis for assessing housing need and demand. This is consistent with the geographical basis of the Aberdeen City and Shire Structure Plan which was approved by the Scottish Government in August 2009.

**Figure 1 Aberdeen and Rural Housing Market Areas (HMAs)**



2.3 Evidence presented in the HNDA on recent demographic and economic trends points to:

- an increasing population in Aberdeen City and Shire;
- an increase in the older population;
- an increase in the number of households;
- past out migration from Aberdeen City has been off set recently by in-migration;
- Aberdeen City and Shire is one of the most prosperous areas of the UK largely due to the oil and gas industries. However, the industry is heading for a period of consolidation which may have an impact on the future labour and housing markets;
- incomes in the area are on average higher than in the UK and Scotland; and
- there are disparities in income within Aberdeen City and Shire as demonstrated by income deprivation in some parts of the area.

2.4 The analysis presented in this chapter poses strategic questions regarding the mix of housing that would support greater levels of urban living. Likewise, this higher rate of increase in older people locally reflects a combination of the aging of the resident population and the inflow of older migrants from elsewhere in the UK to various settlements across rural Aberdeenshire and is likely to remain an important influence on this housing market. This suggests there will remain a

requirement to develop innovative and cost-effective services that can assist growing numbers of older households stay in their own homes.

### **3 The Current Housing Market**

3.1 This section analysed the current housing market through an examination of the general housing stock, social rented stock and housing affordability. From this information the issues that require to be addressed by future policy are: constraints to the delivery of new housing in order to meet increasing demand; severe affordability pressures across the study area and in particular within the Aberdeen HMA; the social rented sector in the study area has reduced and there are difficulties in delivering new social rented accommodation to meet needs; and the type of stock that is delivered and where it is delivered has an impact on where people choose to live.

#### **General Housing Stock:**

3.2 In terms of the general housing stock, the following points are of particular note:

- There are approximately 216,934 dwellings in Aberdeen City and Shire;
- 72% of the dwelling are located in the Aberdeen HMA;
- In Aberdeen City there has been a 3.2% increase in dwellings between 2003 and 2008, whereas in Aberdeenshire there has been an increase of 7.2% over the same period;
- Most new house completions have been in Aberdeenshire;
- In line with national trends, there has been a significant decline in the number of house completions in Aberdeen City over the last 2-3 years but Aberdeenshire has so far maintained higher than average levels;
- The average annual increase of housing stock in both HMAs has been lower than the average annual increase in households, which contributes towards the shortage of housing in the area;
- There has been a significant reduction in vacant properties (2001-2008), especially in Aberdeen City;
- Aberdeen City has a higher proportion of smaller sized households compared to Aberdeenshire who in turn have more family sized households;
- There are differences in house types between the two local authority areas with Aberdeen City having more flatted dwellings and Aberdeenshire having more detached dwellings.

#### **Social Rented Stock**

3.3 The social rented sector in Aberdeen City and Shire is under pressure due to a combination of factors:

- a decline in social rented stock, through the Right to Buy;
- increase in population; and a
- decrease in affordability of market housing.

3.4 These factors have led to:

- increase in the demand for social rented housing;
- declining number of relets of social housing; and

- increasing numbers of applicants on homelessness and waiting lists for social rent housing.

### **Housing Affordability**

3.5 A number of factors all put additional pressures on the social rented stock and raises issues of affordability:

- In the period 2002-2008 house price growth in the City and Shire has been higher than Scotland as a whole.
- Entry level house prices for new build and re-sales are higher than Scottish averages, and significantly so in the AHMA.
- Higher than national income averages do not compensate for this accordingly, meaning the the City and Shire have severe affordability issues in many areas.
- After a period of falls, the last three quarters in 2009 shows increased house prices in Aberdeen City and Shire which was higher than Scotland as a whole;
- Lower quartile income households are often unable to access finance/ credit;
- Higher deposits are required for house purchase;
- Aberdeen City and Shire has some of the highest private rented sector rents in Scotland.

## **4 Future Housing Market**

4.1 This section of the HNDA analysed recent economic, population and household trends and forecasts before considering considered what assumptions could be made with regard to the future housing market. This information gives an insight to possible housing requirements in the future.

- The Aberdeen City and Shire economy performed strongly in the decade to 2008;
- In the 5 years to 2008 economic growth has contributed to a 3.5 % increase in the population and a 6.7% increase in households;
- Economic growth and relaxed lending criteria encouraged a sharp increase in house purchases in the decade up to 2008;
- Tight lending criteria and eventual recession have contributed to a decline in effective demand for house purchase since the middle of 2007;
- It could take some time for housing development, especially in the City, to get back 2007 rates, currently estimated to 2014;
- Over the last 2 years Aberdeen City and Shire's economy has remained more buoyant than elsewhere in the UK;
- Recent rising oil prices have renewed business confidence in the oil and gas industry. North Sea activity will fall in future, but the region is likely to strengthen its role as a global oil and gas service centre;
- Long-range forecasts suggest a fall in employment levels in the area in the medium to long term, but these levels will remain above national averages.
- There was a decrease in house prices during 2008, since then there has been a modest rise in house prices in 2009 and private rents remain relatively high.

4.2 In the current economic climate house price forecasting is more volatile than ever. House prices are likely to increase slightly or to stabilise at historically high levels

in the short term. With earnings growth likely to be subdued, this will not improve affordability.

- 4.3 In the medium to long term house price changes will depend on the ability of housing supply to respond to demand as well the performance of the regional economy where labour market and growth performance is expected to slowly move towards national averages.

## **5 Housing Requirements for Specific Household Groups**

- 5.1 Scottish Government guidance emphasises the requirement to consider the needs of certain population sub-groups and how their needs might differ from those of the general population. The sub-groups of the population considered in this chapter include the following vulnerable households with potential housing, support, care and health needs:

- Older people;
- People with physical disabilities;
- People with learning difficulties; and
- People with mental health or substance misuse.
- Families and lone parents;
- Ethnic minority households;
- EU migrant workers;
- Gypsy Travellers and show people;
- Students
- Homeless Households including young vulnerable adults, especially 16 year olds and those households fleeing domestic violence or abuse
- Lesbian, Gay, Bisexual and Transgender households

- 5.2 Aside from households that contain someone with a disability, available evidence suggests that for most households that fall into one of these population sub-groups, the main barrier is constrained access to general needs private or social housing of a suitable type and size. In particular the lack of larger houses suitable for households with children in the city is a growing problem as evidenced by the increase in overcrowding in all tenures.

## **6 Central Estimates of Net Annual Housing Need**

- 6.1 This section presents the central estimate of net annual housing need and the proportion of those in need likely to be in a financial position to pursue some form of intermediate tenure.
- 6.2 As the repercussions of the credit crunch have shown, the future rarely continues in the same way as the past. Future policy decisions must therefore appreciate the inevitable uncertainty associated with all projections. This section therefore also examines the sensitivity of the central estimate to changes in the most significant assumptions.
- 6.3 The table below gives a summary of the method used to come to the estimate of Net Annual Housing Need. The method used is based on the Scottish Government's recommendations in the 2008 Guidance.

Table1: Summary of the Scottish Government recommended approach

Component	Summary description
Estimate of current housing need	<p>The number of existing and concealed households assessed to be in need and require a move to some form of affordable housing provision at a specific point in time.</p> <p>This count must exclude households currently occupying affordable housing (i.e. tenants of social landlords).</p> <p>Wherever possible the count should also discount households that can afford market priced housing or would prefer an in-situ solution.</p>
(converted into) Backlog reduction	The estimate of current need divided by the number of years over which this backlog is assumed to be eliminated. In line with Scottish Government guidance the time period has been set at 10 years.
Plus Newly forming households in need	The number of new households that will form each year and have insufficient income to access open market housing without assistance.
Plus Existing households that fall into need	The annual number of existing households that own or rent a private dwelling that may experience a change of circumstances and can therefore no longer remain in the open market sector.
Equals Annual number of households in need	The total number of households that require some form of affordable housing in any single year.
Minus Annual supply of lettings	<p>The numbers of affordable housing that become available for occupation each year.</p> <p>This is the projected numbers of non-transfer relets in the Council and RSL sector plus the number of social rented units that have already secured funding and are should be completed and let for the first time during 2009 or the next couple of years.</p>
Equals Net Annual housing need	The potential shortfall (or surplus) in affordable housing provision required each year to meet need.

6.4 The housing needs analysis demonstrates a clear shortfall in the supply of affordable housing and a growth in the level of net housing need in both housing market areas.

6.5 This has arisen from a range of factors:

- A decline in the supply of affordable lettings which has constrained the ability of social landlords to address housing need;
- Substantial and sustained increases in the costs of house purchase relative to earnings at the lower end of the earnings distribution curve;
- Increasing numbers of younger households in low to modest employment have found it increasingly difficult to access the market in recent years;
- Some of this price pressure has resulted from a shortage of market housing relative to demand;
- This severity of the situation is such that annual emerging need (i.e. newly forming households in need and existing households falling into need) at the Aberdeen HMA level exceeds supply;

6.6 To avoid the danger of relying on single point projections, it was decided to use alternative price assumptions (plus or minus 10%) and relet assumptions to produce a small range of estimates, which are summarised in the table below:

Table 2: Alternative estimates of net annual housing need

		Aberdeen	Aberdeen shire	Aberdeen HMA	Rural HMA	All (HMA based)
central estimate	Backlog	256	283	376	163	539
	new forming HH in need	1,422	971	1,835	558	2,393
	other emerging need	390	320	523	187	710
	Total need	2,068	1,573	2,733	908	3,641
	Ave lettings	1,842	1,092	2,176	758	2,934
	Annual shortfall	<b>226</b>	<b>481</b>	<b>557</b>	<b>150</b>	<b>707</b>
upper estimate	Backlog	256	283	376	163	539
	new forming HH in need	1,570	1,100	2,040	630	2,670
	other emerging need	390	320	523	187	710
	Total need	2,216	1,703	2,939	980	3,919
	Ave lettings	1,824	1,081	2,154	750	2,905
	Annual shortfall	<b>392</b>	<b>622</b>	<b>785</b>	<b>230</b>	<b>1,014</b>
lower estimate	Backlog	256	283	376	163	539
	new forming HH in need	1,265	865	1,640	490	2,130
	other emerging need	390	320	523	187	710
	Total need	1,911	1,468	2,539	840	3,379
	Ave lettings	1,860	1,103	2,198	766	2,963
	Annual shortfall	<b>51</b>	<b>365</b>	<b>341</b>	<b>74</b>	<b>416</b>

6.7 The estimate of net annual housing need is the potential shortfall (or surplus) in affordable housing provision required each year to meet need. It needs to be considered which combination of policy tools might be best suited to addressing the requirements of those in housing need.

6.8 As part of the HNDA affordability tests were carried out for newly forming households. These tests used different scenarios to show what would happen if there were changing circumstances. Table 3 demonstrates these affordability tests:

Table 3: Affordability tests using various scenarios

	City	Shire	Aberdeen HMA	Rural HMA
<b>Annual number new households</b>	2,469	2,105	3,397	1,177
Percent all households aged 16-29 years that are single person household	49%	34%	47%	34%
Percent other households aged 16-29	51%	64%	53%	64%
<b>Entry level purchase price or private rent</b>				
Entry house purchase price (Q4 2008)	£110,000	£120,000	£115,000	£97,500
Mortgage required if assume 17% deposit	£91,300	£99,600	£95,450	£80,925
Weekly LHA limit for a 2 bedroom dwelling	£150	£150	£150	£150
Weekly cost for a 25 year 100% repayment mortgage with an interest charge of 4.7%	£145.61	£158.85	£152.23	£129.06
Weekly cost for a 25 year 100% interest only mortgage with an interest rate of 4.7%	£99.42	£108.46	£103.94	£88.12
Monthly cost for a 25 year repayment mortgage with an interest charge of 4.7% and deposit 17%	£523.71	£571.32	£547.51	£464.20
Monthly cost for a 25 year interest only mortgage with an interest rate of 4.7% and deposit 17%	£357.59	£390.09	£373.84	£316.95
<b>Gross Income required to access open market</b>				
Gross income: 3.5 multiplier and 100% mortgage	£31,429	£34,286	£32,857	£27,857
Gross income: 2.9 multiplier and 100% mortgage	£37,931	£41,379	£39,655	£33,621
Gross income: 3.5 multiplier and 17% deposit	£26,086	£28,457	£27,271	£23,121
Gross income: 2.9 multiplier and 17% mortgage	£31,483	£34,345	£32,914	£27,905
Gross income: rent not to exceed 25% gross income	£31,200	£31,200	£31,200	£31,200
<b>Affordability test 1: entry level purchase: 100% mortgage &amp; 3.5 multiplier (central estimate)</b>				
Number unable to purchase	1,358	1,158	1,834	558
Proportion of new households unable to buy	55%	55.5%	54.3%	47.4%
<b>Affordability test 2: entry level purchase: 100% mortgage &amp; 2.9 multiplier</b>				
Number unable to purchase	1,628	1,139	2,222	691
Proportion of new households unable to buy	65.9%	66.5%	65.4%	58.7%
<b>Affordability test 3: entry level purchase: 83% mortgage and 3.5 multiplier</b>				
Number unable to purchase	1,088	935	1,476	433
Proportion of new households unable to buy	44.1%	44.4%	43.5%	36.8%
<b>Affordability test 4: entry level purchase: 83% mortgage and 2.9 multiplier</b>				
Number unable to purchase	1,360	1,170	1,849	559
Proportion of new households unable to buy	55.1%	55.6%	54.4%	47.5%

<b>Affordability test 6: Application of single and dual income multipliers</b>				
Number unable to purchase: 100% mortgage plus 3.5 multiplier for single household and 2.9 to all others	1,495	1,320	2,045	645
% unable to afford	61%	63%	60%	55%
<b>Affordability test 7: rent 2 bedroom dwelling</b>				
Number unable to afford rent of £150	1,358	1,060	1,770	640
% unable to afford	54.6%	50%	51.3%	54.2%
<i>Sources: CACI PayCheck, Sasines, and Scottish Government published LHA allowance December 2009. Note: the difference between the numbers of new households that fall below the central affordability test 1,4 and 7 may be lower than suggested. This is because numbers are heavily influenced by apportionment of households in £30,000 to £35,000 income band for Aberdeen HMA and 2 LAs.</i>				

6.9 The table above demonstrates that there are major affordability issues under most of the scenarios across both local authority areas and the two HMAs.

## 7 Housing Requirements

7.1 Table 4 summarises the housing requirement forecast to 2031. These figures are derived from the strategic forecast high growth scenario and the net stock model<sup>1</sup>.

- Over the 25 year period from 2006 to 2031 it is forecast that on average an additional 2,364 dwellings will be required each year in the two local authority areas;
- The table also shows that the total housing requirement may begin to ease back after 2021;
- Therefore from 2006 to 2021, the average annual number of new dwellings required is somewhat higher at 2,617.

Table 4: Housing Requirement High Growth Scenario

	2006/11	2011/16	2016/21	2021/26	2026/31	Total	Annual average
<b>Aberdeen City and Shire</b>	14,020	14,150	11,090	10,690	9,140	59,090	2,364
<b>Aberdeen HMA</b>	10,615	10,863	8,568	8,268	7,105	45,418	1,817
<b>Rural HMA</b>	3,405	3,288	2,523	2,423	2,035	13,673	547

Source: Aberdeen City and Shire Strategic Forecasts 2007

7.2 Table 5 summarises the central, low and high estimates of net annual housing need alongside the forecast total housing requirement. Over the next 10 years, it is projected there will be an average annual shortfall of 707 affordable dwellings across Aberdeen City and Shire areas.

<sup>1</sup> A full explanation of this method is provided in the Strategic Forecasts at: [http://www.aberdeencity.gov.uk/Statistics/sl\\_stt/stt\\_Home.asp](http://www.aberdeencity.gov.uk/Statistics/sl_stt/stt_Home.asp)

Table 5: Housing need compared to housing requirements

	<b>Aberdeen HMA</b>	<b>Rural HMA</b>	<b>Aberdeen City and Shire</b>
Annual Housing Requirements	1,817	547	2,364
Annual estimated need (Central)	557	150	707
Annual estimated need (Lower)	341	74	416
Annual estimated need (Upper)	785	230	1,014
Central estimate of need as a % of requirement	31%	27%	30%
Lower estimate of need as a % of requirement	19%	14%	18%
Upper estimate of need as a % of requirement	43%	42%	43%

Source: Aberdeen City and Shire Structure Plan and housing needs model

- 7.3 The central estimate of net annual housing need is consistent with the Structure Plan which identified that somewhere between 20% and 30% of new housing across Aberdeen City and Shire would be required to be affordable housing provision of one form or another. The central estimate is also broadly consistent with the Scottish Government's 25% benchmark for affordable housing<sup>2</sup>.
- 7.4 If affordability pressures moderate in the medium term, the lower estimate of net annual housing need suggests that there would still be a significant annual shortfall in the annual supply of affordable housing relative to need. By contrast, if affordability pressures deteriorate further, the scale of the shortfall would increase sharply. This would result in housing need becoming chronic throughout the area.
- 7.5 Structure Plan policy is to focus half of all future housing growth in Aberdeen City and the other half in Aberdeenshire. Consistent with this, Table 5 shows the average annual affordable and market-housing requirement by housing market area and local authority area for the next 10 years based on the central estimate.

Table 6: Translating HMA need estimates into local authority target

	<b>Annual housing requirements</b>	<b>Annual estimated of affordable housing<sup>1</sup></b>	<b>Annual estimate market housing<sup>2</sup></b>
<b>Aberdeen City</b>	1,182	354	828
<b>Aberdeenshire (Part)</b>	635	203	432
<b>Aberdeen HMA</b>	1,817	557	1,260
<b>Rural HMA</b>	547	150	397
<b>Aberdeenshire</b>	1,182	353	829
<b>Aberdeen City and Shire</b>	2,364	707	1,657

*Note 1: Figures are derived from the housing market level central estimate of need. The distribution of affordable housing within the Aberdeen HMA is consistent with the structure plan spatial strategy.*

*Note 2: These figures are the difference between the annual housing requirement and the affordable housing requirement.*

<sup>2</sup> Scottish Planning Policy <http://www.scotland.gov.uk/Topics/Built-Environment/planning/National-Planning-Policy/newSPP>

## **8 Monitoring and Updating the Assessment**

- 8.1 The key drivers of the housing market are dynamic and can change very quickly. The SHMP therefore need to monitor trends and activity in the housing market in a co-ordinated and timely manner.
- 8.2 This HNDA needs to be updated on a regular basis. Scottish Government guidance identifies this as a five-yearly review cycle to coincide with the preparation of strategic development plan main issues reports and local housing strategies. However, the Aberdeen City and Shire 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 the two councils. This update will consider many of the key assumptions and update the key data sources.

## **9 Conclusion**

- 9.1 The HNDA has been produced using the "Housing Need & Demand Assessment Guidance" issued by the Scottish Government in March 2008 and demonstrates partnership working between the two local authorities, the SDPA and the SHMP.
- 9.2 The findings from the HNDA show:
- There is a need to increase the housing supply in Aberdeen City and Shire to provide both market and affordable housing;
  - There are demographic issues particularly in relation to newly forming households and increases in the elderly population which need to be addressed;
  - There are major housing affordability issues, with a need for about 700 new affordable housing units per annum within Aberdeen City and Shire, to be provided equally between the two local authority areas.
  - There is an assumption the affordable housing needs will be met over a ten year delivery period; and
  - Through the local development plans there is a need to develop a housing land allocation policy to meet general housing need and also an affordable housing policy.
- 9.3 The HNDA was assessed as robust and credible by the Scottish Government's CHMA in June 2010.
- 9.4 The full version of the HNDA and other documents relating to the HNDA are available on the Strategic Development Planning Authority website at:

<http://www.aberdeencityandshire-sdpa.gov.uk/AboutUs/HNDA.asp>