
LAND AT HALL PLACE FARM, TILEHURST AFFORDABLE HOUSING TECHNICAL NOTE

Prepared on behalf of
The Sulham Estate

March 2023

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AFFORDABLE HOUSING TECHNICAL NOTE**

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CONTENTS

	PAGE NO
1.0 INTRODUCTION	1
2.0 REVIEW OF AFFORDABLE HOUSING DELIVERY AND NEED	2
3.0 REVIEW OF EXPECTED FUTURE DELIVERY AND DEMAND	12
4.0 KEY FINDINGS	20

1.0 INTRODUCTION

- 1.1 This Affordable Housing Technical Note has been prepared by Barton Willmore now Stantec's National Development Economics Team on behalf of The Sulham Estate. The assessment has been prepared to support representations to the Reg 19 Local Plan at West Berkshire Council (WBC) for residential development at Land at Hall Place Farm, Tilehurst (the Site).
- 1.2 The development proposal for the Site comprises residential development in the region of 80 units, of which 40% will comprise affordable homes.
- 1.3 This assessment reviews affordable housing delivery in WBC against the identified need set out within the emerging evidence base. The pipeline of sites identified as part of WBC's five year land supply, all of which have potential to contribute to the supply of affordable housing, is also reviewed. This provides a basis for understanding the extent to which affordable housing supply is likely to keep pace with identified need.
- 1.4 As such, the report is set out as follows:
- Section 2 – A review of the affordable housing delivery as set out within the most up-to-date monitoring report against the identified need for affordable housing within the WBC evidence base. An assessment will be made of the resultant shortfall in affordable housing.
 - Section 3 – A review of the expected future delivery and demand for affordable housing to understand whether the current shortfall will worsen over time. This is based on the trend of affordable housing delivery to date, a review of sites coming forward within the Council's housing trajectory and identifying factors that will impact upon the need and demand for affordable housing.
 - Section 4 – A summary of the implications and conclusion of the need for affordable housing and the need to maximise delivery now.

2.0 REVIEW OF AFFORDABLE HOUSING DELIVERY AND NEED

2.1 This Section of the report sets out the relevant evidence base which informs the affordable housing need in West Berkshire.

2.2 The relevant documents comprise:

- i) West Berkshire Local Plan Authority Monitoring Report 2021 - 2022 – Housing (January 2023);
- ii) West Berkshire Five Year Housing Land Supply (November 2022);
- iii) West Berkshire Housing Needs Assessment Update (July 2022);
- iv) West Berkshire OAN Sensitivity Report (March 2018)
- v) Berkshire (including South Bucks) Strategic Housing Market Assessment (February 2016).

2.3 Below provides a summary of each document followed by a summary of the shortfall / unmet need that has occurred to date. The monitoring reports published by the Council identify the amount of delivery per year, including affordable housing. The Housing Needs Assessments assess affordable housing need in West Berkshire.

2.4 This Section concludes with an assessment of current unmet need for affordable housing based on the identified need targets and the Council's delivery rate.

i) West Berkshire Local Plan Authority Monitoring Report 2021 - 2022 - Housing (January 2023)

2.5 The West Berkshire Local Plan Authority Monitoring Report (AMR) considers the performance of the Council's adopted planning policies contained within their Development Plan. The AMR covers the period 1 April 2021 to 31 March 2022 and is supplemented by a Five Year Housing Land Supply Statement (November 2022).

2.6 The AMR sets out the total overall net additional completions from 2006/07 to 2021/22 against the housing requirement policy. Policy CS1 (Delivering New Homes and Retaining the Housing Stock) requires at least 10,500 dwellings in the period 2006 to 2026, which is equivalent to 525 net additional dwellings per year. The AMR also projected forward the anticipated housing delivery based on developments with permission that are expected to come forward by 2025/26.

- 2.7 The latest delivery data published by the Council records a total of 723 net additional dwellings were completed between April 2021 and March 2022. The Core Strategy Policy CS1 requirement is 525 dwellings. Therefore, an additional 198 dwellings were built above the Local Plan requirement. Over the plan period, the number of completions (8,288 dwellings) falls slightly short of the Local Plan requirement (8,400 dwellings). The delivery of housing has increased steadily over the last three years to exceed the housing requirement, as a consequence of large strategic sites receiving planning permissions.
- 2.8 The projected housing completions anticipate significant housing delivery over the next two years. Delivery is expected to double the housing requirement as a result of the large allocated strategic sites within the Local Plan.
- 2.9 In addition, the AMR states that:

“The Core Strategy includes a target to facilitate the provision of 35% of net completions as affordable housing”

- 2.10 Taking a more detailed look into affordable housing delivery, the AMR sets out net affordable housing delivery from 2004/05 to 2021/22, as detailed in Table 1 below. A total of 169 net additional affordable dwellings were completed between April 2021 and March 2022. In total, 2,066 net additional affordable housing has been delivered since 2004/05. This equates to an average of 115 affordable dwellings delivered per year.

Table 1: Net Affordable Housing Delivery – 2004/05 – 2021/22

Year	Number of Completed Dwellings
2004/05	248
2005/06	142
2006/07	259
2007/08	135
2008/09	209
2009/10	66
2010/11	-8
2011/12	-26
2012/13	182
2013/14	146
2014/15	-15
2015/16	158
2016/17	78
2017/18	125

2018/19	75
2019/20	54
2020/21	69
2021/22	169
Total Delivery	2,066

Source: West Berkshire AMR 2021/22

- 2.11 The decrease in the number of affordable dwelling completions in 2020/21 is primarily linked to a slowdown of delivery of all types of dwellings across West Berkshire which was likely influenced by the Covid-19 pandemic.
- 2.12 To understand the level of affordable housing delivery, Table 2 identifies the amount of affordable housing in the context of total delivery over the last 10 years. On average, 19% of total housing delivery is affordable housing.

Table 2: Total and Affordable Housing Delivery 2012/13– 2021/22

Year	Total Delivery	Affordable Delivery	% Total Delivery
2012/13	552	182	33%
2013/14	457	146	32%
2014/15	496	-15	-3%
2015/16	625	158	25%
2016/17	485	78	16%
2017/18	526	125	24%
2018/19	527	75	14%
2019/20	398	54	14%
2020/21	617	69	11%
2021/22	723	169	23%
Total	5,406	1,041	19%

Source: West Berkshire AMR 2021/22

- 2.13 Over the last 10 years, the level of housing delivery has exceeded the Core Strategy policy requirement cumulatively over the Plan requirement of 5,250 dwellings. In comparison, the delivery of affordable housing has fluctuated from 2009/10 averaging 19% of total delivery. A significant number of affordable housing dwellings were delivered in 2012/13, 2013/14 and 2015/16 albeit this coincided with a high level of total housing delivery.

2.14 Housing delivery set out within the AMR should also be read in conjunction with the Five-Year Housing Land Supply Statement, which is set out below.

ii) West Berkshire Five Year Housing Land Supply Statement (November 2022)

2.15 The West Berkshire Five-Year Housing Land Supply (5YHLS) Statement sets out the housing completions as of 31 March 2022 and the supply of deliverable sites for the subsequent five-year period. The 5YHLS statement supplements the information provided within the AMR above.

2.16 The 5YHLS statement provides further site-specific details on the number of completions and predicts future housing delivery through the use of sites with planning permission, sites with a live application and sites which are allocated for development.

2.17 At the 31 March 2022, the Council can demonstrate a 5.9 year housing land supply against the Core Strategy requirement of 525 dwellings per year and 6.4 years against the Local Housing Need (LHN) of 513 dwellings. The Council's decision to assess 5YHLS against the Local Housing Need does not indicate in isolation that the strategy established by the Core Strategy is out of date. It simply reflects that the outcome of the standard method is lower than the adopted housing requirement within the Core Strategy.

2.18 The following sections set out the need for housing, specifically affordable housing as identified within the most up-to-date evidence base. As part of the emerging Reg 19 Local Plan consultation, the Council have produced a new evidence base to inform the policy making process.

iii) West Berkshire Housing Needs Assessment Update (July 2022)

2.19 The West Berkshire Housing Needs Assessment Update (July 2022) has been produced by West Berkshire Council (WBC) to inform the review of their Local Plan. The report provides an update from the previous Housing Needs Assessment to include First Homes, an affordable housing tenure. There is also new data input to the overall housing need, affordable housing need, housing mix and older persons housing need.

2.20 The Report includes an updated assessment of affordable housing need. This includes households who might be able to rent a home in the private sector without financial support but aspire to own a home and require support to do so. The assessment covers the period 2021-2039.

- 2.21 The Assessment identifies that there is an annual need for **330 rented affordable homes** in West Berkshire. The Development Site is located within the North Wessex Downs AONB which currently has a need for 152 rented affordable dwellings per year.
- 2.22 The Report also assessed the potential scale of need for affordable home ownership housing, identifying an annual need for **367 per annum affordable home ownership homes** in the District. Again, split by sub-area, there is a need for 160 affordable home ownership homes required within the North Wessex Downs AONB.
- 2.23 In total, there is a need for **697 affordable homes per year** from 2021-2039.
- 2.24 However, the need for affordable housing needs to be considered within the context of the total local housing need requirement. At present, the local assessed need for West Berkshire is 513 dwellings per annum. Therefore, the need for affordable housing is larger than the total need. This highlights the significant need for affordable housing within the District.

iv) West Berkshire OAN Sensitivity Report (March 2018)

- 2.25 The West Berkshire OAN Sensitive Report (March 2018) considers the finding of the 2016 Berkshire SHMA regarding the objectively assessed need for the West Berkshire Housing Market Area (HMA) against more recent data, undertaking sensitivity analysis and testing where appropriate.
- 2.26 The Western Berkshire HMA comprises the local authorities of Bracknell Forest, Reading, Wokingham and West Berkshire). The assessment covers the time period from 2013 to 2036 is used in order to be consistent with the 2016 SHMA.
- 2.27 For the avoidance of doubt, an OAN figure is not the housing target. It is an input to determining or reviewing housing targets in local plans alongside wider evidence. Housing targets in local plans will be informed by the OAN but will also take into account wider factors such as sustainability, infrastructure constraints and land availability; together where appropriate with unmet needs of other areas, primarily within the relevant housing market area.
- 2.28 Demographic need, economic-led need, affordable housing and market signals evidence is combined in drawing conclusions and identifying the OAN for West Berkshire. It is the economic led need which drives the housing need at a HMA level and in West Berkshire. On this basis, the OAN for the HMA equates to 2,790 dpa, of which 600 dpa is to be delivered in West Berkshire.

- 2.29 The assessment considers the need for affordable housing in detail using the Basic Needs Assessment Model recommended in the Planning Practice Guidance (PPG, 2015). Households that are considered for affordable housing are those which their needs are not met by the market (NPPF, Annex 2).
- 2.30 The PPG (Para 20, ref: 2a-020-20190220) states that to calculate the current unmet gross need for affordable housing, strategic authorities must assess:

“Past trends and current estimates of:

- **the number of homeless households;**
- **the number of those in priority need who are currently housed in temporary accommodation;**
- **the number of households in over-crowded housing;**
- **the number of concealed households;**
- **the number of existing affordable housing tenants in need (i.e. householders currently housed in unsuitable dwellings); and**
- **the number of households from other tenures in need and those than cannot afford their own homes, either to rent, or to own, where that is their aspiration.”**

- 2.31 The assessment identifies a net need for 1,328 affordable homes per annum across the HMA for the 2013-2036 period using the core modelling assumptions and includes sensitivity analysis. Using the assumptions, the affordable housing need is divided between the HMA authorities and identifies an **affordable housing need of 180 affordable dwellings per annum** in West Berkshire.
- 2.32 The need for affordable housing is calculated using various inputs. Table 3 below identifies the current need for affordable housing within West Berkshire, factors causing the need to increase, whilst being mindful of the supply from existing stock.

Table 3: West Berkshire Affordable Need calculation

	West Berkshire Affordable Need
Current Need	43
Newly Forming Households	400
Existing Households falling into need	210
Total Need	654
<i>Supply from Existing Stock</i>	<i>474</i>
Net Need	180

Source: West Berkshire OAN Sensitivity Report (March 2018)

v) Berkshire (Including South Bucks) Strategic Housing Market Assessment (February 2016)

- 2.33 The Berkshire SHMA (February 2016) considers the Objectively Assessed Need (OAN) for housing. The report reviews the Housing Market Areas (HMA) containing the Berkshire Authorities and South Bucks. As such, the SHMA covers: Bracknell Forest, Wokingham Borough, Reading Borough, West Berkshire, Slough Borough, Royal Borough of Windsor and Maidenhead and South Bucks. The Assessment covers the period from 2013 to 2036.
- 2.34 To derive OAN, the assessment first considers published demographic projections and makes adjustments where these maybe unreasonable. Next, it is considered whether demographic growth is likely to constrain local economic growth. Finally, it is considered whether housing provision should be adjusted upwards to improve affordability of the market housing or to reflect affordable housing need.
- 2.35 The report concluded that the OAN for West Berkshire equates to 665 additional dwellings per annum. This figure is above the more recent update presented within the West Berkshire Housing Needs Updates (July 2022).
- 2.36 The assessment identifies through the analysis of market signals that there are affordability pressures across both all the HMAs considered within this report.
- 2.37 In the period 2013-2036, a net deficit of 58,400 affordable homes is identifies across the entire area. There is thus a requirement for a new affordable housing across the HMAs and the Council's are justified in seeking to secure additional affordable housing.
- 2.38 As such, the assessment considers an affordable housing needs model which aims to balance needs arising and the supply of affordable housing. Therefore, the assessment estimates that the affordable net need within West Berkshire equates to **189 affordable dwellings per year**.

vi) Current Unmet Affordable Housing Need

- 2.39 This section compares the above affordable housing need targets with recorded delivery to date and estimates the scale of West Berkshire's affordable housing shortfall. To that end, the delivery of affordable housing, as reported by West Berkshire Council has been considered in the context of the affordable housing need figures identified within the OAN and LHN reports.

- 2.40 The need figures are considered in the context of their plan periods. The Housing Needs Assessment (HNA) Update (July 2022) assessed need between 2021-2039, whereas the OAN and SHMA assessed need between 2016-2036.
- 2.41 As previously identified, the affordable housing need within the HNA Update identified a need for 697 additional affordable housing dwellings per annum. In comparison the OAN identified a need for 180 affordable dwellings per annum, while the SHMA identified a need for 189 dwellings per year. The need presented by the HNA Update is significantly higher than the figures presented within the OAN and SHMA.
- 2.42 Table 1 and 2 display the total and affordable housing delivery reported by the Council within their AMR and 5YHLS statement. Over the last 10 years, 1,041 affordable houses have been delivered in West Berkshire. This equates to an average of 104 dwellings per annum. The delivery of affordable homes has fluctuated significantly over the last 10 years with a reduction in affordable housing stock in 2014/15.
- 2.43 When considering the need figures and the delivery rates in West Berkshire, Table 4 demonstrates the shortfall of affordable housing against the three target rates. The target rates are only applied to the plan period years identified within the report. On this basis, the average affordable housing target has also been used to put into context the deficit of affordable housing in West Berkshire currently.

Table 4: Shortfall in Affordable Housing against Target Need Figure.

Year	Delivered (A)	HNA Target (B)	Shortfall (B-A)	OAN Target (C)	Shortfall (C-A)	SHMA Target (D)	Shortfall (D-A)
2012/13	182	-	-	-	-	-	-
2013/14	146	-	-	-	-	189	43
2014/15	-15	-	-	-	-	189	204
2015/16	158	-	-	-	-	189	31
2016/17	78	-	-	180	102	189	111
2017/18	125	-	-	180	55	189	64
2018/19	75	-	-	180	105	189	114
2019/20	54	-	-	180	126	189	135
2020/21	69	-	-	180	111	189	120
2021/22	169	697	528	180	11	189	20
Total	1,041	697	528	1,080	39	1,701	660
Average	104	697	528	180	7	189	73

Source: Barton Willmore, now Stantec

- 2.44 Affordable housing delivery, when is considered against all three targets, consistently falls below the requirement. The most recent delivery (2021/22) demonstrates the best performance against the OAN and SHMA targets. However, highlights a significant shortfall against the HNA Update target.
- 2.45 The HNA provides the most up to date evidence for assessing affordable housing need, comprising the need for rented affordable housing and affordable home ownership, a target that can only be compared against the delivery within the period assessed. Therefore, the total unmet need identified by the HNA Update is 528 affordable dwellings.
- 2.46 In comparison, the OAN and SHMA assessments consider an earlier period from 2013 and as such the delivery of affordable housing can be compared over the previous nine years. The OAN report sets a target of 180 net additional affordable dwellings per year, which resulted in a shortfall of 39 is equivalent to a shortfall of 7 affordable dwellings per year.
- 2.47 The SHMA also considers a period from 2013 however set a target of 189 net additional affordable dwellings per year. When comparing the target against delivery, there is an identified current shortfall of 660 dwellings which is equivalent to 73 affordable dwellings per year.
- 2.48 When applying all of the three need rates for affordable housing, it is evident that there is a significant current unmet need within West Berkshire. The future need and delivery of affordable housing is considered in the following section.

vii) Key findings

- 2.49 Over the past 10 years, affordable housing delivery recorded by the Council has totalled 1,041 new affordable dwellings. In the same period, total housing delivery equalled 5,406 dwellings. On average, this equates to 19% of the total housing delivery within West Berkshire.
- 2.50 The emerging West Berkshire Reg 19 Local Plan sets out a requirement for affordable housing of sites of 10 or more dwellings to provide 30% provision of previously developed land and 40% on greenfield. In addition, for sites providing between 5 and 9 units, there is a requirement to provide 20%. Furthermore, the adopted West Berkshire Core Strategy identifies a need to provide 35% affordable provision. Despite the adopted policy, the level of provision is lower than the requirement, hence provides an explanation for the unmet need.

- 2.51 Previous delivery of affordable housing has fluctuated over the past 10 years. Significant affordable housing provided has coincided with a significant increase in the total number of housing completions. Therefore, the relationship between total housing delivery and affordable housing delivery is such that affordable housing delivery is just under a fifth of total housing delivery, which is a trend that is expected to continue.
- 2.52 Furthermore, the current evidence base identifies a range of affordable housing targets that are currently far greater than delivery over previous years. The most up to date evidence presented within the HNA Update identified a need for 697 additional affordable dwellings, including the need for affordable home ownership. The PPG sets out the methodology for calculating affordable housing need and includes affordable home ownership.
- 2.53 However, due to the plan period presented within the HNA, it is not possible to compare past delivery against the need figure assessed. On this basis, utilising the affordable housing need targets of 697, 180, and 189 dwellings per annum, there is a current shortfall in affordable housing of between **39 – 660 dwellings**.

3.0 REVIEW OF EXPECTED FUTURE DELIVERY AND NEED

3.1 This Section sets out the expected future delivery against the target provision rates identified within the Council’s emerging evidence base as part of the preparation of their new Local Plan. The section will consider the trend rate of affordable housing to date to understand if the trend was to continue into future delivery what is the extent of the future unmet need for affordable housing. This is followed by a review of potential sites coming forward as part of the housing trajectory to 2028/29 and their contribution towards the affordable housing delivery. Finally, this section will consider the factors that impact upon the need and demand for affordable housing.

i) Affordable Housing Delivery Trend

3.2 The affordable housing delivery to date was set out in Section 2 of this note. It concluded that over the past 10 years the Council recorded an average affordable housing delivery of 104 dwellings per year. The average rate of affordable housing delivery has been assumed to replicate the affordable housing delivery in the future.

3.3 To calculate the expected future need the average affordable housing delivery has been compared against the HNA target (697dpa), the OAN target (180dpa), and the SHMA target (18d9dpa). It is important to note the difference in plan periods and therefore influences the total shortfall identified.

3.4 Table 5 below sets out the affordable housing shortfall for the next 10 years for West Berkshire based on the different target rates.

Table 5: West Berkshire Future Affordable Housing Need Shortfall (10 years)

	Future Affordable Housing (dpa)
Average Delivery	201
HNA Target Need (2021-2039)	697
Shortfall	5,280 (528dpa)
OAN Target Need (2016-2036)	180
Shortfall	65 (7dpa)
SHMA Target Need (2013-2036)	189
Shortfall	733 (73dpa)

Source: Barton Willmore, now Stantec

3.5 Using the HNA target of 697 dpa which includes all factors to be included within the affordable housing calculation as per the PPG. Over the next 10-year period, based on the current annual rate of delivery, it is estimated that there would be a **shortfall of 5,280 affordable dwellings.**

3.6 Alternatively, when applying the lower OAN and SHMA targets of 180 and 189 dpa, over the 10-year period there is anticipated to be a deficit of between 65 and 773 affordable dwellings in West Berkshire.

ii) Review of potential new sites

3.7 This section identifies sites that are expected to come forward within the housing trajectory that are likely to deliver affordable housing as part of the scheme. The delivery of future affordable housing is unknown and can be influenced by many factors, however, to understand the future of affordable housing delivery, a number of assumptions have been made to predict the number of units of affordable housing to be delivered within the Council's housing trajectory as stated within West Berkshire's Housing Land Supply Statement (November 2022).

3.8 To inform potential future supply of affordable housing, a review of potential sites that are expected to come forward and deliver affordable housing was undertaken. Using the proposed affordable housing policy within the Reg 19 Consultation, the proposed rates were applied to the pipeline to understand how much affordable housing is expected to be provided within the next five years, whilst also providing a year-by-year expected delivery rate. To progress this, all sites providing more five or more units were considered within the analysis, and based on the land use, the affordable housing provision target was applied.

3.9 On this basis, the average affordable housing delivery excluding sites that are pending approval, from 2022/23 to 2027/28 is anticipated to be about **180 dwellings per annum**. The projected pipeline is presented in Table 6 below and differentiated between original land use and anticipates which year the provision is expected to be available.

Table 6: Future pipeline of Affordable Housing (2021/22 – 2027/28)

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Post 31st March 2028
Greenfield	156	133	126	105	40	115	698
Previously developed	150	149	60	29	0	20	33
Total GF / PDL	305	282	186	134	40	135	731
Small sites	31						

Source: West Berkshire Five Year Housing Land Supply Position Statement (November 2022)

3.10 Over the next five years there is expected to be delivery of 1,113 dwellings which comprise Greenfield, PDL and Small Sites. Post March 2028, existing permission are expected to deliver a further 731 affordable dwellings.

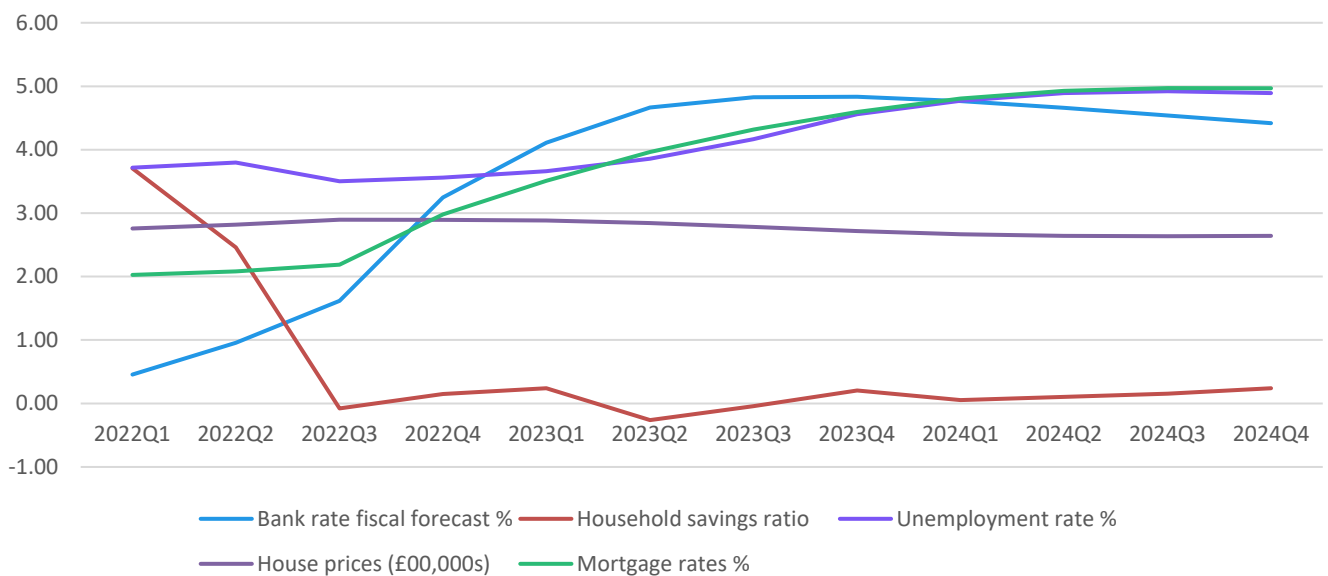
- 3.11 It is not possible to determine when the affordable housing provision from the 'small sites' will come forward. Therefore, to assess a best-case scenario, the additional 31 dwellings are included within the expected delivery of the next five years.
- 3.12 Utilising the highest average affordable housing delivery, it is expected that there will be a **shortfall of up to 2,372 affordable housing dwellings over the next 5 years, increase to a shortfall of up to 5,126 over the next 10 years** respectively based on the affordable housing targets of 697 dpa set out within the HNA Update. This shortfall is in addition to the current shortfall identified.
- 3.13 Furthermore, the delivery of affordable housing is expected to peak in the next two years, however it is not set to continue and as such, the average delivery of affordable housing is expected to decrease. The peak in affordable housing delivery is because of a series of strategic developments commencing across the District.
- 3.14 The relationship between total housing delivery and affordable housing has already been established, whereby on average 19% of total housing delivery in West Berkshire is affordable housing. Therefore, total housing delivery would need to increase significantly in order to deliver the number of affordable homes required to meet the affordable housing need and meet the expected up to 40% of affordable housing delivery as set out within the emerging Reg 19 Local Plan.

iii) Factors influencing need and demand for Affordable Housing

- 3.15 This section will consider the factors that influence the need and demand for affordable housing. The different factors that influence need and demand are analysed at a national scale which provides the most up to date position on current market trends.
- 3.16 House prices are set to fall over the next two years, to the end of 2024. Reports from both Halifaxⁱ and Nationwideⁱⁱ state monthly house prices have begun to turn negative as of November 2022, while NatWest and Savills have both forecast housing price declines of 7%ⁱⁱⁱ and 10%^{iv} respectively by next year.
- 3.17 The Office for Budget Responsibility (OBR) meanwhile have projected that average UK house prices will decline by 9% between Q3 of 2022 and Q3 2024^v. The main cause of this, according to Nationwide's Chief Economist Robert Gardiner, is lack of affordability with interest rates hikes increasing borrowing costs, causing demand to fall 'at a time when household finances are already under pressure from high inflation'^{vi}.

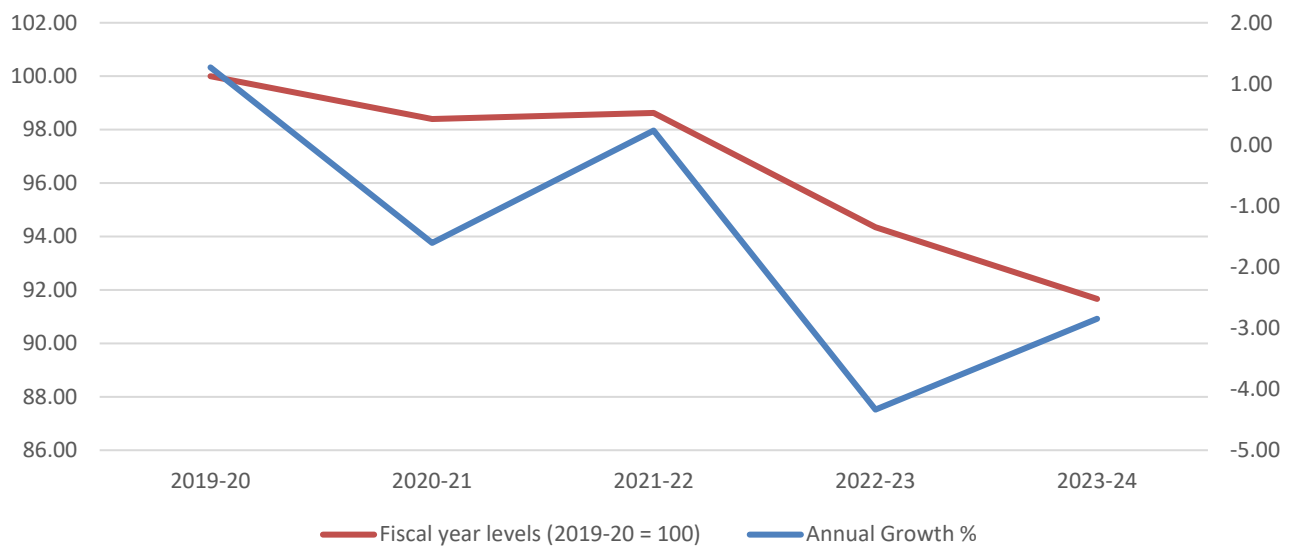
- 3.18 In addition, the fast pace of the introduction of higher rates is likely to impact mortgage default rates, compounded by an expected increase in unemployment, peaking at 4.9% in Q3 of 2024 according to OBR forecasts^{vii}. This translates to 1.7 million^{viii} unemployed, an increase of just over half a million people from current figures. In its Q3 financial results, Lloyds, the UK's largest mortgage lender, set aside £668m to protect itself from expected mortgage and loan defaults^{ix}.
- 3.19 The decrease in house prices within the current economic context presents an opportunity for cash buyers who are able to purchase homes outright, however this represents only a small minority in the UK. For the vast majority who must take out a mortgage to purchase a home, the near tripling of interest rates since March 2022 have drastically increased the ongoing costs of home ownership via monthly mortgage payments. In October average 2-year fixed mortgages reached 6.47%, the highest rates since the financial crises^x.
- 3.20 This is at a time when many in the UK are facing tough financial circumstances, which are expected to become tougher over the next few years. The OBR forecasts a 7.1% cumulative fall in living standards in the UK from 2021-22 to 2023-24 driven by inflation rising to its highest rate in 40 years along with historic falls in real disposable incomes.
- 3.21 This is expected to bring Real Household Disposable Incomes (RHDI) to its lowest point since 2013 – 14. As short-term support for rising prices is withdrawn from 2025 onwards, and frozen tax thresholds draw more people into tax (end to 12k minimum tax threshold rising in line with inflation) and lift more taxpayers into higher tax bands, a recovery in living standards is likely to be slow. By 2027-28, the OBR expects RHDI to recover to its 2021-22 equivalent, remaining 1% below pre-pandemic levels^{xi}.
- 3.22 As a result, households are likely to spend a higher proportion of their income on essentials, especially those with limited scope for substitution such as basic food items and energy bills, disproportionately impacting the spending power of those least well off in the UK. These pressures of increased mortgage costs, rising inflation, tax burdens and unemployment forecast for the medium term are likely to offset the impact that lower house prices have on housing affordability.
- 3.23 For current UK homeowners, the combination of falling house prices and rising interest rates is likely to impact different groups, differently. Those who are mortgage free will be most protected from base rate hikes, although the fall in house prices will result in a drop in wealth levels. According to Uswitch data, 64% of UK households are owner occupier, with 36% of these owning their home outright in 2020^{xii}.

- 3.24 Assuming the structure of homeownership has not changed dramatically since 2020, this represents approximately 23% of UK households. The remaining 77%, are likely to face significant increases in their mortgage payments. According to research from the Resolution Foundation, average annual household mortgage payments are expected to rise by £3,500 between Q3 2022 and Q4 2024^{xiii}.
- 3.25 For those who are more highly leveraged, this figure will be even greater. Data from the most recently released ONS dataset on household debt and wealth in Great Britain shows that from April 2018 to March 2020, the wealth deciles with the highest percentage of households with property debt are wealth deciles 4, 5 and 6 (47%, 54% and 49% respectively)^{xiv}. Those in the 1st, 2nd and 3rd wealth deciles are unlikely to be homeowners, therefore of homeowners, those that are most highly leveraged and will see the greatest mortgage cost increases as a result of rising interest rates are on the lower end of the wealth scale.
- 3.26 Raising the base rate within the current economic climate is likely to exacerbate inequalities. For those with debt, ongoing debt servicing repayments are expected to rise substantially due to the BoEs base rate rises, whereas income on household savings will be boosted. Rate rises are expected to feed through to households' payments quicker than to household receipts, contributing to the short-term fall in RHDI.
- 3.27 However, the impact of these changes is likely to widen wealth inequality in the UK. According to the aforementioned ONS dataset on household debt and wealth in Great Britain, for the period April 2018 to March 2020, those in the lowest wealth decile are almost twice as likely hold personal financial debt (58%) than those in the highest wealth decile (33%), and over all wealth deciles, the lowest four are likely to have the highest percentage of households in personal financial debt.
- 3.28 A greater proportion of those with the lowest levels of wealth will spend a higher proportion of their income on debt service payments due to interest rate hikes, while at the same time, the increase in the cost of everyday items represents a higher proportion of the income of low-income households, compounding cost pressures.
- 3.29 While falling house prices are likely to benefit those with enough capital to purchase homes outright, as well as those who already own their own homes outright, reducing the housing stock for those who do not. In addition, the tough economic conditions expected over the next few years are expected to widen existing inequalities, adding disproportionate cost pressures on those with the least income as well as middle income earners. As a result, housing affordability is not likely to rise for the majority of people living in the UK, increasing the need for greater stocks of affordable housing.

Figure 1: OBR Nov 2022 forecasts, various economic indicators, 2022 Q1 – 2024 Q4

Source: OBR November 2022 projections

- 3.30 Figure 1 Above presents the OBR's November 2022 forecasts for various economic indicators that provide a picture of housing affordability in the UK. The organisation expects the BoE to continue raising the base rate from an average of 1.62% in Q3 of 2022 to 4.42% by Q4 of 2024. This is likely to push mortgage rates up even higher, while many with fixed rate mortgages who have so far been protected from rate increases, will soon be included in the group affected by rising mortgage rates as their fixed rate deals come to an end. Mortgage rates are expected to have risen from an average of 2.03% in Q1 of 2022 to 4.32 in Q3 of 2022 and are expected to rise even further to 4.97% in Q4 of 2024.
- 3.31 As displayed in Figure 1, the OBR has projected that house prices will fall over the next 8 quarters, from a UK wide average of £289,651 in 2022Q3 to £263,631 in 2024Q3 (a decline of 9%). While this represents a significant contraction, mortgage rates are set to increase by 127% over the same period meaning that while the total value of homes will fall, the ongoing costs of homeownership may rise. Pressures on households to afford these cost increases will be compounded by an increase in unemployment, which is forecast to rise to 4.9% by 2024Q3 leaving over half a million additional people unemployed from today's figures.
- 3.32 Sustained inflationary pressures keeping the cost of living high, in combination with sluggish wage growth, are expected to lead to a contraction in RHD, which the OBR has projected to fall by 4.3% and 2.9% over 2022-23 and 2023-24 respectively, leaving RHD in 2023-24 at 91.7% of 2019-20 levels as displayed in Figure 2. These cost pressures on outgoings are likely to make it more difficult to save for housing deposits, indicated by the current low rate of household savings, which the OBR projects will remain low through to the end of 2024 Q4 despite financial incentives to save.

Figure 2: Real Household Disposable Income, 2019-20 – 2023-24

Source: OBR November 2022 projections

iv) Key Findings

- 3.33 West Berkshire's evidence base demonstrates a need for affordable housing to 2036 and 2039. As such, it is important to consider the future delivery of affordable housing to predict the number of affordable housing delivery from the schemes with planning permission and schemes awaiting planning permission. For the purpose of this report, the assessment has considered the provision of affordable housing in the next 10 years.
- 3.34 Utilising the assumption that the delivery of affordable housing is expected to continue (104 dpa) it is expected that there is to be a future shortfall in affordable housing up to 5,280 affordable housing dwellings in the next 10 years.
- 3.35 Initial analysis of future sites that may provide affordable housing in the future has identified that the peak of affordable housing delivery is expected in the next two years, however is unlikely to continue and as such the average affordable housing delivery expected until 2027/28 within the Housing Land Supply Statement (June 2022) is likely to decrease from the current delivery rates of affordable housing in West Berkshire.
- 3.36 As such, the shortfall of affordable housing delivery in the future based on sites that are expected to come forward increase the shortfall to up to **5,126 affordable housing dwellings**.

3.37 The lack of affordable housing delivery further compounds the growing affordability issues within Wokingham and nationally. The anticipated economic conditions forecasted over the next few years is likely to widen existing inequalities and increase the need further for affordable homes.

4.0 KEY FINDINGS

- 4.1 This affordable housing technical note has been prepared by Barton Willmore now Stantec's National Development Economics Team on behalf of the Sulham Estate. The purpose of the assessment was to review the affordable housing delivery in West Berkshire against the identified need set out within the evidence base to identify the current shortfall in provision over the past 10 years. The identified affordable housing shortfall is then projected forward to establish the trend rate and estimated future shortfall over the next 10-year period.
- 4.2 The affordable housing need within the Council's evidence base has identified a requirement of between 180 and 697 affordable dwellings per year. The range represents the full affordable housing need based on the methodology set out within the PPG. The lower need figure only represents the most acute affordable housing need and does not account for all types and groups of people that are included within the PPG methodology for calculating affordable housing need. As such, the conclusions refer to the shortfall based on the requirement for 697 dwellings per annum.
- 4.3 The evidence base for West Berkshire provides the most up to date evidence for affordable housing need. The HNA update report produced in 2021 identifies a need for affordable housing that is above the average rate of delivery report by the Council. As such, there is a current shortfall of between **39 to 660** additional affordable housing dwellings per annum.
- 4.4 This shortfall is expected to increase significantly when projected across the two different plan periods. When utilising the average affordable housing delivery of 104dpa, it is expected that they would be a shortfall in affordable housing between **65 and 5,280** affordable dwellings over the next 10 years respectively.
- 4.5 A review of sites expected to come forward within the Council's housing trajectory provided an insight into the number of affordable housing likely to be delivered until 2027/28 on sites which is allocated for the development of affordable housing. A review of sites identified that the average delivery of affordable housing is likely to increase in the short term but then decrease and therefore the shortfall would increase to up to **5,126** affordable housing dwellings.
- 4.6 The lack of affordable housing delivery further compounds the growing affordability issues within West Berkshire and nationally. The anticipated economic conditions forecasted over the next few years is likely to widen existing inequalities and increase the need further for affordable homes.

- 4.7 In summary, the rate of affordable housing delivery needs to increase from the existing rate and continue into the future to ensure that the needs for West Berkshire are met. When combining the existing and future shortfall in affordable housing, there is a need to provide **up to 10,406 affordable dwellings** to ensure that the needs of West Berkshire are met.

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