



# Housing – Demand, Supply and Affordability

Report prepared by a Task Group consisting of councillors from the Business Support Overview and Scrutiny Committee and the Regeneration, Community and Culture Overview and Scrutiny Committee

March 2016



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### 1. FOREWORD

On behalf of the Business Support Overview and Scrutiny Committee and the Regeneration, Community and Culture Overview and Scrutiny the Task Group is pleased to present their review into the demand, supply and affordability of housing, with its associated recommendations for Medway Council's Cabinet.

It is clear that there is a severe housing crisis in the country, which is reflected in Medway. At the heart of this is the expense of buying or renting a home. The average house costs seven times the average person's annual income in Medway and in recent years rents in the private sector have also risen. Moreover, there are just not enough homes being built to meet demand and this is fuelling rising house prices.

It is easy to see the housing crisis as being primarily about houses but this would overlook that it is really about people – families struggling to afford the mortgage payments, young people forced to live at home with their parents and wondering if they will ever be able to afford to buy their own home. Already across England 25% of adults under the age of 35 are living in their childhood bedroom.<sup>1</sup> For those who cannot afford to buy a home or access social housing, finding a home in the private rented sector that they can afford can be a challenge.

Good quality accommodation can play a major factor in an individual's health and personal well being. Conversely, poor quality accommodation can precipitate a range of physical and mental health conditions which as well as affecting an individual and families can be extremely costly for society as a whole.

There is a need for more housing in Medway across all tenures and accessible to all communities, including those most in need. It also needs to be sufficiently affordable so that the workforce needed to provide essential community services is not priced out of Medway.

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<sup>1</sup> ONS *Young Adults Living With Parents 2013*

### 2. EXECUTIVE SUMMARY

In the last 50 years the number of households that need homes has increased by around 10 million. This is predicted to keep growing and by 2021 it is forecast to reach 29.1m. Various estimates suggest between 200,000 to 300,000 homes per year are needed to meet demand. The Government says it wants a million homes built in England by 2020, which will mean building at least 200,000 new homes each year. Annual housing starts were 137,490 in the 12 months ending September 2015.<sup>2</sup>

The average UK house price has increased by more than five times over the past thirty years.<sup>3</sup>

Since the early 1980s more than 2 million social homes have been sold by councils and housing associations under “right to buy”.

Buy-to-let emerged in the mid to late 1990s and has grown strongly. Lenders have advanced more than 1.7 million buy-to-let loans since 1999. Over the same time, the private rented sector has doubled in size.

The building industry has been contracting since the late 1980s. This was hastened by the financial crisis as small developers found it increasingly hard to raise money. The number of firms in England building 100 or fewer units a year fell has fallen significantly since the mid 1980s.

It is against this national backdrop that the Task Group have reviewed the housing situation in Medway. In spite of the significant issues and problems identified in this report, the Task Group were encouraged to hear from witnesses that relationships between developers and housing associations and the Council were positive and working well. The Task Group have made a number of recommendations to try and improve the housing situation in Medway and to also raise awareness of the significant and complex issues involved.

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<sup>2</sup> CLG - House Building: September Quarter 2015, England

<sup>3</sup> Nationwide house price index. Average price Q3 1985 = £34,700. Q3 2015 = £195,733

### 3. BACKGROUND

In April 2013 the Business Support Overview and Scrutiny Committee agreed to include a review of the demand, supply and affordability of Housing in Medway in the programme of in-depth reviews agreed at that time, emphasising the key social and economic role that housing plays - particularly for those who are struggling to afford housing. As there was insufficient time to start and conclude the Task Group on housing in Medway before the local elections on 7 May 2015 it was agreed that this review would be the first to begin following the elections.

All the Task Group's meetings are outlined in section 5 of this report.

We would like to take this opportunity of thanking all participants in the Review. The Task Group was assisted by Council officers, in particular Dave Harris, Head of Planning and Matthew Gough, Head of Strategic Housing and Michael Turner, Democratic Services Officer.

**The Task Group**

**Councillor David Wildey (Chairman)**



**Councillor Gary Etheridge**



**Councillor Roy Freshwater**



**Councillor Glyn Griffiths**



**Councillor Asha Saroy**



### 4. SETTING THE CONTEXT

#### (a) Legal framework, Council duties and obligations, accountabilities

The Council has a wide range of duties, powers, obligations and accountabilities in respect of planning and delivery of housing these include:-

- ❑ Section 87 of the Local Government Act 2003 - requirement to publish a Housing Strategy
- ❑ Housing Act 1985 Section 8 - Periodically review the housing needs of its area in relation to housing conditions and the needs of the district.
- ❑ Housing Act 1985 Section V - Comply with the requirements of the legislation where a tenant exercises the right to buy.
- ❑ Housing Act 1985 Schedule 3A - To consult tenants before their homes are sold to a private landlord
- ❑ Local Government and Housing Act 1989 Section 74 - To keep a housing revenue account recording the income and outgoings relating to the housing stock acquired under Part 2 of the Housing Act 1985.
- ❑ Housing Act 1996 Part 6 – To have in place and publish a policy on the allocation of social housing and to allocate housing in accordance with that policy,
- ❑ Housing Act 1996 Part 7, - To provide advice and assistance in respect of housing to help prevent homelessness, and to consider applications from households who may be homeless and if appropriate to provide assistance to allow for the discharging of a housing duty. To provide accommodation until those duties can be discharged.
- ❑ Homelessness Act 2002 - Duty of local housing authority to formulate a homelessness strategy
- ❑ Housing Act 2004 Keep the housing conditions in their area under review with a view to identifying any action that may need to be taken under various specified pieces of legislation to improve housing conditions, Mandatory licensing of Houses in Multiple Occupation (HMOs);
- ❑ Planning and Compulsory Purchase Act 2004 To track and analysis key trends and dynamics in housing markets
- ❑ The Town and Country Planning (General Permitted Development) (England) Order 2015 - sets out classes of development for which a grant of planning permission is automatically given, provided that no restrictive condition is attached or that the development is exempt from the permitted development rights
- ❑ Growth and Infrastructure Act 2013 - makes provision in connection with facilitating or controlling the provision or use of infrastructure, the carrying-out of development, and the compulsory acquisition of land.
- ❑ Localism Act 2011 - makes provision about: the functions and procedures of local and certain other authorities; local government finance; town and country planning, the Community Infrastructure Levy and the authorisation of nationally significant infrastructure projects
- ❑ Local Democracy, Economic Development and Construction Act

2009 - seeks to create greater opportunities for community and individual involvement in local decision-making. It also provides for greater involvement of local authorities in local and regional economic development

- Planning Act 2008 - aims to establish the Infrastructure Planning Commission and make provision about its functions, the development of nationally significant infrastructure and town and country planning. It also makes provision for the introduction of a Community Infrastructure Levy
- Planning and Compulsory Purchase Act 2004 - powers to reform and speed up the plans system and an increase in the predictability of planning decisions, the speeding up of the handling of major infrastructure projects and the need for simplified planning zones to be identified in the strategic plan for a region.
- The Health and Social Care Act 2012 – S.195 - Duty to encourage integrated working. The Health and Wellbeing Board has the power to encourage persons who arrange for the provision of any health-related services in its area to work closely with the Board. “Health-related services” means services that may have an effect on the health of individuals but are not health services or social care services.

### **(b) Medway’s Policy Framework**

- **Housing Strategy 2015-2018**

The Council’s Housing Strategy sets out its strategic approach for housing services and details how the Council will enable the delivery of these services. It is designed around 4 strategic principles

- Increase the SUPPLY of suitable and affordable homes
- Improve the QUALITY of homes, environment and people’s lives
- Promote SUSTAINABILITY by supporting people within their community
- Improve the FLEXIBILITY of accommodation

The Council aims to deliver, through its enabling role, additional affordable homes a year and secure at least £20m worth of investment in new affordable housing per year.

The Council’s current target is to seek at least 25% of homes to be affordable homes on any site meeting the relevant criteria.

The Council has developed its own affordable housing delivery programme which is delivering 56 homes.

- **Medway Local Plan 2003**

The Local Plan is at the heart of the planning system and sets out a vision and a framework for the future development of Medway, addressing needs and opportunities in relation to housing, the economy, community facilities and infrastructure – as well as a basis for safeguarding the environment, adapting to climate change and securing good design. It is a critical tool in guiding decisions about individual development proposals as it is the starting-point for considering whether applications can be approved.

The current Medway Local Plan was adopted and launched on 14 May 2003. The Council has started work on a new Local Plan which will replace the 2003 Medway Local Plan. This will be a single document, containing strategic level and development management policies, land allocations, minerals and waste, and a policies map. The process of producing a new plan is anticipated to take around three years. The plan will cover the period up to 2035, providing for the number of homes and jobs, and supporting infrastructure, such as transport, health facilities, schools, parks that the area and its growing population needs over this time.

- **Various national and local indicators** were looked at including household numbers, tenure, costs and new homes information.

The following indicators are measured as part of the Council Plan monitoring requirements.

<b>Outcomes</b>	<b>Key measures</b>
Delivering new homes to meet the needs of Medway's growing economy	Delivery of the programme for the 4 Medway Regeneration sites  a) Temple Waterfront, b) Rochester Riverside, c) Strood Riverside and d) Chatham Waterfront  Target to be phased over 4 years
Preventing homelessness	a) Number of families and young people accommodated in B&B accommodation for more than 6 weeks  b) Number of private properties improved as a result of the Council's intervention  c) Number of households in temporary accommodation

- **Joint Health and Wellbeing Strategy for Medway: 2012-2017 and Joint Strategic Needs Assessment**

The Joint health and Well Being Strategy recognises that while health and social services make a contribution to health, most of the key determinants of physical and mental health and well being lie outside the direct influence of health and social care, including housing. Housing makes an important contribution to social and environmental objectives such as reducing health inequalities, improving educational attainment and community cohesion

Poor housing is one of the factors which impacts on poor health. Homelessness and poor quality damp housing are risk factors for poor mental health and cold homes are a risk factor for excess winter mortality.

### **(c) National Picture**

#### **Housing: Background Data**

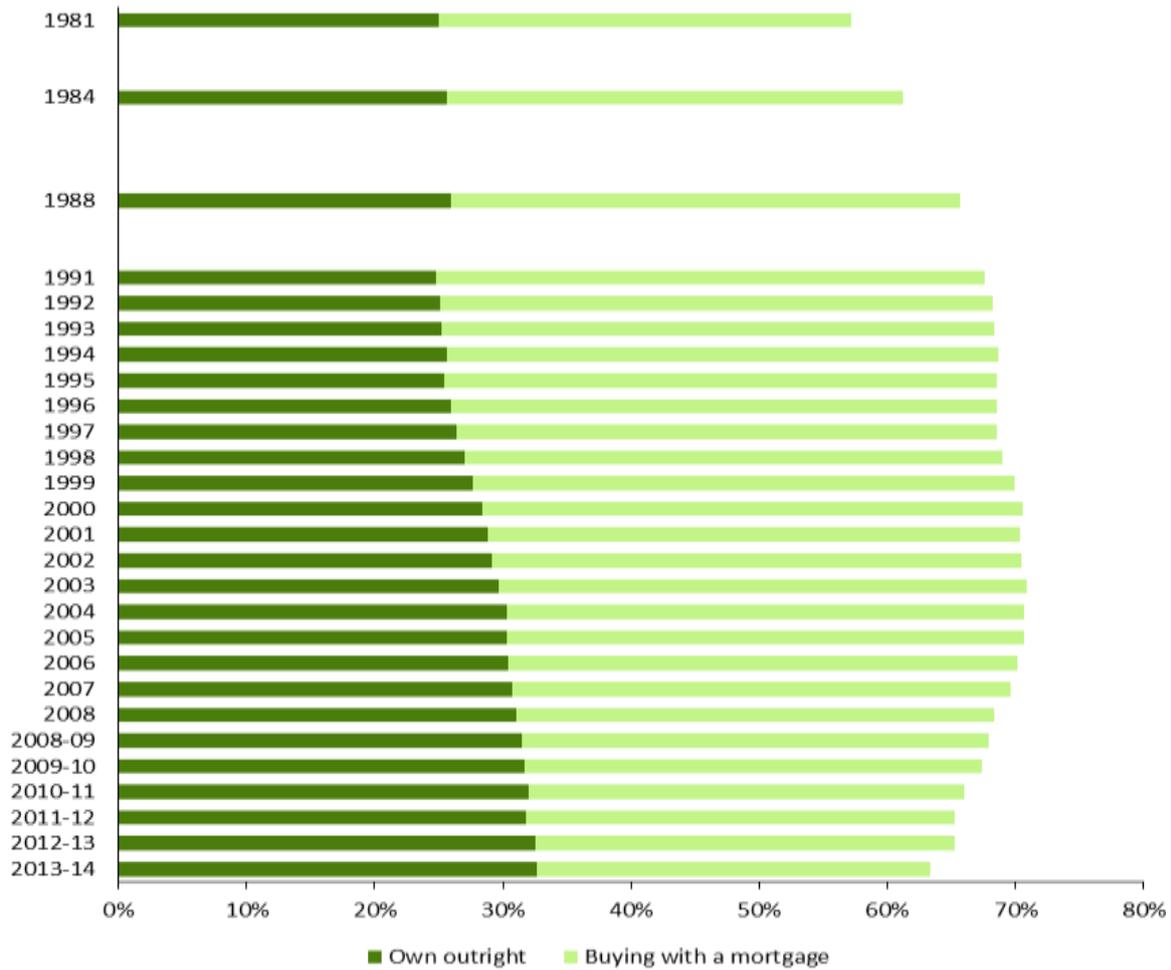
The Government says it wants a million homes built in England by 2020, which will mean building at least 200,000 new homes each year.

#### **Home Ownership Trends**

Nationally, home ownership rates were around 55% in the early 80s and peaked at over 70% in 2003. This has since fallen to 62% in 2013/14. The proportion of owner occupiers who own their home outright has been falling whilst the proportion with an outstanding mortgage has been rising.

The graph below shows households owned outright or being bought with a mortgage as a proportion of all tenures over time.

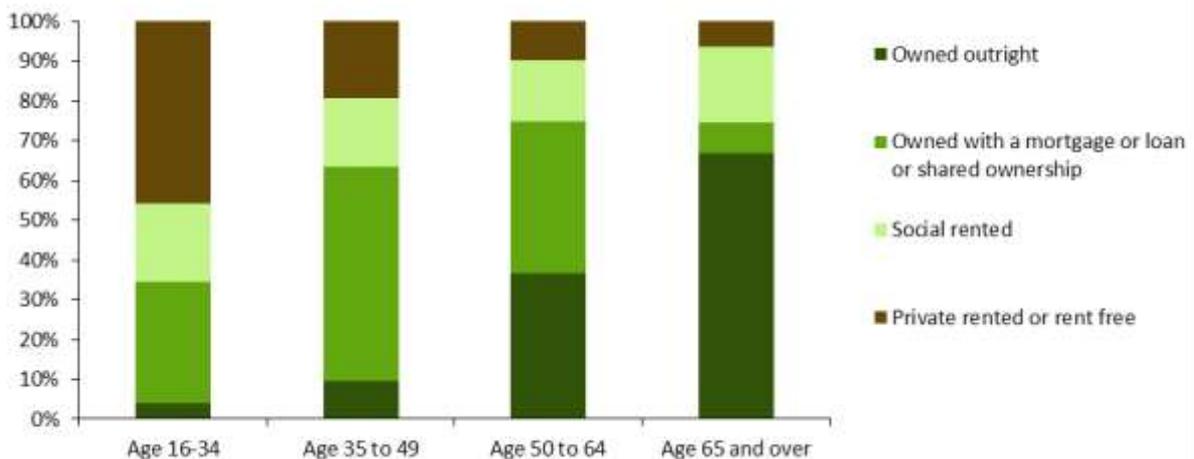
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Source - House of Commons Library Briefing Paper on Housing and Planning Bill (October 2015) Contains Parliamentary information licensed under the Open Parliament Licence v3.0

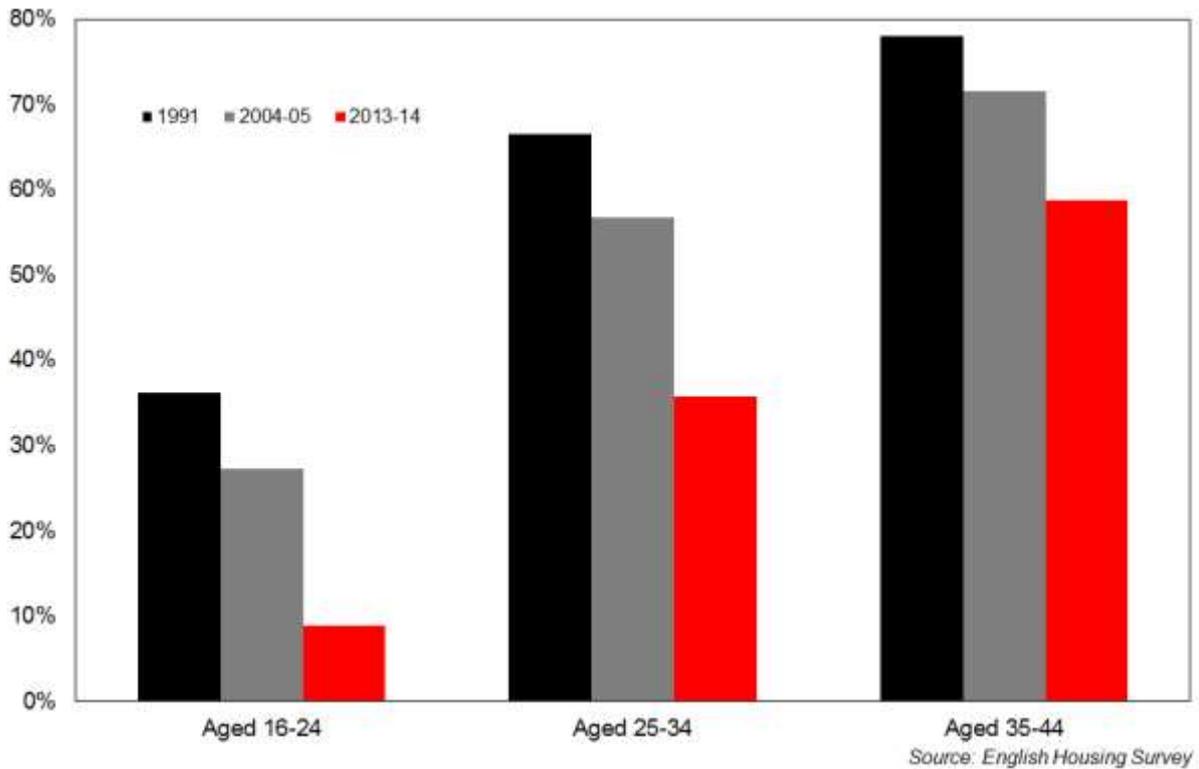
Private rental is more common in younger groups compared to older ones with home ownership being more common in older age groups.

### Tenure by age group of household reference person, 2011



Source: 2011 Census

## Rates of home-ownership by age – 1991 to 2013-14



## First Time Buyers

The number of new mortgages given to first-time buyers per year reached a peak of around 600,000 in 1986. Although numbers fell back in the early 1990s they rose again to reach similar levels at the end of the 1990s and early 2000s. Between 2008 and 2012 the number dropped to around 200,000 per year, but has increased in recent years. In 2014 there were 300,000 first time buyers, around half the number in the peak years.

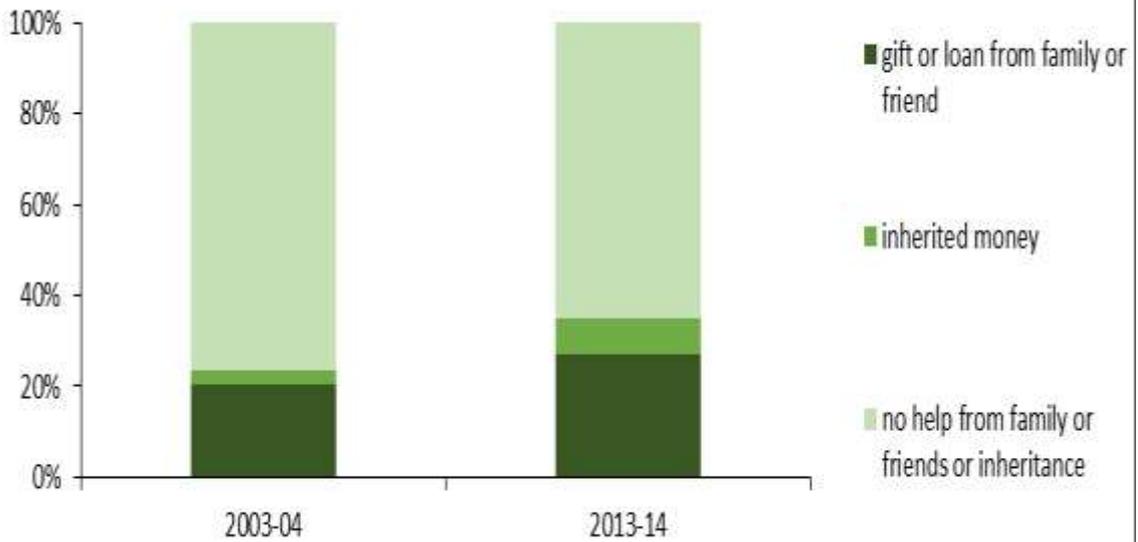
In 1974, the median age of those taking out a first-time mortgage was 25, while in 2014 it was 30.

Over the last ten years there has been a change in the sources first-time buyers are using to pay for a deposit on a property. In 2013-14 35% of first-time buyers made use of financial assistance or inheritance; in 2003-04 this figure was lower at around 23%.<sup>4</sup>

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<sup>4</sup> English Housing Survey

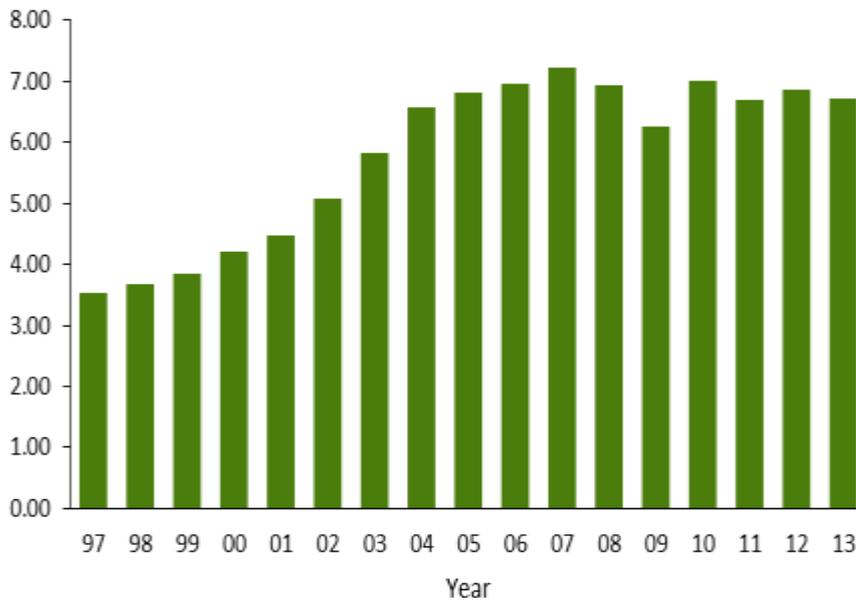
**Sources of deposit for first time buyers, 2003-04 and 2013-14**



Source: English Housing Survey 2013-14

**Earnings to House Price Ratio**

In England in 2013, the median house price was 6.72 times the median earnings figure. As can be seen from the table below this has almost doubled since 1997.

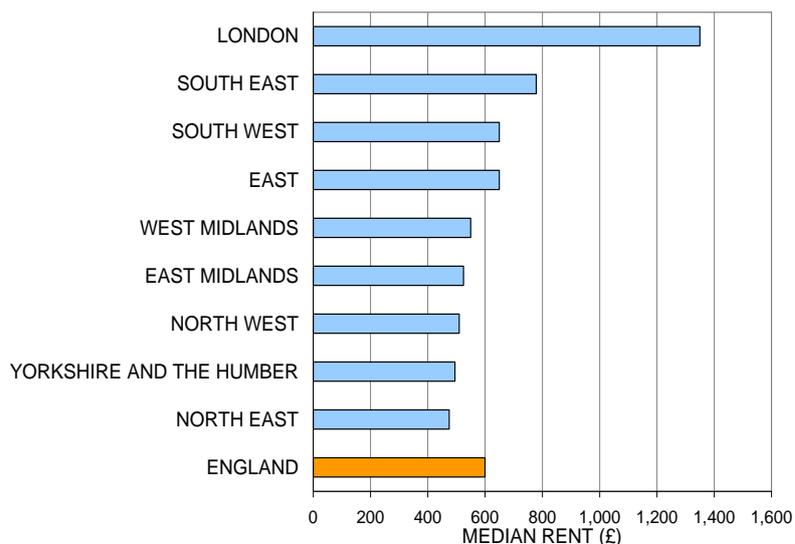


Source: DCLG Live tables on housing market and house prices.

### Cost of Private Rent

The median rent recorded between 1 April 2014 and 31 March 2015 in England was £600. There are of course significant regional variations.

#### Median rents by region, England: All categories of property type recorded between 1 April 2014 and 31 March 2015

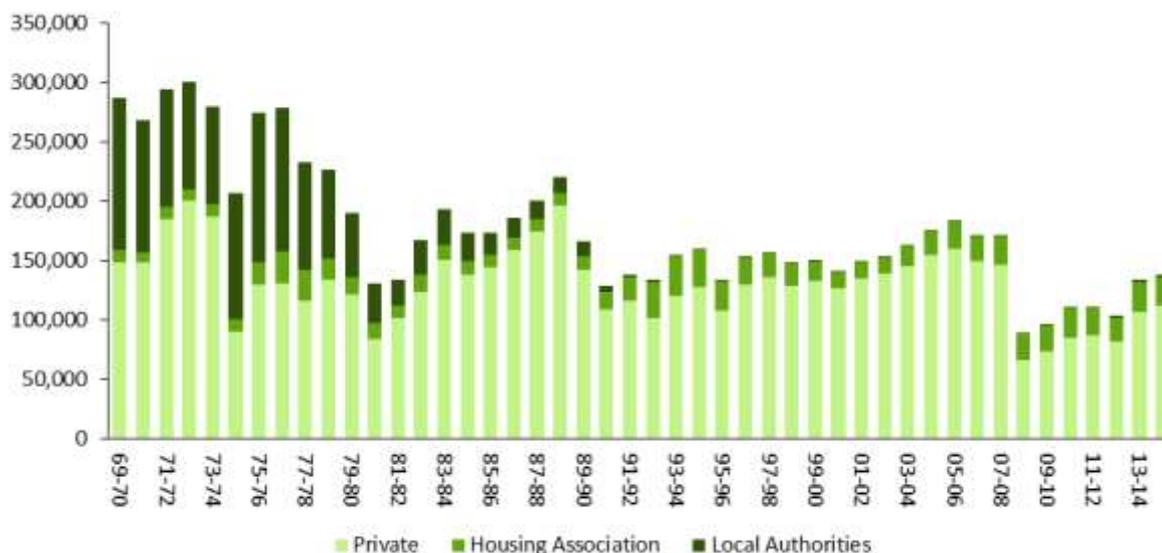


Source- Private Rental Market Summary Statistics England 2014-15 (Valuation Office Agency)

### New House Building

The figure below shows the number of dwellings started in each year from 1969-70 to 2013-14. Building of local authority dwellings decreased markedly in the 1980s and by 2014-15 made up a very small proportion of dwellings started. There was a substantial drop in overall dwelling starts in 2008-09. Although the number has risen since then it has not yet reached pre-2008 levels.

### Dwellings started by tenure, England 1969-70 to 2014-15



Source: DCLG

The Government’s live tables on house building show a long-term steep decline in house building in England across all tenures except housing association building, which increased from 7,100 dwellings in 1969-1970 to 22,030 in 2012-13. The steepest decline was in local authority dwellings, which fell, over the same period, from 135,700 to 1,360. Private enterprise contributed 164,070 new dwellings in 1969, but only 84,420 in 2012-13. Across all tenures in England 306,860 dwellings were built in 1969-1970, with the number falling to 107,820 in 2012-2013.<sup>17</sup>

## d) Local Picture

### Population and Dwelling Tenure in Medway

The three main housing tenures in England are owner occupation and the private and social rented sectors. Owner occupation includes households that own their home outright and households that have a mortgage. The social rented sector includes local authority and housing association homes and provides accommodation at a subsidised rent while the private rented sector offers accommodation at market rents.

The 2011 Census recorded a population of 263,925 people in Medway. The latest Office of National Statistics 2014 Mid-year Population estimates update this figure to 274,015 (an increase of 10,090 people, 4%) and this is predicted to increase by 21.8% to 322,700 in 2035. Medway’s population has grown at levels in recent years, which are above national levels. Much of this growth is down to natural growth but inward migration (particularly from neighbouring areas and south east London) has also increased recently. This projected increase in population of around 50,000

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people brings with it a need for almost 30,000 homes in addition to supporting infrastructure, jobs and services.

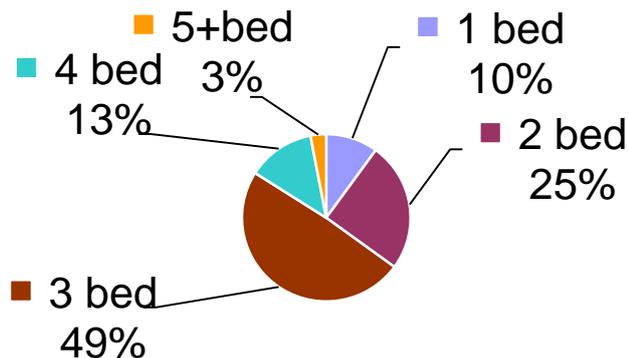
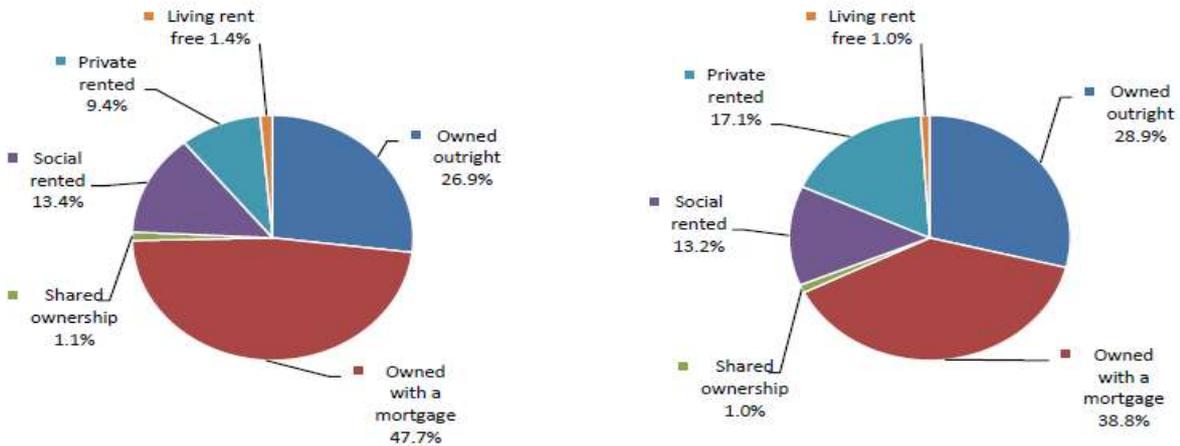
The total number of dwellings in Medway has increased from 102,578 in 2001 to 110,107 in 2011. This is an increase of 7,529 dwellings, equating to a 7% increase over the ten-year period.

There is a limited supply of social housing in Medway with up to five times as many social housing units available in some comparator authorities. Currently, there are a total of 111,162 homes in Medway, 85% of which are in the private sector. As of 1 April 2014, there were 16,770 affordable homes, 3,013 of which are owned by the Council. Housing Associations own 13,757 with the majority being owned by mhs (56%).

Looking at dwelling tenures there has been a significant increase in the private rented sector in Medway which stood at 9.4% in 2001 but had risen to 17.1% by 2011. This equates to 9,350 households who rented privately in 2001 compared to 18,150 in 2011, a 7% growth in the number of homes in the sector for each year. Moreover it is a trend that seems to have continued, the current number being just under 20,000 - of which just over 9,000 are claiming housing benefit. Despite this level of increase in supply demand remains very high and this means that landlords are increasingly able to pick and choose their tenants with a limited number willing to provide accommodation to vulnerable households in housing need.

### Medway Dwelling Tenure 2001 vs. 2011

*Source: Census 2011*



## Migration

### Flows into Medway (2014)

Area	Number of People	% of New Residents
Maidstone	847	7%
Swale	821	7%
Gravesham	794	7%
Tonbridge and Malling	629	5%
Bexley	511	4%
Lewisham	443	4%
Dartford	378	3%
Greenwich	377	3%
Canterbury	291	2%
Bromley	291	2%
<b>Totals</b>	<b>5,382</b>	<b>4.4% average</b>

Source: ONS Internal Migration Data – Table IM2014-1a and IM2014-1b, 2014

### Flows out of Medway (2014)

Area	Number of People	% of Outward Moves
Swale	1157	10%
Maidstone	1056	9%
Tonbridge and Malling	666	6%
Gravesham	530	5%
Canterbury	429	4%
Dartford	240	2%
Thanet	216	2%
Greenwich	193	2%
Bexley	184	2%
Ashford	162	1%
<b>Totals</b>	<b>4,833</b>	<b>4.1 % average</b>

Source: ONS Internal Migration Data – Table IM2014-1a and IM2014-1b, 2014

## Empty homes

Empty homes are a national problem and can have a significant impact on communities. They can encourage vandalism and ant-social behaviour, as well as providing an eyesore for surrounding residents and communities.

In Medway the level of homes remaining empty for more than six months is at its lowest for more than 10 years. The rise in house prices and demand for private rented homes has meant that whilst properties might have previously remained empty, they are being let or sold.

### e) Housing and Planning Bill

When the Bill was published in October 2015 the Government said it would kick-start a “national crusade to get 1 million homes built by 2020” and transform “generation rent into generation buy.” The supply-side measures in the Bill are primarily focused on speeding up the planning system with the aim of delivering more housing. Reflecting the Government’s political priorities there is a clear focus on home ownership, with measures to facilitate the building of Starter Homes; self/custom build housing; and the extension of the Right to Buy to housing association tenants following a voluntary agreement with the National Housing Federation (NHF).

The Government is committed to provide a number of Starter Homes for first-time buyers under the age of 40. These will be sold at a discount of at least 20% of the market value. The Bill puts a general duty on all planning authorities to promote the supply of Starter Homes and to require a certain number or proportion of Starter Homes on site. (An analysis of the affordability of starter homes in Medway can be found in section 6c).

The Bill contains provisions which will require local authorities to keep a register of people seeking to acquire land to build or commission their own home. Local authorities will be required to grant “*sufficient suitable development permission*” of serviced plots of land to meet the demand based on this register.

Local authorities will be given additional powers to tackle rogue landlords in the private rented sector, including the ability to apply for banning orders against private landlords. A database of rogue landlords and agents will assist authorities in England in carrying out their enforcement work. Officers will be keeping a watching brief on this proposal to establish a database of rogue landlords and its impact on improving poor quality rented accommodation. Landlords will benefit from a clear process to secure repossession of properties abandoned by tenants.

The Bill does not introduce a statutory Right to Buy (RTB) for housing association tenants. The Government have accepted the National Housing Federation’s offer to implement the RTB on a voluntary basis.

The Bill provides for grants to be paid to housing associations to compensate them for selling homes at a discount and a mechanism through which local housing authorities will be required to make payments to the Secretary of State. These payments will be calculated with reference to an authority’s high value housing stock with the expectation that this stock will be sold as it becomes vacant. Full details of these proposals have yet to be released therefore their impact for Medway is not yet known.

'High income' social tenants (expected to be set at £40,000 in London and £30,000 elsewhere) will be required to pay a market rent as opposed to a social rent ('pay to stay.')

There are also a range of measures including changes to the 'fit and proper person' test applied to landlords who let out licensable properties; and allowing arrangements to be put in place to give authorities in England access to information held by approved Tenancy Deposit Schemes with a view to assisting with their private sector enforcement work.

The Bill also contains a number of different reforms to the planning system, with the aim of speeding it up and allowing it to deliver more housing. Powers are given to the Secretary of State to intervene in the local and neighbourhood plan making process. A new duty to keep a register of brownfield land within a local authority's area will tie in with a new system of allowing the Secretary of State to grant planning permission in principle for housing on sites identified in these registers. It also allows for major infrastructure projects with an element of housing to apply for development consent through the 2008 Planning Act regime, rather than having to seek separate planning permission.

Clearly this is an important Bill which is likely to have significant implications for Medway. It is too early to fully assess the impact the Bill will have as much of the detail needed to understand this will be contained in guidance and regulations yet to be issued. The Group welcomed the fact that officers will continue to explore the impact of the Bill and feel it would be helpful if a briefing on the Bill could be offered to all Members at an appropriate time.

### 5. METHODOLOGY AND APPROACH

On 21 September 2015, the Task Group met for the first time to discuss the background to the review, as well as scope and determine its Terms of Reference. At this point the Group also considered the methodology for the review and agreed to hold a series of evidence sessions, thereby providing an opportunity for the participants to get together in an informal setting to examine the issues as they relate to their specific industry and/or business process.

#### Terms of Reference

The Task Group's Terms of Reference were as follows:

*To review the demand, supply and affordability of housing in Medway in the context of the key social and economic role that housing plays, particularly for those who are struggling to access housing.*

To support their consideration the Task Group agreed a number of key lines of enquiry:

- Context - housing tenure, types of housing, age of housing stock etc.
- The housing market in Medway
- Affordability and suitability of housing.
- To understand how available housing meets housing need
- Availability of finance to meet housing need
- Current methods of developing affordable housing and options for future delivery
- The appropriate target for the provision of affordable housing in the next Local Plan (taking into account the Strategic Housing Market Assessment )
- The impact on the delivery of housing (both by the Council and social housing providers) of the recent announcements in the Government's budget in summer 2015 regarding affordable housing including social rent decreases
- The connection between the buy to let market and first time buyers
- Proportion of income spent on rent
- What happened to those unable to rent given that landlords were often able to be selective about who they rented to, and;
- An understanding of how the private sector (private landlords and developers) was operating in Medway.

#### Conduct of work

A series of round table evidence gathering sessions were held, which were designed to provide an opportunity for the participants to get together in an informal setting to examine the issues as they relate to their specific industry and/or business process.

This was supported by additional briefings from Council officers and further desktop research.

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The approach, methodology and programme for the review is set out below:

<b>Date</b>	<b>Members in attendance</b>	<b>Other attendees</b>	<b>Purpose</b>
21 September 2015	Etheridge, Freshwater, Griffiths, Saroy and Wildey	Matthew Gough, Head of Strategic Housing Dave Harris, Head of Planning Michael Turner, Democratic Services Officer	To discuss the background to the review, the scope and determine Terms of Reference.
7 October 2015	Etheridge, Freshwater, Griffiths, Saroy and Wildey	Matthew Gough, Head of Strategic Housing Dave Harris, Head of Planning Michael Turner, Democratic Services Officer	To understand the context and be briefed on local housing facts and figures the following issues:  To agree which organisations and individuals to speak to
4 November 2015	Etheridge, Freshwater, Griffiths and Saroy	Matthew Gough, Head of Strategic Housing Dave Harris, Head of Planning Michael Turner, Democratic Services Officer  Gary Clark, Operations Director mhs Homes  David Banfield, Planning Director and Michael Maskew, Development Manager, Redrow  Marion Money, Kent Representative, National Landlords Association	To gain evidence from mhs Homes, Redrow and the National Landlords' Association concerning: <ul style="list-style-type: none"> <li>• Numbers of homes being built in Medway and the inhibitors to building more and speeding up delivery</li> <li>• Views on Government initiative on starter homes and building on brownfield sites.</li> <li>• The main restrictions affecting ability to raise funds</li> <li>• The Housing and Planning Bill</li> <li>• Views on alternative housing building materials.</li> </ul>

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		<p>Kerry Simmons, Case Worker and David Ashogbon, Solicitor - Medway Citizens Advice</p>	<ul style="list-style-type: none"> <li>• What the council can do to facilitate developers building more houses</li> <li>• Why delays occurred in building houses once planning permission has been granted</li> <li>• The skills shortage in the construction industry</li> <li>• Why are market rents increasing</li> <li>• the effect of the private rented sector on affordability</li> <li>• the consequences of restrictions on buy to let mortgages</li> <li>• What is being done to deal with rogue landlords</li> <li>• How would rent controls impact on the private rented sector</li> <li>• Was enough done to stop people getting into rent arrears</li> </ul>
<p>16 November 2015</p>	<p>Etheridge, Freshwater, Griffiths, Saroy and Wildey</p>	<p>Matthew Gough, Head of Strategic Housing Dave Harris, Head of Planning Michael Turner, Democratic Services Officer</p>	<p>To consider the key themes which emerged from the evidence gathering event on 4 November.</p> <p>To consider which other organisations to speak to.</p> <p>To receive a briefing on the Housing and Planning Bill</p>

## Housing – Demand, Supply and Affordability

<p>14 January 2016</p>	<p>Freshwater, Griffiths and Wildey</p>	<p>Matthew Gough, Head of Strategic Housing            Dave Harris, Head of Planning            Michael Turner, Democratic Services Officer</p> <p>Mike Finch, Head of Land and Construction Projects at Hyde Housing Association</p>	<p>To gain evidence from Hyde Housing Association regarding:</p> <ul style="list-style-type: none"> <li>• Numbers of homes being built in Medway and the inhibitors to building more and speeding up delivery</li> <li>• Whether there were any problems with the planning system or the way the Council operated</li> <li>• How the standard of homes offered for market rent and sale differed</li> <li>• The likely impacts of the “pay to stay” policy and Government policies regarding brownfield sites</li> <li>• What was done to encourage local people to benefit from housing developments</li> </ul>
<p>28 January 2016</p>	<p>Freshwater, Saroy and Wildey</p>	<p>Matthew Gough, Head of Strategic Housing            Dave Harris, Head of Planning            Michael Turner, Democratic Services Officer            Rachel Britt, Housing Partnership and Strategy Manager            Ashley Spearing, Development Director, Berkeley</p>	<ul style="list-style-type: none"> <li>• What has been delivered so far at Victory Pier and what is left to be delivered?</li> <li>• How many units at Victory Pier have been bought as a primary dwelling</li> <li>• What Medway Council does well and what could be done differently</li> <li>• Approach towards delivering</li> </ul>

		<p>Helle Dorrington and Greg Brydie - Berkeley</p>	<p>affordable units</p> <ul style="list-style-type: none"> <li>• The reasons behind the high amount of student units built</li> <li>• Whether local contractors are used when working in Medway</li> <li>• Numbers of apprentices on sites and links with the University Technical College</li> <li>• Views on developers acquiring sites and holding onto them or not delivering when have planning permission</li> <li>• Views around developing brownfield sites and desire to work in partnership with the Council to develop the Council's brownfield sites</li> <li>• Views on Government proposal for a register of brownfield sites</li> <li>• The extent to which changing demographics influence plans</li> <li>• Views on non traditional building methods</li> <li>• Extent to which actively try to sell homes to people in Medway</li> <li>• number of homes plan to build in</li> </ul>
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			Medway in 2016/17
8 February 2016	Etheridge, Freshwater, Griffiths, Saroy and Wildey	Matthew Gough, Head of Strategic Housing Dave Harris, Head of Planning Michael Turner, Democratic Services Officer	To consider draft recommendations

In addition to the work and evidence outlined above, evidence was obtained from a review of documents available online.

The Task Group would like to thank all participants in the review and a link to the final review document will be sent to all of them, together with the decisions of the Cabinet.

### 6. SUMMARY OF EVIDENCE COLLECTED

#### a) Supply



It is widely accepted that successive Governments have failed to build enough housing to meet demand. This has been made worse by the economic downturn seen since 2007.

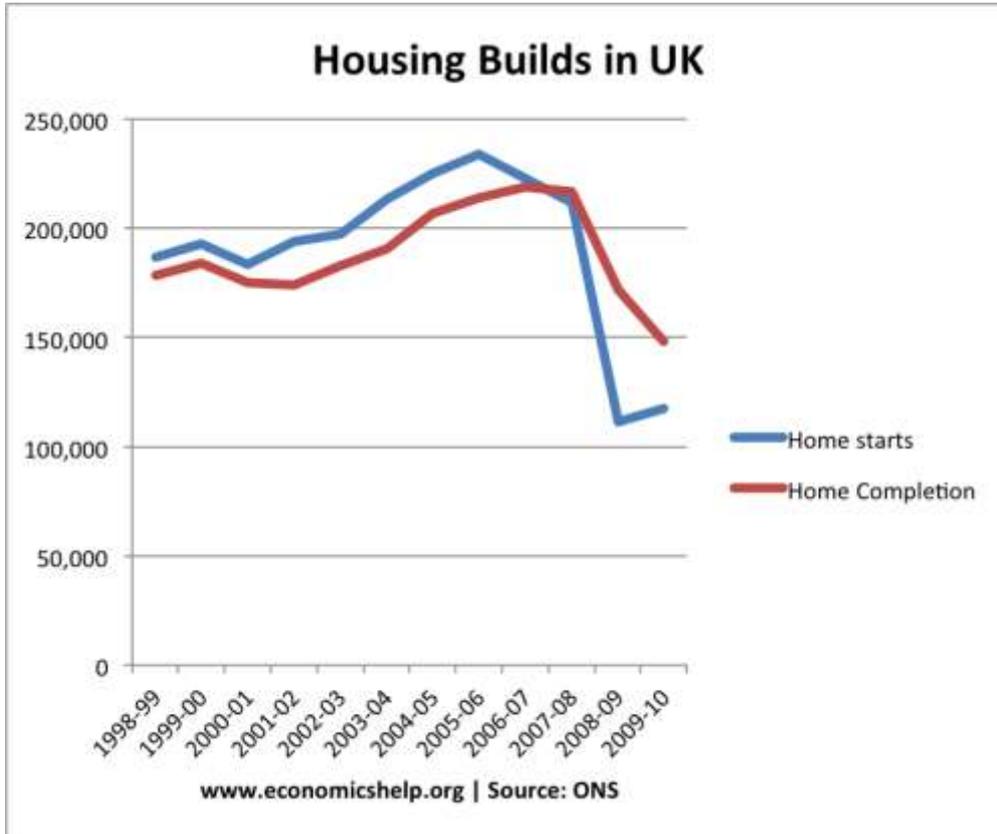
In 2007 the Government set a target of increasing the supply of housing to 240,000 additional homes per year by 2016. Within this overall target was a commitment to deliver at least 70,000 affordable (i.e. social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market) homes per year by 2010-11, of which 45,000 were to be new social rented homes. However, since the credit crunch of 2008, this target has severely fallen behind as housing construction has slumped. Although demand is rising, the collapse in mortgage advances means private builders have reduced the supply of new housing. House-builders will not, of course, build houses that they cannot sell.

The recent Government spending review (November 2015) set out plans for Government investment of £20b in housing, £5.7b of which is to be invested in 400,000 new affordable homes in the private sector with half of these being starter homes for first time buyers.

Responding to the housing announcements in the spending review the Local Government Association argued that national housing reforms such as forcing councils to sell off homes to fund the extension of Right to Buy to housing association tenants; reducing rents paid by tenants in social housing in England by 1 per cent a year; and funding 20 per cent discounts on 200,000 new starter homes for first-time buyers by exempting developers from paying Section 106 contributions, will severely hamper the ability of councils to build new homes by taking £12 billion out of local investment in affordable rented housing by 2020.

The Government have identified that an increase in supply is vital and that ultimately this is the key to addressing rising house prices. As a result there are a number of

Government initiatives aimed at helping younger people get onto the housing market ladder. For example the Government's Help to Buy scheme allows people who wish to purchase a newly built property the chance to obtain a 20% interest-free loan from the government, as long as they put down a 5% deposit. However, there is a view that the fundamental problem in the UK housing market is the persistent shortage of housing – and increasing the availability of credit does not directly address this problem.



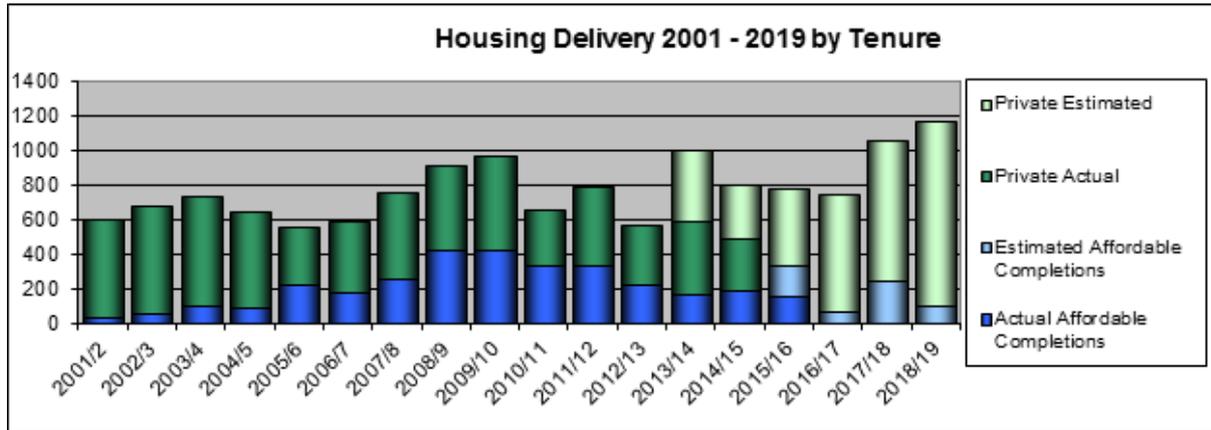
Source - UK House Price to income ratio and affordability | Economics Help

### The situation in Medway

Over the last ten years 7,508 new homes were developed in Medway against a target of 8,035. This decrease mirrors a trend seen nationally due to the downturn in the economy. In 2013/4, house building in Medway was at its lowest level since 2006/7. As a result, the number of new affordable homes delivered has also decreased with 166 homes developed in 2013/14.

The graph below shows housing delivery in Medway since 2003 and estimates future delivery up to 2020. It is estimated that the level of house building will increase and that around 2,700 new affordable homes will be developed.

## Housing – Demand, Supply and Affordability

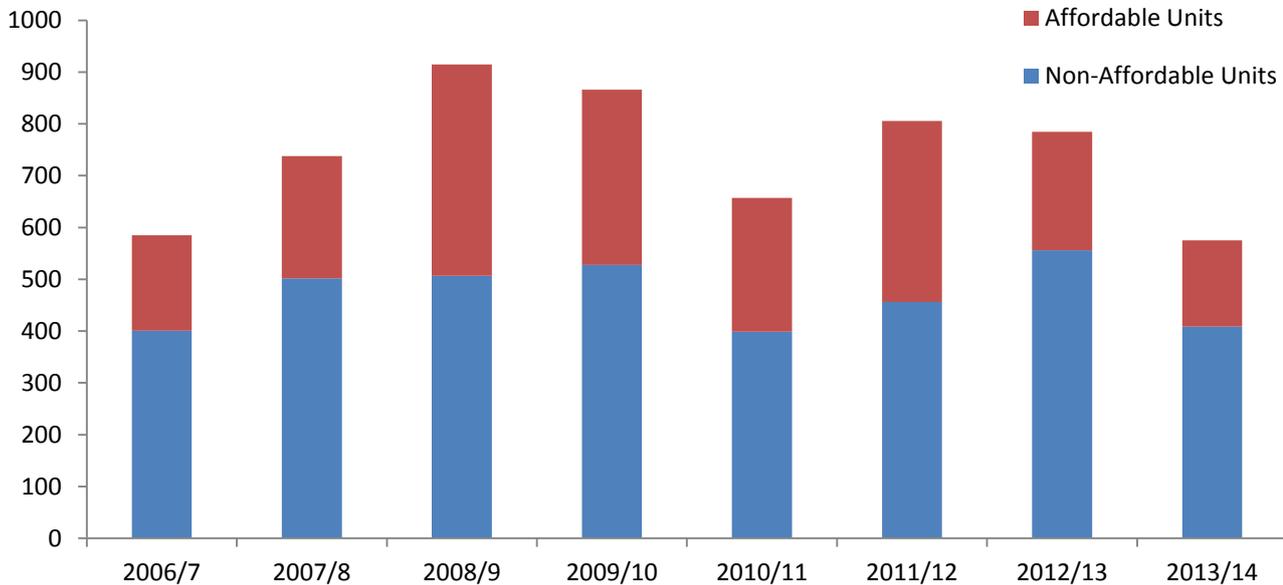


Source – Medway Council Housing Strategy

The table below shows the amount of new housing built in Medway since 2011/12. The total number of units completed during the 4-year period is 2436, giving an average of 609 dwellings per annum.

Year	Completed Units
2011-12	809
2012-13	565
2013-14	579
2014-15	483
Total	2436

### New House Building in Medway



Source: Medway Council

The Council takes a strategic and long term role in helping to ensure that a range of developments are able to progress and so help provide a supply of new housing. This can be through the identification of a supply of suitable sites for development through the planning process or through the creation of a positive approach to enable

and facilitate regeneration and development. This is achieved by working with a range of partners to identify and bring forward sites that it owns or has an interest in. This may involve works to deal with challenges such as ground conditions, flood prevention or other infrastructure required to facilitate the development of homes.

### Evidence Gathering Sessions

The Task Group explored the following issues regarding the supply of housing:

- How housing need could be met if, as there seemed to be, there was a natural inhibitor in place in terms of the rate private developers built homes.
- What the constraints were for developers (if any) to building more homes in Medway and what could be done to increase the supply of homes.
- The availability of skilled construction workers
- Off site housing construction methods
- The demise of medium sized builders
- Land banking

### Barriers to Building more homes

Redrow commented that it is a common perception that private developers' motivation is to limit supply in order to maximise profits. Their typical approach is to complete around 50 units per year on most sites. They gave evidence that a desire to maintain control over quality is the main driver for them as a private developer behind this approach. In their experience, building too many homes too quickly meant quality suffers - and quality is an important issue to Redrow as a company. Their preference would be to have more sites but limit the number of houses built on each site. So instead of building 200/300 units per year in Medway from 2/3 sites they would prefer to have 6 sites to maintain quality and spread the market. They emphasised that this approach was not about maximising profit. Another issue facing Redrow was the difficulties of recruiting and retaining sufficient labour on a site. This was made worse if too many houses were built at once.

mhs Homes commented that the constraints they face in building more homes are an uncertain revenue income due to recent Government reforms, with finance being the key issue. They added that there is an opportunity in the current economic climate for them to seek other, smarter Treasury vehicles to raise more money – e.g. perhaps pursue a credit rating which, if positive, could open up more flexible terms for finance at more competitive rates which would then allow them to build more. They did not lack ambition to grow (but not at any cost) and have built up good relationships with developers and construction companies in recent years. As a result there are a lot more opportunities for growth. mhs did not feel there was anything else the Council could do to help accelerate the building of homes but commented that getting speedier decisions from the Council on large, complicated regeneration schemes would be helpful.

Hyde Housing Association plan to build 250-300 homes in Kent for the next year. The Group were interested to hear what the Council could do to encourage Hyde to scale

up to provide much greater numbers solely in Medway. Hyde commented that they would have the appetite to do this but it was a difficult question to answer at present due to a fluid national situation in terms of Government policy. Finance and land are the two main elements required to make any scheme work and they identified that the barriers to building significantly more homes in Medway are the price and availability of land, finding sites and obtaining planning permission.

These conversations led the Task Group to discuss the possibility of the Council identifying opportunities to secure finance outside the Housing Revenue Account such as prudentially borrowing or other opportunities and use the funds to build and operate housing across all tenures either by working in partnership with a local housing provider or by alternative means. Across the country there are many examples of activity by councils to provide new homes in response to the demands of their local housing market and housing pressures. One example is Lambeth Council which has recently agreed to set up a 100% council owned and run company to access finance, including from pension funds, to help fund its estate regeneration programme and build homes for council rent, intermediate rent and private rent all with long tenancies and rent stability.

There is no one model of partnership and should this approach be felt to be one worth pursuing then, of course, a mechanism that works best for Medway would have to be found.

It was felt that the Council should continue in its role as an enabler in working with partners to secure investment in infrastructure, flood defence work, or through the use of Compulsory Purchase Orders to help reduce the risk for a number of larger redevelopment sites.

Redrow, Berkeley and Hyde Housing all commented on the good relationships they had with the Council, particularly with the planning team. This is not always the case in other areas. They commented on the pro-activeness of the planning team and on the effectiveness of Planning Performance Agreements. In terms of what the Council could do differently, Redrow felt that the barriers are not so much about process but mainly about the resources the Council can make available to resolve ecological or archaeological issues at a site before development can start. Delays in starting work on sites can be caused where the Council has to buy in these services externally. On one occasion to date the Council offered a developer, at pre-application stage, the opportunity to speed up the process for archaeology and ecology studies by paying up front for these services. The Task Group consider this is an area which could be looked at with a view to this offer becoming the norm.

### **Availability of Skilled Workers**

Major house builders have pointed to a lack of readily available skilled construction workers compounded by experienced construction workers leaving the industry and a scaling back of training for new entrants. Nationally, 400,000 construction workers are expected to retire from the industry in the next decade (source – Construction Industry Training Board) whilst the number of people starting construction related apprenticeships has halved since 2006/2007.

Research from the Local Government Association shows that the construction industry's forecasted annual recruitment need is up 54 per cent from 2013 and have increased for the last three years consecutively, up from 29,050 a year in 2013, to 44,690 a year from 2015. More than half of skilled trade vacancies in the construction sector were hard-to-fill in 2013, up from 46 per cent in 2011. In addition, the number of people in construction-related training has declined across all learning. There are 10,000 fewer construction qualifications being awarded by colleges, apprenticeships and universities. Since 2012/13, the number of construction-related vocational learning qualifications has dropped by 4 per cent, including apprenticeships, which have fallen by 58 per cent, and higher education qualifications in construction and engineering fell by 17 per cent.

mhs Homes commented that a challenge facing the industry is how to increase the supply of skilled labour and encourage people into the industry. mhs Homes encourage construction partners to hire one local apprentice per £1m expenditure (in broad terms) and this is a requirement for some contracts. Redrow are starting to forge links with Medway University Technical College (UTC) due to a shortage of bricklayers, site managers etc. and hope to involve some students in actual projects.

Berkeley have also established links with the UTC and their students are invited to visit their sites and the company have even donated materials to them. Berkeley have an apprentice scheme and require larger sub contractors to employ a certain percentage of apprentices. The target for Berkeley is to have 13% of the workforce in training or apprenticeships and generally this majority (10%) will be in training with the remainder (3%) working as apprentices. Berkeley are looking to introduce an apprentice league table on their sites to build in some competition to increase the number of apprentices across the company through peer pressure and possibly offer prizes to the team with the highest number of apprentices. Berkeley commented that one of the biggest challenges facing the industry was a lack of skills and not enough young people coming into training.

### **Fewer Smaller Builders**

In recent years housebuilding has become concentrated in increasingly fewer hands. 50% of supply is now concentrated in the eight largest housebuilders.

Small housebuilders (i.e. those building fewer than 100 homes a year) built 20,000 homes in 2013 whereas a decade earlier it had been 51,000. The National House Building Council reported in 2014, following a survey, that half of small builders cited banks' reluctance to lend as a serious problem.

The Government has put in place a range of measures to support small builders. For example, builders of 10 or fewer homes do not have to pay Section 106 affordable housing and tariff style contributions. The Government has also announced a £525m Builders Finance Fund designed to help restart and speed up housing developments between 5 and 250 units that have slowed down or stalled. Its main objective is to address difficulties in accessing development finance faced by some housebuilders, particularly smaller developers, and to help bring forward stalled but viable sites.

The Government are currently carrying out five pilot schemes (one in London and four on Homes and Community Agency land) where the Government will directly commission new affordable homes on public land. One of the aims is to try to encourage new entrants and smaller house builders into the market.

### Offsite Solutions



An issue the Task Group explored were the opportunities to increase the role of offsite solutions (i.e. prefabricated construction methods) in order to improve the delivery of new homes for both sale and rent.

There does not seem to be any fundamental objection from house-builders to the increased use of offsite solutions. Builders tend to make decisions based on cost as opposed to technology. mhs Homes told the Group that they were very interested in off site construction methods, which may bring costs down. They pointed out there were a lot of good examples but not many flagship schemes and this was a relatively new market in what was a traditional sector. Berkeley used off site construction methods at their Victory Pier development in Gillingham. The Group heard from Berkeley that this helped the company to respond to the market and customer requests by adapting and improving the scheme over time. Whilst this approach was not without its challenges, it did help Berkeley in their desire to “place make” and create a broad mix of tenures and facilities. Berkeley felt the Victory Pier scheme had been very successful and a “game-changer” for the area.

Some of the advantages of offsite construction can offer are:

- a means of delivering homes that can be built to higher sustainability standards
- better build quality, speed of delivery, construction health and safety, whole-life carbon footprint, and reduced transport pollution (congestion and emissions).

- financial benefits to the housebuilder in terms of increased speed of construction and reduced working capital requirements
- savings to the householder arising from reduced energy-in-use.
- flexibility – whole houses can be constructed or there can be a more modular approach with bathrooms etc. constructed off-site and then slotted into houses
- homes can be built in factories away from development sites which means less disruption for local communities
- work is not affected by the weather

In 2012 the Construction Industry Council (CIC) was commissioned by the Government to review the potential of prefabricated housing to help meet housing demand. CIC published its *Offsite Housing Review* in February 2013 in which it suggested that prefabrication construction methods could be part, though not all, of the solution.

Adopting offsite methods can help to meet the demands caused by the projected shortfall of more than 2million units in the housing stock by 2030 together with Government policies that that all new-build homes will be required to meet the demands of [sustainability] Code Level 4 beginning in 2016 with standards rising to Code Levels 5 at some stage thereafter. It is (relatively speaking) easier to deliver homes to higher quality standards using factory made and assembled products than it is using traditional construction techniques. In a market where demand is rising, offsite methods offer housebuilders higher quality finishes, cheaper construction financing, and reduced working capital requirements.

*“The government is committed to removing the main barriers which hold back many thousands of custom build projects every year. We will make it easier for more people to build their own home and make custom build a mainstream option for future home owners, not an exception for a privileged few”<sup>5</sup>*

The Government have given Laing O’Rourke a £22m grant to help with a project to produce homes off site with the company estimating that 10,000 homes a year could be produced. *“If enough people saw the opportunity for sites to develop that technology, I think the money would flow largely from the private sector and we may not need government intervention to do it”<sup>6</sup>*

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<sup>5</sup> *Government Policy paper - 2010 to 2015 government policy: house building*

<sup>6</sup> *Andrew Rose, Chief Executive, Homes and Community Agency – evidence to House of Lords Select Committee on Economic Affairs Inquiry into the Economics of the UK Housing Market*

### Self Build

In the UK only around 10% of new homes are self commissioned, self procured or self built – compared to 80% in Austria and around 60% in France, Germany and Sweden.

The Government is interested in supporting those who wish to build their own home and intend that, as with starter homes, self and custom build homes will be exempted from many infrastructure requirements. The Housing and Planning Bill adds to and amends the Self-build and Custom Housebuilding Act 2015, which requires local authorities to keep a register of people seeking to acquire land to build or commission their own home. The Bill specifically requires local authorities to grant “*sufficient suitable development permission*” of serviced plots of land to meet the demand based on this register. The LGA believes that this statutory requirement is not necessary as there is clear advice in national planning guidance on how councils should identify and plan for the needs of custom builders. However, if it is to happen, the regulations should avoid being over-prescriptive in relation to custom builder preferences or eligibility criteria and there should be local authority discretion to determine what preference information and eligibility criteria would be most helpful in delivering more custom and self-build housing in their local area.

### Land Banking

It is a common accusation against house builders that they hoard land (‘land banking’) by obtaining planning permission for new homes and then actively choose not to develop these sites into homes.

Redrow commented that, in general, they (like most house builders) want to develop sites as soon as possible given that they have to borrow money to buy sites and pay interest on that. They added that some development companies pursue planning consent with no intention of developing but that is not the case for house builders.

Research published in January 2016 by the Local Government Association showed that there are 475,647 homes in England which have been given planning permission but have yet to be built. The backlog has grown rapidly over the past few years. In 2012/13, the total of unimplemented planning permissions was 381,390 and in 2013/14 it was 443,265. The LGA argue that the figures highlight the need for councils to be able to invest in building more homes and also for the skills shortage affecting the construction industry to be addressed. The LGA are also pressing for the Government to give councils powers to charge developers full council tax for every un-built development from the point that the original planning permission expires. The LGA also said developers are taking longer to complete work on site with an average 32 months, from sites receiving planning permission to building work being completed. This is a year longer than in 2007/8. The number of planning applications being granted planning permission in 2014/15 was 212,468 (up from 187,605 in 2007/08 and higher than all previous years).

In Medway there are currently 6,012 dwellings which have the benefit of planning permission which have not yet been implemented.

In a 2006 report<sup>7</sup> the Campaign to Protect Rural England argued that the countryside was being subdivided into small plots by an increasing number of ‘land banking’ operations in an increasing number of locations. The report commented that plots are sold at prices high above their current use value, on the basis of high-pressure sales techniques and seriously inadequate information supplied to investors. Huge gains are promised which only the operators themselves are likely to realise these. The report concludes that land banking requires urgent solutions from across local and national government, including the practice of land banking regulated by the Government.

It is a claim that is strongly denied by the Home Builders Federation<sup>8</sup> who argue that the financial incentives are heavily weighted towards actively developing land. The Federation point out planning permissions expire after a period of time with a default expiry period of three years. After that point, if work on site has not begun a developer will need to reapply for planning consent (an uncertain and time consuming process). *“With the costs associated with a typical planning application for a reasonable sized residential site often running to tens of thousands or even hundreds of thousands of pounds, allowing a planning permission to expire is not something that is usually done lightly.”*

From a financial and accounting perspective the Federation argues that house builders’ motivation is to build rather than ‘bank’ land and that once they have paid for a site and have planning permission there is a very strong commercial driver to earn a return on the asset by building and selling homes.

The Federation also points to previous national reviews supporting their position.

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<sup>7</sup> (CPRE) – *The Great Land Banking Carve Up*

<sup>8</sup> *Permissions to Land: Debunking the myths about house builders and “land banking”* May 2014  
[http://www.hbf.co.uk/fileadmin/documents/research/HBF\\_Report\\_-\\_Landbanking\\_May.pdf](http://www.hbf.co.uk/fileadmin/documents/research/HBF_Report_-_Landbanking_May.pdf)

### b) DEMAND

#### National Picture

Recent estimates (see below) of housing demand show between 200,000 and 300,000 new homes are needed each year.

- 1) Institute for Public Policy Research (IPPR) report, *The good, the bad and the ugly: Housing demand 2025*, published in March 2011 concluded that:
  - between 3.3 million and 4.5 million additional households would be formed by 2025; and that,
  - if new housing construction continued at its past rate and existing patterns of household formation and immigration remain constant, with the population increasing as projected by the Office of National Statistics<sup>8</sup> “demand will outstrip supply by 750,000 by 2025”.
- 2) The Future Homes Commission, in *Building the Homes and Communities Britain Needs* (October 2012) argued that around 300,000 homes should be built each year in Britain to keep pace with likely demand.
- 3) Town and Country Planning Association - *New estimates of housing demand and need in England, 2011 to 2031*.

The key estimates from this 2013 report are:

- based on an extension of the official projection, household numbers would reach 26,326,000 by 2031;
- the ‘modified’ projection—taking into account some movement back to past trends as the economy improves—suggests a higher estimate of 26,593,000 households by 2031;
- taken together the projections set out in the report—adjusted for second home ownership and vacancies in housing stock—suggest that 240,000 to 245,000 additional homes would be required each year to meet newly arising demand and need;
- just under 25 per cent of all housing requirements are likely to be concentrated in London, with over 60 per cent in the four southern regions.<sup>14</sup>

These estimates are based on projections, which rely on the economy remaining depressed and household formation rates remaining low. If housing output is low over the period covered and/or the economy moves towards longer-term growth then the need for housing investment will be higher than predicted.

- 4) The House of Lords Economic Affairs Committee has received evidence that between 200,000 and 300,000 new homes are required each year whilst nearly all witnesses have expressed the view that this will never be achieved.

### The situation in Medway

Through the new Local Plan, the Council will need to make sure sufficient land is available to provide for housing Medway's communities. The Plan will consider not just the amount of housing needed, but also the size and mix of housing types to meet the needs of different sized households, and those with particular needs, such as older people, people with disabilities, and students.

The Council is required to determine the objectively assessed needs for housing in its strategic housing market areas. In 2015 an analysis of demographic, economic and market signal information to assess the quantity and types of housing that will be needed to meet the projected growth in households over the plan period concluded that the Local Plan needs to make provision for up to 29,463 new homes by 2035.

A new Strategic Housing Market Assessment (SHMA) carried out in 2015 for Medway identified a high level of demand for affordable housing, at 17,112 over the period of the Local Plan. Initial analysis indicates that a percentage of 25% affordable housing would be deliverable on developments of over 15 units.

As has already been seen there has been a big increase in the demand for private rented housing. This means that landlords are now increasingly able to pick and choose their tenants, resulting in a limited number willing to provide accommodation to vulnerable households in housing need. Not surprisingly over the last couple of years there has been a year on year increase of just over 40% of households making a homeless application. Many of these have complex needs and are vulnerable. Inevitably this places pressure on services and increases the use of temporary accommodation. This is not confined to Medway and is a trend seen across the region.

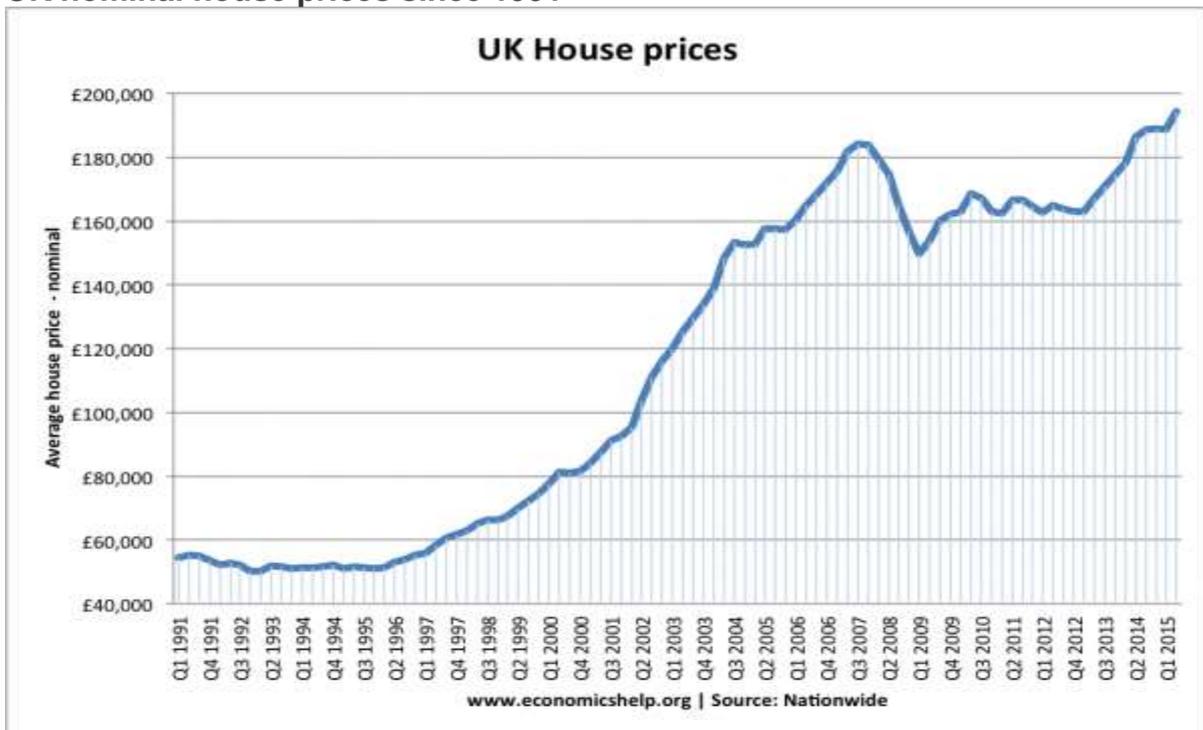
**c) AFFORDABILITY**

**House Prices**

The failure of housing supply to meet demand inevitably increases house prices and rents. Between 1971 and 2012 nominal property prices increased by 4,268%. To give an illustration of what this means, if food prices had increased at the same rate then a 4pint carton of milk would cost £10.48 and a chicken £51.33 (2012 price). If wages had kept pace with house prices since 1997 the average person would be earning £29,344 more a year.

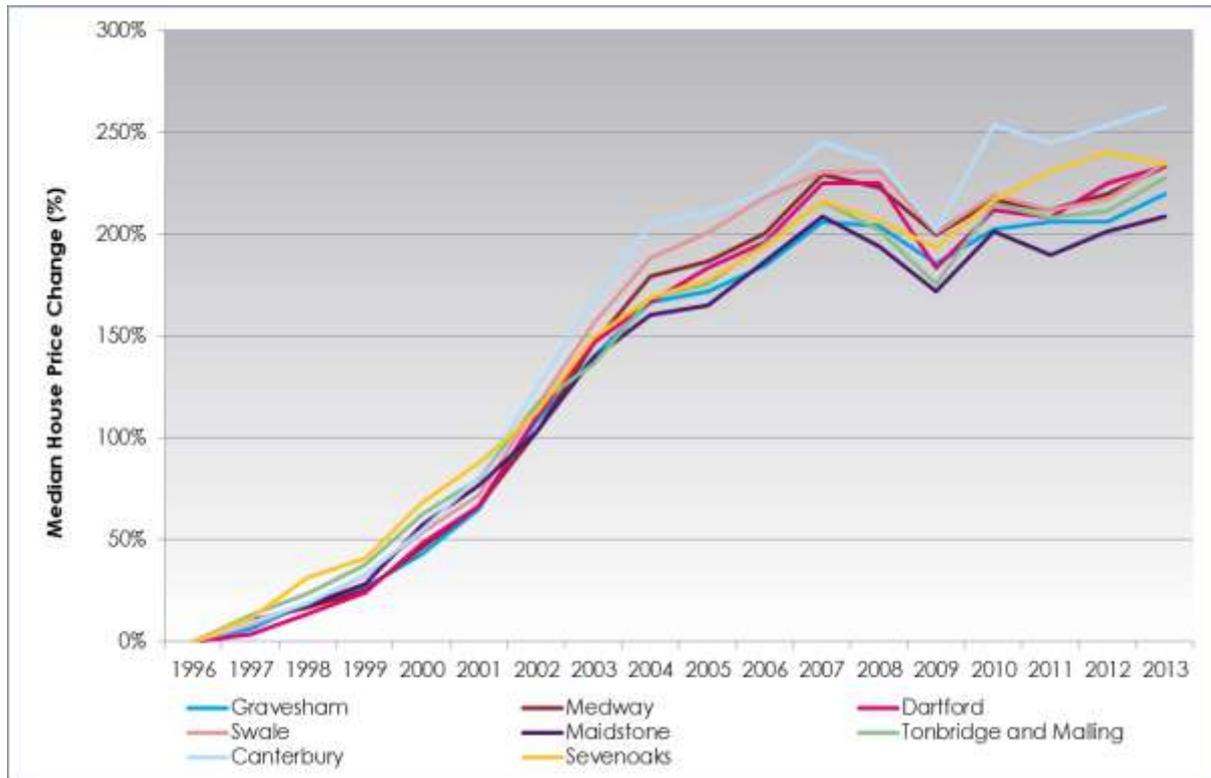
Mortgage payments have fallen to a near 20 year low of just 16% of income since interest rates were cut in 2009. Inevitably though interest rates will rise at some point with many homeowners facing the shock of rapidly rising mortgage payments. Also, rising house prices have required a bigger deposit. This means many who might be able to afford mortgage payments are unable to get a mortgage in the first place.

**UK nominal house prices since 1991**



Source - UK House Price to income ratio and affordability | Economics Help

### Percentage Increase in Mean House Prices from 1996 Base Year

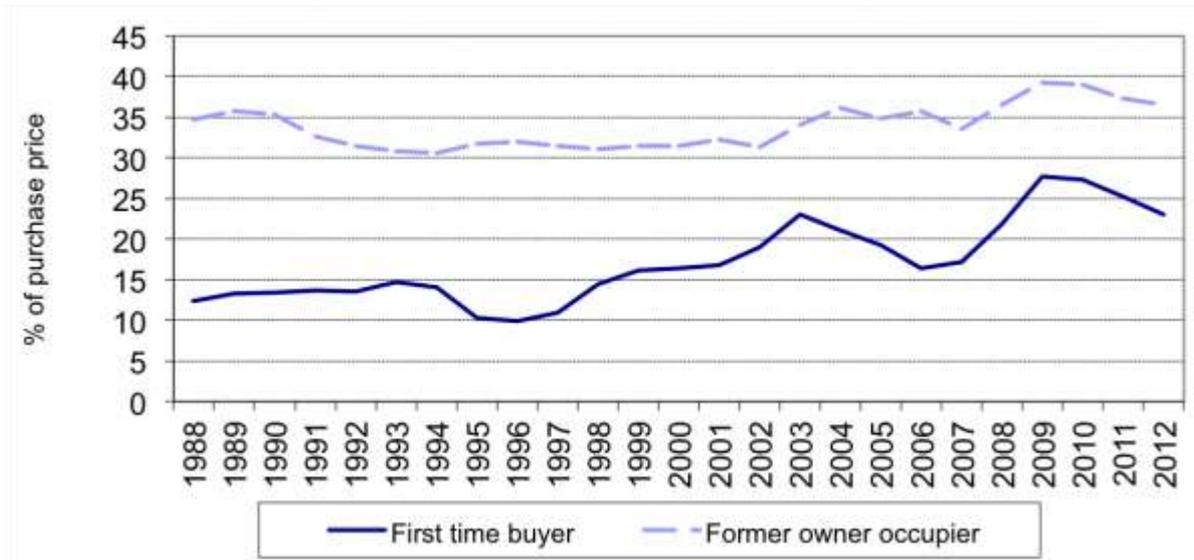


Source: CLG Live Table 586, 2014

First time buyers now need to find a much larger deposit - 10% of purchase price in 1995 rising to 23% in 2012. Moreover, at the end of 2015 the average first time buyer in England purchasing a property would have already spent £52,900 on rent.<sup>9</sup>

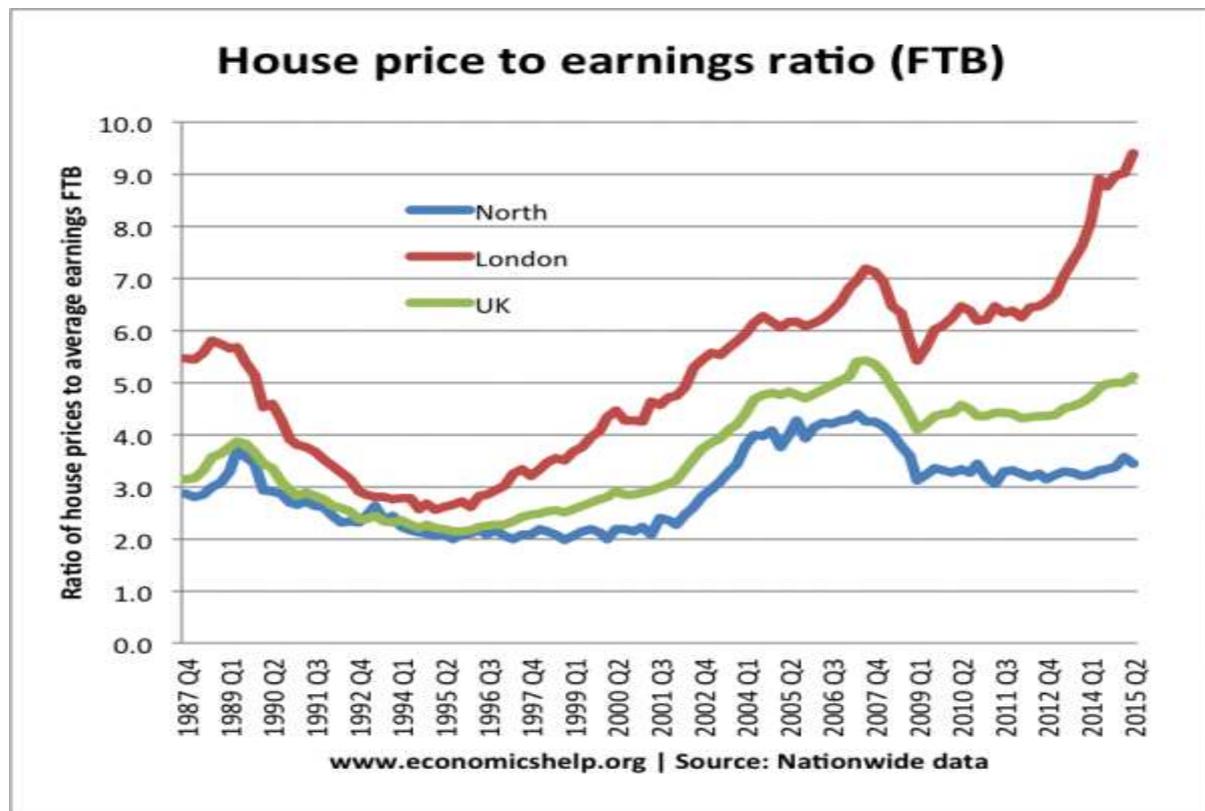
<sup>9</sup> Source - Cost of Renting (Association of Residential Letting Agents) 2016. Based on the assumption that most people move out of their family home at the age of 18 and an average first time buyer age of 31

## Deposits required for first time buyers

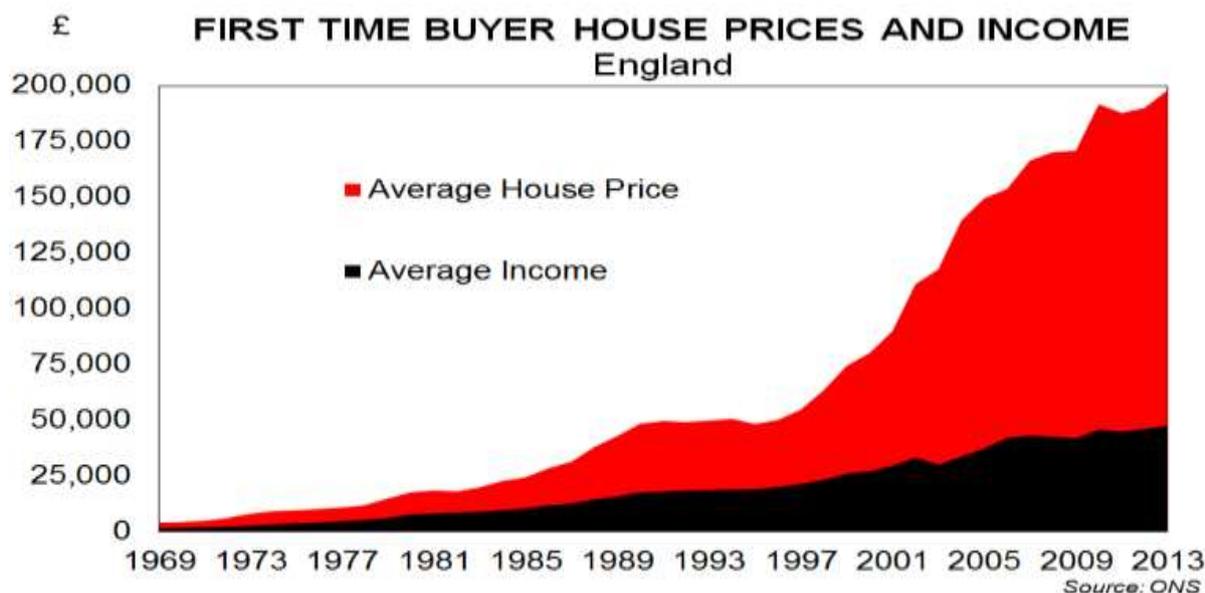


Source - UK House Price to income ratio and affordability | Economics Help

First time buyers in London are seeing house prices at a record 9 times average earnings. For the UK as a whole, the ratio of 5.1 is still above long-term trends. It is a higher ratio than the end of the 1980s housing boom.



Source - UK House Price to income ratio and affordability | Economics Help



### The situation in Medway

Using Land Registry data it can be seen that house prices in Medway are lower than the surrounding districts and other than in the case of Swale the difference is significant

Comparative House Prices: Medway & Surrounding Authorities Area	Medway	Gravesham	Maidstone	Swale	Tonbridge & Malling
<b>Average price 2012</b>	£171,500	£202,800	£232,500	£180,300	£286,400
<b>% above Medway</b>	N/A	18.3%	30.1%	3.8%	63.7%
<b>Price change 2007-2012</b>	-2.2%	+0.3%	-2.9%	-2.1%	+2.2%

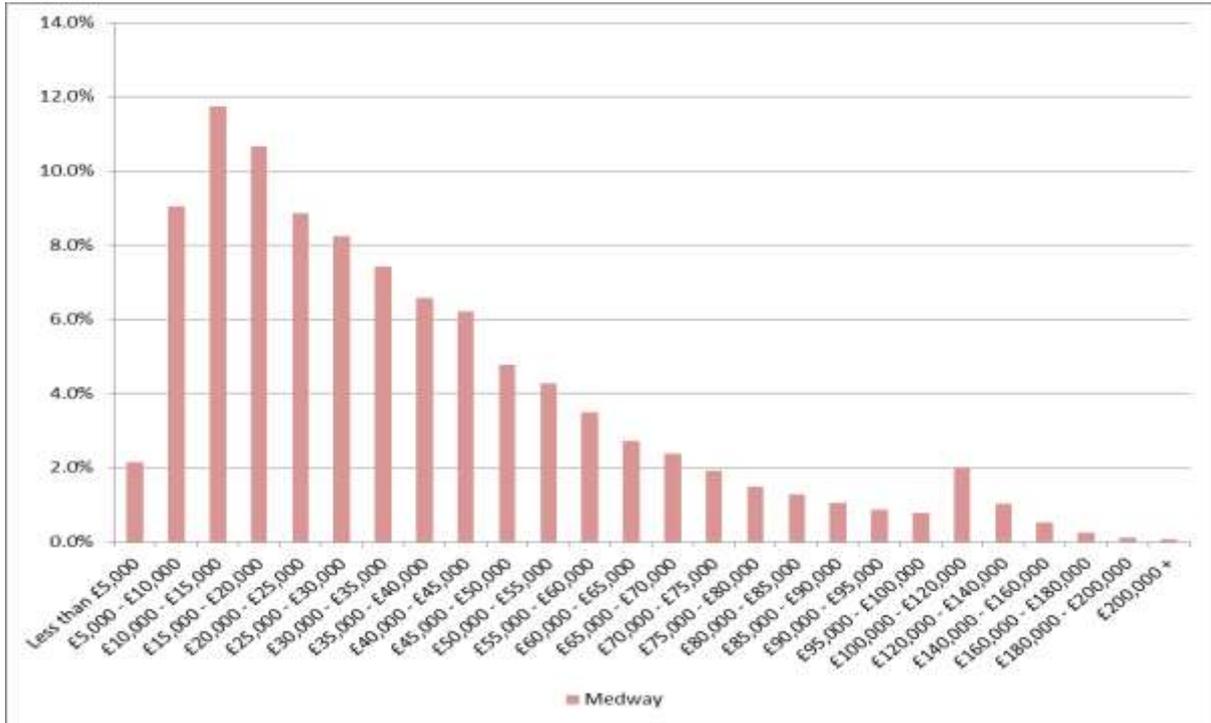
Looking at affordability in terms of the ratio of house prices to earnings, it is apparent from the table below that Medway is in a better position than other areas of Kent. However, on average lower income earners in Medway require over 6 times their annual income to afford even the cheapest homes on the market. Further, this ratio has doubled since 1997.

### Housing Affordability

Local authority	1997	2012
<b>Medway</b>	<b>3.16</b>	<b>6.35</b>
Kent	4.08	7.96
Dartford	3.69	7.60
Gravesham	3.74	7.66
Maidstone	4.71	8.36
Swale	3.42	7.22
Tonbridge and Malling	4.48	8.89

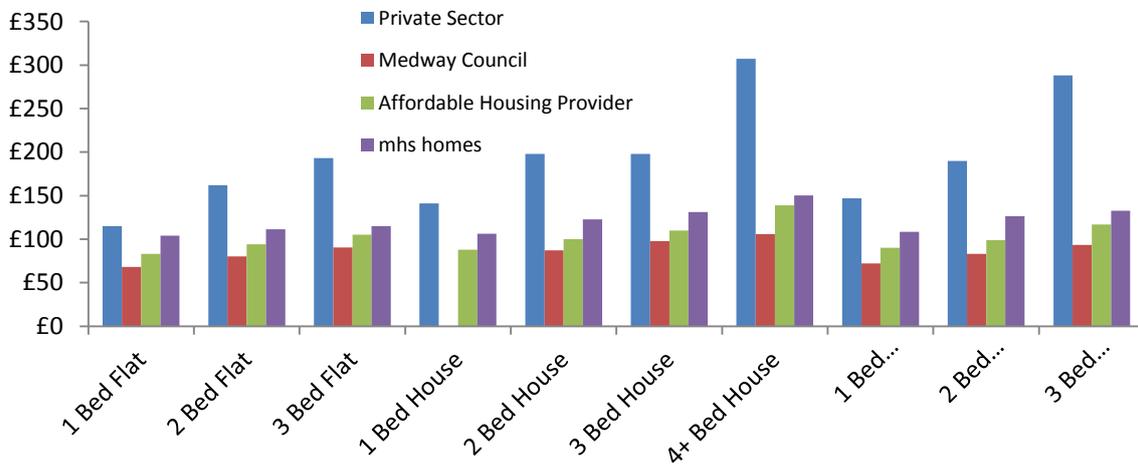
*Source: DCLG live table 576 Ratio of Lower Quartile House Price to Lower Quartile Earnings, February 2014*

## Medway Household Income Levels



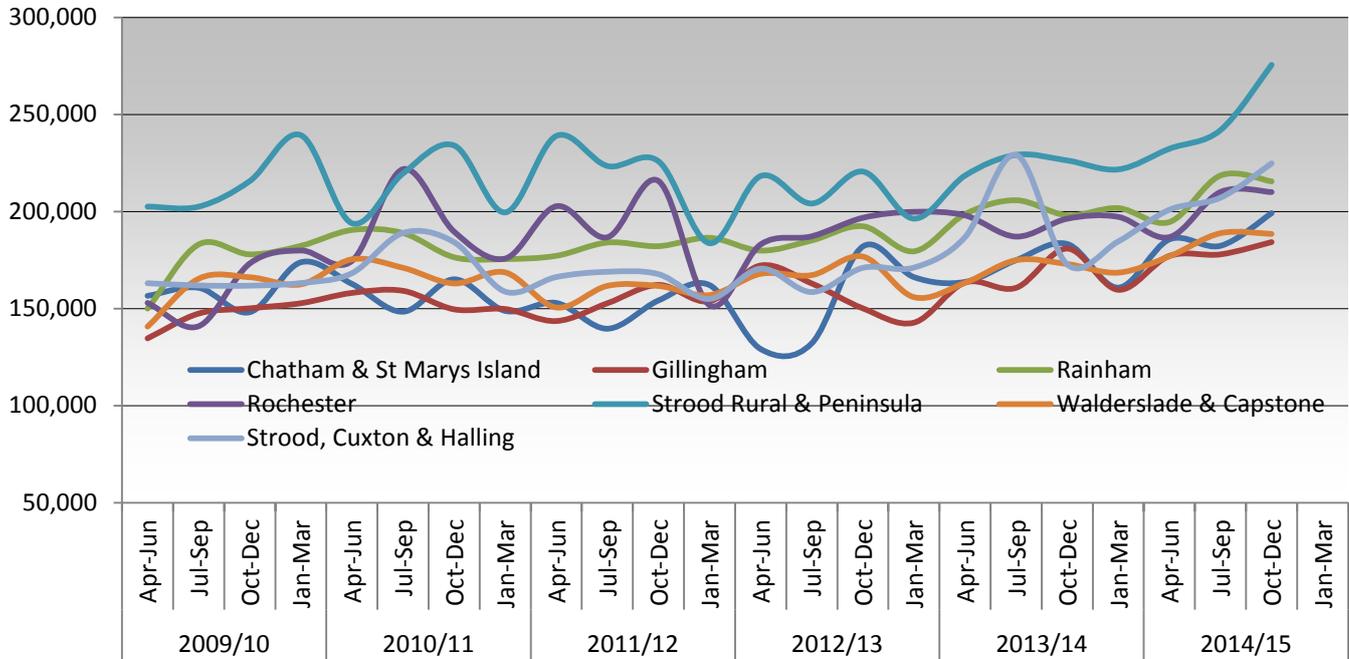
Source: CACI (Paycheck Report) 2015

## Average Weekly Rent Levels



Source: Medway Council

## Medway Average House Prices



Source: Land Registry, 2015

### The situation across the region

Outside of London the average homes costs £312,242, nearly 11 times the average salary. House prices in the south-east are the highest in the country outside of London

Although average earnings in the region are £2,538 higher than the national average at £29,037, the increasing cost of housing makes home ownership completely unaffordable for many.

The cost of renting privately is also becoming less affordable compared to average pay packets. The average cost of renting is now £864 a month, and in some parts of the region, this accounts for more than half of local incomes.

Neither is being in work any guarantee of being able to pay for housing costs with more than a quarter of all housing benefit claimants in the region being employed.

## Housing – Demand, Supply and Affordability

	Average (mean) house prices in 2014	Average (mean) monthly private sector rents in 2013/14	Mean annual earnings in 2014	Ratio of house price to incomes	Income required for 80% mortgage 2014 (80%x3.5)	% of housing benefit claimants in employment February 2015	Unemployment rate 2014
<b>England</b>	£265,888	£720	£26,499	10	£60,774	23.8%	6.2%
<b>South East</b>	£312,242	£864	£29,037	10.8	£71,370	27.6%	4.8%
<b>Medway</b>	£192,017	£662	£27,071	7.1	£43,890	23.7%	7.4%

### Private Renting

More people are privately renting and reflects a decline in homeownership.

Nationally, 18% of all households are now in the private rented sector. In Medway the figure is 17.1% as at 2011 but significantly this figure has almost doubled since 2001. In fact for many private renting is increasingly the only option although the National Landlords Association made the point to the Group that renting is a tenure of *choice* for many people, some of whom suffered from the 2008 crash where they owned a property but were unable to sell.

Nationally, the number of households with dependent children who rent privately more than doubled between 2008 and 2013. (*Source – DCLG English Housing Survey Live Table*).

Private renting is the most expensive tenure (see table below) and is far less stable than other tenures. The leading cause of homelessness is now private renters losing their tenancy. Nationally, nearly a third of all people made homeless in England have lost their homes because of a landlord ending a tenancy agreement (*Source DCLG*.)

<b>Affordability of Rent by Tenure 2015/16</b>					
	Private Sector	Medway Council	Affordable Housing Provider	% of average weekly work placed based incomes in Medway (2013 figures)	% of average weekly residence based incomes in Medway (2013 figures)
				<b>£489.9</b>	<b>£542</b>
<b>1 Bed Flat</b>	£115	£ 73.55	£83	23.5%/15%/17%	21%/13.5%/15%
<b>2 Bed Flat</b>	£162	£82.08	£94	33%/17%/19%	30%/15%/17%
<b>3 Bed Flat</b>	£193	£92.37	£105	39%/19%/21%	36%/17%/19%

## Housing – Demand, Supply and Affordability

<b>1 Bed House</b>	£141	N/A	£88	29%/N/a/18%	26%/N/A/16%
<b>2 Bed House</b>	£198	£89.28	£100	40%/18%/20%	36.5%/16%/18%
<b>3 Bed House</b>	£198	£99.53	£110	40%/20%/22%	36.5%/18%/20%
<b>4+ Bed House</b>	£307	£108.11	£139	63%/22%/28%	57%/20%/26%
<b>1 Bed Bungalow</b>	£147	£75.86	£90	30%/15%/18%	27%/14%/17%
<b>2 Bed bungalow</b>	£190	£84.98	£99	39%/17%/20%	35%/16%/18%
<b>3 Bed Bungalow</b>	£288	£95.38	£117	59%/20%/24%	53%/18%/22%

The significant increase in the numbers of people privately renting means that for a large number of people a much higher proportion of their weekly income is being accounted for by rent. On average the percentage of average weekly income needed to rent a 2 bedroom house in the private sector is approximately twice that needed for a similar house rented from the council or an affordable housing provider.

Due to the limited supply of affordable social housing councils increasingly use the private rented sector to house people classed as statutory homeless. Medway Citizens Advice stressed to the Group the risk of an increasing cycle (and an expensive cycle at that) of insecure private renting and homelessness.

### Housing Benefit

Housing Benefit is the financial assistance that is available to low income households to help pay their rent when renting from either a private or social landlord and is a benefit currently administered by the local council.

The level at which this assistance is paid is assessed on the individual needs of the households, their level of income and the level of rents in the local area. Local housing allowance (LHA) is set to cover 25% of rents in the sector in the area.

The Kent representative of the National Landlords' Association provided the Group with information (see below) about the distribution of rents for the Medway and Swale Broad Rental Market Area. The Government has limited the levels at which LHA rates can change over the next four years while market rents will almost certainly continue to increase over this period. The Association believe that, as a consequence, the availability of more affordable private rented properties will diminish significantly. The Local Housing Allowance for Medway is set at a rate that means that the lowest 25% of rents for each property type would be covered. The table below shows the LHA for the local area.

### Local Housing Allowance Rates April 2015 – March 2016

Category Size	Weekly Maximum amount
Shared accommodation	£65.66
One Bedroom	£110.67
Two Bedrooms	£138.08
Three Bedrooms	£153.02
Four Bedrooms	£198.11

*Source: Direct Gov Local Housing Allowance Rates*

The Association agreed with the Group that people on Housing Benefit could see the availability of accommodation available to them reduce, as some landlords will naturally wish to take tenants able to pay the higher market rates.

Figures produced by the National Landlords' Association at a national level show that the proportion of landlords prepared to accept tenants receiving Housing Benefit LHA has more than halved in three years. In mid-2010, 46% of the NLA's members let to tenants who received the benefit. By 2013 this had dropped to 22%.

The Association advised the Group that some large landlords will often have a proportion of their stock available for people on Housing Benefit. They added that whilst rents are paid direct to landlords this will continue. However, Universal Credit will mean that tenants will be responsible for paying rent to the landlord and the Association questions whether some landlords will remain in the market as a result.

### Effects of the 2015 Budget on Landlords and the Market

The Chancellor announced in the 2015 summer budget that from April 2017 landlords will no longer be able to claim tax reliefs worth 40% or 45% of the interest payments on their buy-to-let mortgages. Instead, the maximum tax relief will be set at 20%, although the change will be introduced over a four-year period. The Group heard from the National Landlords' Association that, in their view, these tax measures were pushing many landlords out of the market. But as the changes will be staggered they believe it will be 2020 before the real effects on the market emerge. The Association commented that "professional" landlords are positioning themselves now to minimise the impact of the Tax measures. Generally it was now more difficult for "amateur" landlords to operate in the market. The Association wants to see landlords operating within a professional regime and offer support and guidance to help in that respect.

In September 2015, the Assured Shorthold Tenancy Notice and Prescribed Requirements (England) Regulations 2015 came into force. These were designed to resolve some of the difficulties faced when seeking vacant possession of a residential property and place a number of requirements on landlords before a section 21 notice can be validly served (otherwise known as a Notice to Quit). The Association felt that it was still too early to see whether these changes would have an impact on mortgage lending and commented that the buy to let market expanded when lenders could see that landlords could get their property back by serving a S21 notice. The Association expects environmental health officers' workloads to increase as result of the changes to S. 21 notices

The Group asked what the Association was doing to deal with rogue landlords. The Association noted that the media never reports a good news story about a landlord. The Association relies on the Council to regulate landlords and it will support and publicise any news releases issued by the council about bad landlords, following a conviction. The Association supports accreditation and training for landlords and has an associate membership scheme, which is free and gives access to forms and information etc. They also send out fortnightly newsletter about new regulations and feel there should be no excuse for landlords to say they are not aware of their responsibilities.

The Association advised the Group that if there were rent controls in the private rented sector then more landlords would leave the market.

### **Medway Homebond Scheme for tenants**

Medway Citizens Advice, when speaking to the Group, queried whether the Council could do more to prevent people becoming homeless through the use of home bonds. The Group felt this merited further investigation.

### **How the Scheme works**

The Homebond scheme is financial assistance that can be offered to some households to help them find alternative accommodation and so prevent homelessness. It is a bond between the council and landlord/agent that they may claim against if the tenant leaves the property in a state of disrepair. In certain circumstances, help may be offered with the rent in advance in the form of a returnable grant or loan there are currently more than 600 households who have secured their accommodation with this assistance

Research<sup>10</sup> into how such schemes operate in London shows they can make a valuable contribution to tackling homelessness and housing need amongst single homeless and other vulnerable groups. In particular, effective schemes can deliver a range of benefits, including:

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<sup>10</sup> *Private rented sector access schemes in London: Outcomes, costs and success factors - ECOTEC Research & Consulting June 2008*

- the prevention of homelessness
- reduced use of temporary accommodation
- raised standards in private sector housing management
- greater social inclusion for vulnerable people through wider access to general needs housing.
- Creating space within supported housing which can be used for people who might otherwise have gone into registered care or hospital
- Widening the range, choice and location of housing within the community available to vulnerable people (for instance people with a learning disability or mental ill health) who are at risk of social exclusion
- Changing negative landlord perceptions about housing people on benefit , who have been homeless and/or who are vulnerable
- Changing negative tenant perceptions about the private rented sector
- Encouraging landlords to continue letting through the scheme and encouraging tenants to continue renting
- Encouraging private sector landlords to increase the security of tenure given to their tenants by specifying minimum letting periods
- Linking effectively with support services, and acting as a mediator between landlord and tenant, to ensure that tenancies are sustained and tenancy breakdowns or abandonment minimised

Deposit schemes vary in their approach, and may include a number of different features such as bond or guarantee schemes, cash deposit/rent in advance schemes, incentive schemes and negotiation schemes.

### **Starter Homes Affordability**

Under the Government's "starter homes" programme, 200,000 first-time buyers will be able to purchase new houses or flats at a 20% discount. However, the discount is funded by removing the s106 and Community Infrastructure Levy planning obligations on exception sites (or in lieu of affordable housing) as well as using any funding from the sale of high value council homes meaning there will be no obligation on developers to provide affordable homes for rent, or having to pay for general local infrastructure such as roads or schools. These proposals are contained in the Housing and Planning Bill which also puts a general duty on all planning authorities to promote the supply of Starter Homes, and provides a specific duty, which will be determined in later regulations, to require a certain number or proportion of Starter Homes on site.

Buyers must be under 40, and cannot have owned their own home previously. They will get at least a 20% discount on the purchase price, but to prevent buyers seeking a short term windfall they will not be allowed to sell or rent the properties for their full market value for five years. The view of the Local Government Association is that the restrictions on re-sales and letting at open market value should be in perpetuity.

According to the plans published so far, the discounts will apply to properties worth up to £250,000 outside London, or £450,000 in the capital.

The Chancellor in his Autumn Statement (November 2015) stated that the government will amend planning policy to ensure the release of unused and previously undeveloped commercial, retail and industrial land for Starter Homes, and support regeneration of previously developed, brownfield sites in the greenbelt, by allowing them to be developed in the same way as brownfield sites elsewhere, providing it delivers Starter Homes. This will be subject to local consultation, such as through neighbourhood plans.

mhs Homes view is that this initiative will probably enable developers to do more on their own without recourse to registered social landlords (RSLs) to provide affordable homes. RSLs may become lead developers themselves rather than wait for affordable homes to come through S106 agreements.

An analysis from the housing charity Shelter looked at three typical household formations in each local authority in England earning a range of different salaries to assess whether they are likely to be able to afford to buy a Starter Home. The analysis concluded that:

- Starter Homes for families earning average wages will be unaffordable in over half (58%) of local authorities across the country in 2020.
- Families on the National Living Wage will only be able to afford a Starter Home in two percent of local authorities.
- Single people on low or average wages will struggle to afford a Starter Home in 2020 in the majority of local authorities. Even those on a higher than average salary they would be restricted from affording to buy in three quarters of local authorities.
- London, the South East and the East have the lowest number of areas where affordable Starter Homes under the schemes threshold could be built, despite high demand in these areas.

*Source - Starter Homes – will they be affordable? (Shelter - August 2015)*

### **What does this mean for Medway?**

The research from Shelter shows that people on the national living wage in Medway would not be able to afford a starter home across all household types. However, compared to the rest of Kent, Medway is in a more favourable position generally in terms of affordability.

The table below breaks down the affordability of starter homes according to household composition and earning groups.

### Affordability of Starter Homes

	DINKs				Family				Single			
	NLW	AW	HAV	HI	NLW	AW	HAV	HI	NLW	AW	HAV	HI
Medway	NLW	AW	HAV	HI	NLW	AW	HAV	HI	NLW	AW	HAV	HI

#### KEY

<b>DINKs</b>	<i>Couples each earning a full time wage and no children</i>
<b>Family</b>	<i>a couple with children where one parent is working full time and the other working part time to take care of child care</i>
<b>Single</b>	<i>single person working full time</i>
<b>Green</b>	<i>Affordable</i>
<b>Red</b>	<i>Not affordable or eligible</i>
<b>NLW</b>	<i>People on the National Living Wage</i>
<b>AW</b>	<i>People on median incomes in their local area</i>
<b>HAV</b>	<i>people whose earnings are at the 70<sup>th</sup> percentile of earnings in their local area</i>
<b>HI</b>	<i>people whose earnings are at the 90<sup>th</sup> percentile of earnings in each region</i>

# 7. KEY THEMES, CONCLUSIONS AND RECOMMENDATIONS

## Key Themes

The key themes which emerged from the evidence gathering sessions the Group conducted were:

- In terms of building more homes, a lack of money, shortage of skills and materials and issues around the speed by which homes could be built came across consistently and strongly. Furthermore, there are significant developments happening in the area (such as London Paramount) which could well mean there will be even less skilled labour available to work in Medway.
- It will not be possible to meet the Government's targets for building homes by relying solely on private developers
- Given the importance of building enough homes to meet the need for housing, there seemed to be a case for a tax on undeveloped land, with the proceeds from the tax distributed locally
- The need to speed up the process for archaeology and ecology studies before developments can proceed (possibly getting developers to pay up front for these services)
- The Council should explore with its partners the use of different construction methods to those traditionally used in the housebuilding industry, in order to help address the problems identified in terms of an insufficient supply of homes and also the skills shortage in the construction industry.
- Whether the Council could legally borrow money to loan to housing associations to build homes for market rent, with a commercial return for the Council. And, if so, what the effect would be on the Council's prudential borrowing.
- The lack of quality homes in any sector to enable people to down size and free up larger properties
- The serious predicament facing low paid workers who were unable to secure social housing and also unable to pay market rent.
- How best to forge links between Education Provider such as the University Technical College and developers (including sub contractors)
- Whether the Council could do more to prevent people threatened with homelessness through the use of home bonds etc. merited further investigation.

## Conclusions

- a recognition that the problems around the availability, affordability, and to some extent, the quality of housing are the result of a supply / demand imbalance which results in pressures felt more acutely in London and the South East than other parts of the country. Whilst the Council will no doubt wish to continue to play its part in addressing these issues, along with

other local authorities in the region, the Task Group acknowledge that the Council cannot hope to solve these issues on its own,

- an endorsement by the Task Group of the Strategic Housing and Economic Needs Assessment and the implications this has for new housing numbers and spatial impact as the Council develops its Local Plan.
- a failure to address the issues around the supply, demand and affordability of housing will mean:
  - house prices will continue to rise in the long-term;
  - housing will become more expensive as a percentage of income;
  - first time buyers will find it increasingly difficult to get on the housing ladder
  - the likely growth of the private rented sector will continue together with an upward pressure on rental prices and a higher housing benefit bill and increased demand on temporary accommodation. The Group would suggest that Cabinet should recognise this likelihood and put in place measures to make the Council's situation more resilient and find more cost effective ways of meeting demand
  - more people being housed in hostels and bedsit accommodation or houses in multiple accommodation (HMOs).
  - employers will find it difficult to recruit workers, particularly for vacancies on lower wages with a knock on impact on economic performance.
  - a growth in wealth inequality

### Recommendations

1. ***Given the importance of building enough homes to meet the increasing need for housing, Cabinet is asked to lobby the Government to introduce measures to encourage developers and land owners to develop sites for housing which have the benefit of planning permission or are allocated for housing development, within the relevant timeframe, in the Development Plan or Neighbourhood Plan.***
2. ***In relation to sites identified in recommendation 1 above, Cabinet is requested to ask the Government to consider introducing a national scheme for a local tax on undeveloped (land banked) land in order to:***
  - ***incentivise developers and/or landowners not to sit on sites they have acquired and have either planning permission or are allocated for housing development, within the relevant timeframe, in the Development Plan or Neighbourhood Plan, and;***
  - ***to build out more quickly where planning permission has been given.***

- 3. The Director of Regeneration, Community and Culture is asked to agree that developers be offered at the pre-application stage, as a matter of course, the opportunity to commission services needed before development on sites can commence, for instance archaeology, ecology and contamination studies in order to allow schemes to start on site without further delay.**
- 4. Cabinet is asked to work with partners to identify suitable funding sources and opportunities in order to develop additional homes, including securing external funding to help meet the costs involved in getting sites ready for development.**
- 5. Cabinet is requested to ask Council officers to identify opportunities to improve working relationships with developers (including sub contractors) in order to improve the supply of skilled labour to the industry and, further, to identify achievable targets to help alleviate the shortages in the industry, including working with local education, skills and training providers, such as the Medway University Technical College and Mid Kent College.**
- 6. Cabinet is asked to review the scope to extend the use of home bonds to help tenants find alternative accommodation and work with the private rented sector to encourage landlords to let properties to residents in housing need and to those in receipt of Housing Benefit.**
- 7. In order to free up much needed social housing, Cabinet is asked to review, in relation to its housing stock, the incentives that are available to residents aimed at encouraging them to move into more suitable forms of affordable housing.**
- 8. Cabinet and its partners are asked to explore the use of more innovative construction methods and forms of housing in order to increase the supply of homes.**
- 9. The Director of Regeneration, Community and Culture is asked to continue to promote shared ownership products and similar available products that will support home ownership in Medway.**
- 10. Given that 50% of supply is now concentrated in the eight largest private housebuilders, Cabinet is asked, with the aim of helping increase the supply and type of housing available, to:**
  - a) identify and assist with overcoming the barriers for small and medium-sized enterprises (SME) builders entering the market in Medway and**
  - b) consider what the Council can do to encourage SME builders to enter and remain in the market in Medway.**

- 11. Cabinet is asked to ensure that there are appropriate resources in place to ensure that tenants in the private rented sector have sufficient protection with regard to minimum standards of accommodation, repair and good management.**
- 12. Subject to this being financially viable, Cabinet is asked to consider the potential of options to generate extra finance, for example prudentially borrowing and use the funds to build and operate housing across all tenures either by working in partnership with a local housing provider or by alternative means.**
- 13. Recognising that the Council, as a regeneration authority, will wish to continue to use its best endeavours to meet its objectively assessed housing needs, Cabinet is recommended to make representations to the Government that the Council should not be penalised as a result of developers failing to deliver housing, particularly where planning permission has been granted.**

## Diversity impact assessment

<b>TITLE</b> <i>Name/description of the issue being assessed</i>	<b>Housing (Demand, Supply and Affordability) Task Group</b>
<b>DATE</b> <i>Date the DIA is completed</i>	10 March 2016
<b>LEAD OFFICER</b> <i>Name of person responsible for carrying out the DIA.</i>	Richard Hicks, Director Regeneration, Community and Culture

### 1 Summary description of the proposed change

- *What is the change to policy/service/new project that is being proposed?*
- *How does it compare with the current situation?*

None of the recommendations from the Task Group would lead to an immediate change in policy. However, there are a range of proposed recommendations and actions to improve the housing situation in Medway. As and when individual areas progress they will be subject individual review.

### 2 Summary of evidence used to support this assessment

- *Eg: Feedback from consultation, performance information, service user records etc.*
- *Eg: Comparison of service user profile with Medway Community Profile*

There was a wide range of evidence gathered to support the recommendations including discussions with relevant partners and housing developers.

**3 What is the likely impact of the proposed change?**

Is it likely to :

- Adversely impact on one or more of the protected characteristic groups?
- Advance equality of opportunity for one or more of the protected characteristic groups?
- Foster good relations between people who share a protected characteristic and those who don't?

(insert ✓ in one or more boxes)

Protected characteristic groups	Adverse impact	Advance equality	Foster good relations
Age			
Disabilty			
Gender reassignment			
Marriage/civil partnership			
Pregnancy/maternity			
Race			
Religion/belief			
Sex			
Sexual orientation			
Other (eg low income groups)			

**4 Summary of the likely impacts**

- Who will be affected?
- How will they be affected?

No specific changes have been identified, as development of the recommendations progress consideration will be given to reviewing their scope and impact.

### 5 What actions can be taken to mitigate likely adverse impacts, improve equality of opportunity or foster good relations?

- *Are there alternative providers?*
- *What alternative ways can the Council provide the service?*
- *Can demand for services be managed differently?*

N/A

### 6 Action plan

- *Actions to mitigate adverse impact, improve equality of opportunity or foster good relations and/or obtain new evidence*

Action	Lead	Deadline or review date
Review progress in implementing agreed recommendations.	Matt Gough/ Dave Harris	Annually at Business Support and Regeneration, Culture and Environment O&S Committees

### 7 Recommendation

Proceed with the proposed recommendations

### 8 Authorisation

*The authorising officer is consenting that:*

- *the recommendation can be implemented*
- *sufficient evidence has been obtained and appropriate mitigation is planned*
- *the Action Plan will be incorporated into service plan and monitored*

Director  
Richard Hicks

Date  
10 March 2016

**Appendix 2**

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**Appendix 3****Summary of organisations spoken to****Hyde Housing Association**

The Hyde Group is a not for profit organisation and was founded in 1967 to provide affordable housing. Hyde provides a range of homes and services from new homes for sale and private rent, to shared-ownership and affordable rented homes. Hyde's area of operation covers 70+ local authorities stretching from the South Coast to East Anglia. Hyde owns and manages approximately 50,000 homes throughout London and the south east. Hyde plan to build about 1500 units per year. For 2015-18 this will mean 250-300 homes will be built in Kent across all tenures.

**mhs Homes**

mhs Homes was formed in 1990 and owns and manages 8,500 homes for affordable rent, shared ownership and market rent in Medway and is the largest unregistered social landlord in the UK. Over 20,000 people in Medway live in a mhs property and therefore approximately one in 12 people in Medway live in a property owned or managed by mhs homes The core areas for growth and new development are Medway, Maidstone, Gravesham, Dartford and Tonbridge and Malling. By 2018 mhs plan to develop or acquire 450 additional affordable homes (rent and shared ownership) and 150 market rent homes.

**Berkeley**

The Berkeley Group was established in 1976 and operates across London and the south of England. Over the last five years, Berkeley have built 15,750 new homes, including private homes, student housing and affordable homes. The Group's target is to build over 95% of its development on brownfield land.

**Redrow**

Redrow was established in 1974 as a small civil engineering concern in North Wales. Redrow is now one of the UK's leading residential property developers. In 2016/17 the company plans to build 450 homes in Kent and East Sussex and is looking to increase this to 750.

**National Landlords Association**

The National Landlords Association supports over 65,000 Members and Associates, ranging from full-time landlords with large property portfolios to those with houses-of-multiple-occupancy or with single bedroom flats. The Association has a network of regional representatives and branches which link with local authorities and its members.

### **Citizens Advice Medway**

Citizens Advice Medway is an independent registered charity which opened in 1999 and is one of over 300 local level Citizens Advice centres across England and Wales. The centre operates a confidential, independent, impartial and free service with the aims of providing quality advice and campaigning for fairer practices both locally and nationally. The primary focus is assisting those who live and/or work in the Medway Towns.