

Section 2 Commentary

Chapter 2

Dwellings, stock condition and households

Household projections, housing needs and new housing supply

Over the past year new household projections have been published for England and Northern Ireland, while new projections for Scotland and Wales were published in 2014. In all cases the projections take account of the results of the 2011 Census, and related data showing that the rate of new household formation was slower than assumed in previous sets of projections. While this was seen as, at least in part, a response to the problems posed by a more difficult housing market and the post-credit-crunch economic downturn, this makes it more difficult to judge the future rate of new household formation.

There has been a long-term trend towards smaller households, or in the terminology of household projections a ‘lower headship rate’, but the key question is whether – or rather to what extent – that trend will re-assert itself as the economy and housing market recover; or to what extent demographic factors will also contribute to a continuing slowdown in the trend to lower headship rates.¹

The English, Northern Ireland and Scottish household projections are all based on 2012 population projections, while for Wales they are based on 2011 projections. Projecting population growth inevitably involves various uncertainties, in particular in relation to future levels of net migration, which is highly volatile and difficult to predict in the medium term.

Despite these caveats the household projections provide a critical benchmark against which to assess levels of new housebuilding, and other net additions to the housing stock, in each country. Insufficient building will inevitably tighten the housing market, both damping down new household formation and adding to upward pressures on house prices.

Alongside the latest household projections in Wales, Scotland and Northern Ireland there have been new independent assessments of the need for new social and other below-market housing, as part of the provision required to keep pace with the growing numbers of households. The household projections for each country and the housing needs assessments based on them are discussed in turn below.

Projections, housing needs and supply in England

Over the ten-year period 2012-2022 it is projected that household numbers will grow by some 2.2 million – or an average of 220,000 per year.² Over the following fifteen years (where the projections are inevitably more uncertain) household numbers are then projected to grow at the slightly lower average rate of 203,000 a year. In both cases the rate of household growth is greater than the projected population growth, despite the slower rate at which the household headship rate is expected to fall compared to earlier sets of projections. In broad terms the projected population growth accounts for around seven-tenths of the projected household growth, with the declining headship rate accounting for about three-tenths of the projected household growth (see Table 2.2.1).

In turn some three-fifths of the 2012 projected English population growth was based on natural growth (i.e. births exceeding deaths), with some two-fifths based on net inward migration. The natural growth was based almost entirely on increased longevity, with the population aged 75 and over growing by 25 per cent between 2012 and 2021, and a further 44 per cent between 2022 and 2037.³ If the housing stock is to grow to keep pace with the annual rate of household growth this will require an additional 220,000 dwellings every year, even

Table 2.2.1 English 2012-based household projections

	2012	2017	2022	2027	2032	2037
Households	22,305	23,396	24,505	25,578	26,605	27,548
Change (thousands)	–	1,091	2,200	3,273	4,300	5,243
Change (%)	–	4.9	9.9	14.7	19.3	23.5
Population	52,536	54,430	56,308	58,033	59,548	60,913
Change (thousands)	–	1,894	3,772	5,497	7,012	8,377
Change (%)	–	3.6	7.2	10.5	13.3	15.9
Household headship rate	2.36	2.33	2.30	2.27	2.24	2.21
Household/population growth	–	+ 35.7	+ 37.4	+ 40.2	+ 44.4	+ 47.4

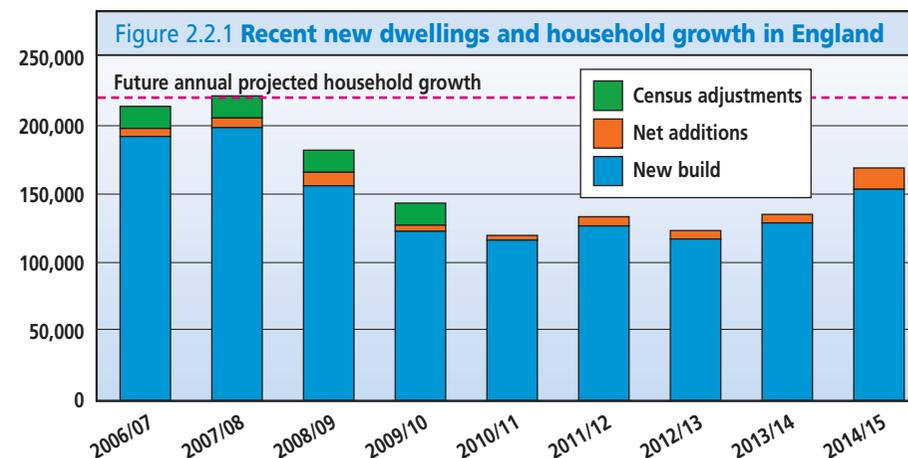
Source: DCLG 2012-based Household Projections: England, 2012-2037.

without making any provision for vacant dwellings, for any increases in second homes, or for the initial shortfall against that level over the years from 2012 to 2015. This will require a significant rise in levels of housebuilding beyond current outputs.

While there was a welcome upturn in new building and other net additions to the housing stock in 2014/15, this still left total net output some 50,000 below the level required to match the 2012-based household projections (see Figure 2.2.1). However the latest 2014-based population projections are higher than their 2012 equivalents, with the population projected to be nearly 250,000 higher by 2024 than previously thought.⁴ Much of the difference reflects a higher level of assumed future net migration, which is now expected to account for half of the overall population growth over the 25 years to 2039.

Taking into account the headship rates for the period applied in the 2012-based household projections, this higher level of population growth to 2024 equates to over 10,000 additional households every year (all other things being equal), giving a revised annual household growth figure of some 230,000. On that basis total net output of new dwellings would need to rise by 60,000 a year from 2014/15 levels, rather than the 50,000 needed to begin to match the 2012-based household projections. And neither of those figures make any provision for additional supply to make up for the shortfall already experienced over the years from 2012 to 2015. That consideration has led to a suggestion that the forward target for the next five years should be 300,000 dwellings a year.⁵

The most recent analysis of the housing needs for lower-income households was undertaken by the late Alan Holmans, based on the interim 2011-based household projections.⁶ His analysis suggested that almost a third of the newly arising demand and need for housing would have to be met by the provision of social sector, or rather non-market sector, housing. Within the non-market sector he includes provision for low-income households in receipt of housing benefit, however going forward it is difficult to see this sector growing given the increasing constraints that have now been imposed on the availability of housing benefit for private tenants (see Contemporary Issues Chapter 2).



Sources: Net supply of housing: 2014-15, England; 2012-based Household Projections: England, 2012-2037. Both DCLG.

While it is encouraging that new building starts were some 12,000 (20 per cent) higher in England in the first half of 2014/15 than a year earlier,⁷ this still leaves a requirement for considerable further housebuilding if the stock is to keep pace with household growth. The government announced (or in some cases restated) a range of measures designed to boost new housing supply in the Autumn Statement,⁸ with a particular emphasis on promoting homeownership. Measures include funding and planning reforms for 200,000 starter homes to be sold to young first-time buyers at a 20 per cent discount to market value, and 135,000 'Help to Buy' shared ownership homes, to be started over the next five years. The Help to Buy Equity Loan scheme is also to be extended to 2021, with a higher 40 per cent equity loan to be offered in London in recognition of its exceptionally high housing costs. There are also to be a range of further planning reforms.

However all this will run alongside a sharp reduction in levels of new funding for social rented housing, as well as the diversion of section 106 to support starter homes rather than social housing. With the right to buy for housing association tenancies to be initially trialled with five housing associations, it will clearly be some time before that operates on any scale and results in additional funding for new social housing to replace the properties sold to sitting tenants.

Further details on these Autumn Statement provisions are to be found in Commentary Chapters 3 and 4. If it remains to be seen how those provisions will assist in boosting overall new housing supply to the levels required to begin to match household growth, there is no doubt that they will result in increasing pressures on lower-income households unable to secure market housing.

Projections, housing need and supply in Wales

The Welsh 2011-based household projections were discussed in this Chapter in the 2014 edition of the *Review*. These also assumed a much slower decline in the household headship rate, reflecting the experience of the previous decade. That assumption has now been questioned in a new posthumously published report by Alan Holmans.⁹ He argues that some of the market factors that inhibited household growth during the previous decade were temporary, and that there is a case for considering the possibility that the earlier declining trend in headship rates will reassert itself in the future, albeit in attenuated form. A comparison between the official Welsh household projections,¹⁰ and the alternative Holmans scenario, is shown in Table 2.2.2. Both are based on the same 2011 population projections.

While the official projections suggest an annual growth rate of 9,000 households over the decade to 2021, the Holmans alternative suggests a higher annual growth rate of 13,800. While both scenarios need to be reconsidered going forward it must be noted that in the two years to 2013 household numbers grew by just 15,000, although those years were still subject to the economic and housing market constraints that followed the 2008 credit crunch.¹¹

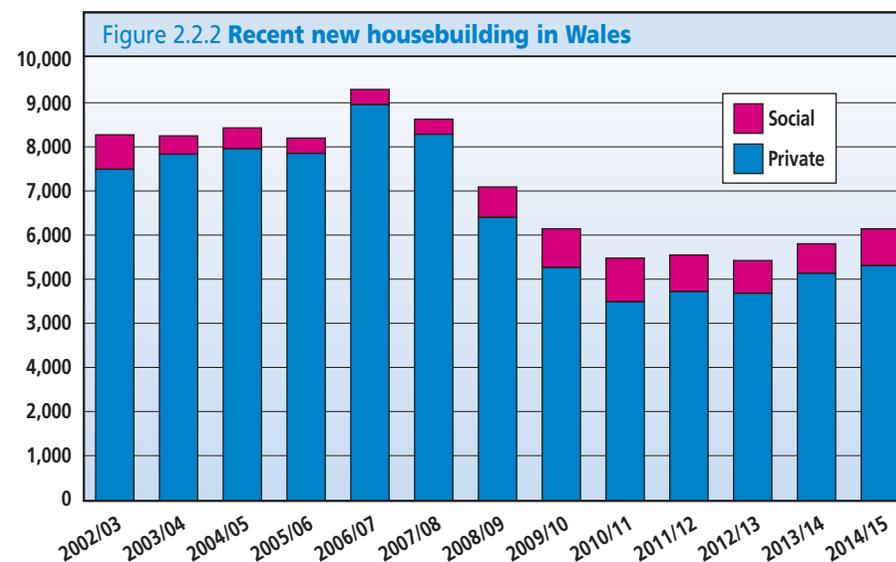
Table 2.2.2 Alternative 2011-based household projections for Wales

	2011	2016	2021	2026	2031
Projected population (thousands)	3,011	3,077	3,142	3,195	3,235
Official household projection (thousands)	1,304	1,349	1,394	1,435	1,467
Official headship rate (%)	2.31	2.28	2.25	2.23	2.20
Holmans household projection (thousands)	1,304	1,373	1,442	1,493	1,531
Holmans headship rate (%)	2.31	2.24	2.18	2.14	2.11

Sources: Statistics for Wales, Alan Holmans.

As in the rest of the UK, new housebuilding fell following the credit crunch to levels well below that of household growth. In 2014/15 just 6,170 new dwellings were completed. While this means that annual housebuilding needs to increase by 50 per cent in order to keep pace with the officially projected rate of household growth, that would be only a little more than a return to average levels over the decade prior to 2008 (see Figure 2.2.2). However if the alternative Holmans projections turn out to be more accurate this will require housebuilding rates to more than double compared with current levels, and to very substantially exceed those in the years before 2008.

The Holmans analysis also includes an assessment of the requirements for provision of affordable housing for low-income households as part of overall supply. His analysis is fundamentally demographic, based on the current distribution of households between the social and market sectors, looking in detail at both their age composition and the division between household types. For older households the proportions in the market sector are rolled forward to capture the growth in owner-occupation among younger and middle-aged households that was such a clear feature of the housing market in past decades.



Source: Stats Wales.

This analysis is applied to both sets of household projections, and after allowing for the impact of past right to buy sales reducing lettings in the social rented sector, this suggests a requirement for 3,500 additional social sector dwellings annually based on the official household projections, and 5,000 additions annually based on the Holmans alternative projections.

A further factor to consider in this context is that there are now a substantial number of lower-income households in the private rented sector supported by housing benefit. To the extent that the recent and forthcoming welfare reforms (see Contemporary Issues Chapter 2) restrict the capacity of lower-income households to secure or sustain private sector tenancies, then this would further add to the requirement for extra social sector housing.

Yet new provision of affordable housing has been running below 2,000 a year for the past decade, and in recent years this level has only been maintained by focusing a greater proportion of the output on 'intermediate' rather than social rent dwellings. So even on the basis of the official household projections the Holmans analysis suggests that either a significant increase in social housing provision is required, or there need to be other equivalent policies and provisions to assist households unable to secure accommodation in the market sector.

Projections, housing need and supply in Scotland

The 2012-based household projections for Scotland show an overall 17 per cent increase in household numbers between 2012 and 2037, based on a nine per cent population growth over the same period.¹² As in England and Wales this assumes a declining headship rate over the period, albeit at a slower rate than had been assumed in the previous set of projections. In part the slowing rate in the trend to smaller households is attributed to the economic downturn and the greater difficulties for younger single people in securing independent accommodation. That market impact is now built into the forward projections. Thus while overall single-person households are projected to rise by 35 per cent by 2037, the greater part of that rise relates to older single people. Single-person households aged 20-34 are projected to grow by just eight per cent over the period, while single person households aged 85 or over are projected to more than double.

Table 2.2.3 Scottish 2012-based household projections

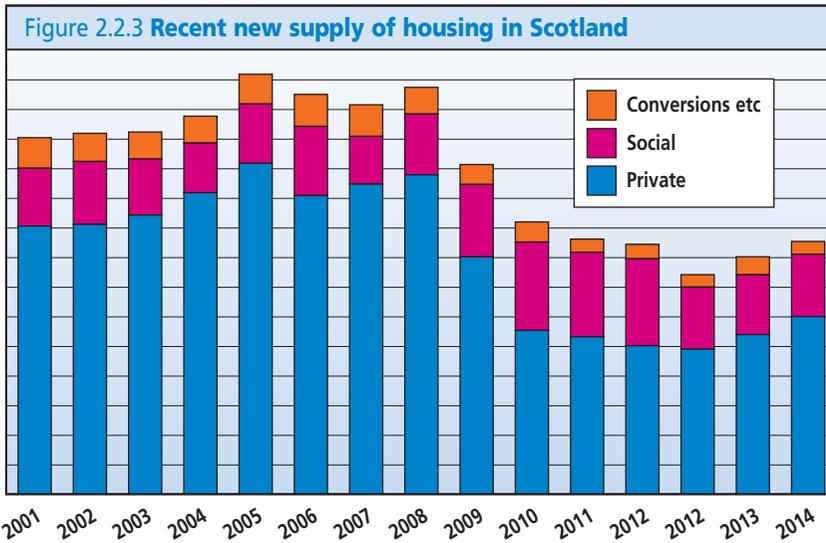
	2012	2017	2022	2027	2032	2037
Households	2,387	2,477	2,565	2,644	2,717	2,783
Change (thousands)	-	90	178	257	330	396
Change (%)	-	3.8	7.5	10.8	13.8	16.6
Population	5,314	5,407	5,520	5,626	5,714	5,780
Change (thousands)	-	93	206	312	400	466
Change (%)	-	1.8	3.9	5.9	7.5	8.8
Household headship rate	2.18	2.14	2.11	2.08	2.06	2.03
Household/population growth	-	+ 115.4	+ 92.4	+ 83.4	+ 83.7	+ 89.2

Source: Household Projections for Scotland, 2012-based. National Records of Scotland.

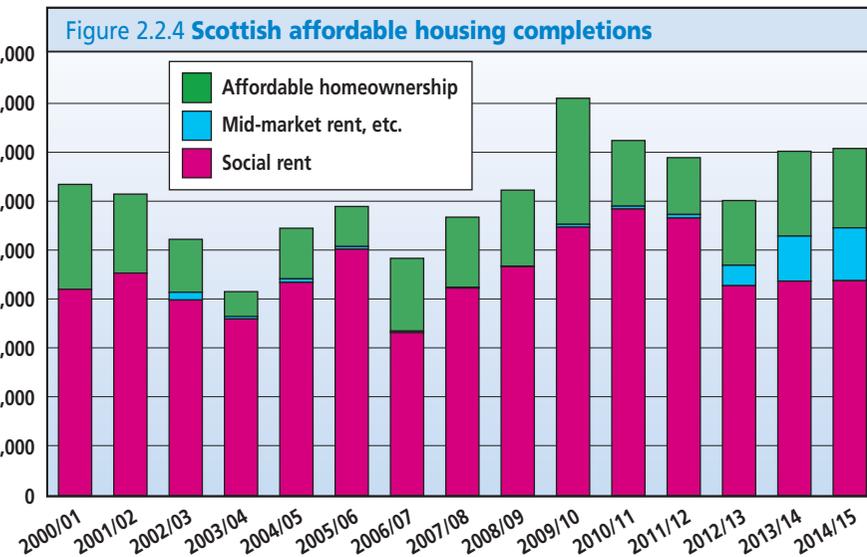
Overall the projections suggest annual average household growth of some 15,800 over the whole period, but with rather more growth, at an average of some 17,800 households annually, over the decade to 2022. A feature of the Scottish projections is that they set out low and high variants, based on alternative assumptions about net migration. Under the low variant, annual average household growth over the whole period comes down to just under 12,000, while under the high variant it rises to almost 19,700.

While there has been a housebuilding shortfall against the main household projections over the last few years, very little further recovery is required to match that projection going forward, as can be seen from Figure 2.2.3 (overleaf). Even the higher variant projection could be readily matched with a further recovery to levels well within the average level of new building over the decade before the recession.

There has also been a new independent analysis of the need for social housing in Scotland, undertaken on the basis of a 'stock-flow' model developed by the Centre for Housing Market Analysis (CHMA) at the Scottish Government. This is a very detailed report,¹³ with each step in the calculations leading to an assessment of the requirement for additional affordable housing clearly articulated.



Source: Scottish Government Housing Statistics.
 Note: Years are financial years; conversions includes extra units from rehabilitation.



Source: Scottish Government Affordable Housing Supply Programme Statistics.

It concludes that there is a requirement for 12,000 new affordable housing dwellings to be constructed over the next five years. However it must be noted that this requirement is based entirely on an assessment of the backlog of unmet housing needs. The report’s analysis also suggests that newly arising needs can be adequately met by the flows of net relets in existing affordable housing. The 12,000 figure is thus a consequence of a policy assumption that the total assessed backlog of unmet housing needs should be met in a five-year period. This is some way above current levels of new affordable housing provision, as shown in Figure 2.2.4. The Scottish Government has, however, indicated that it will be seeking to increase investment levels to meet that target.

However an alternative – and less ambitious – approach would clearly be to attempt to deal with the backlog of unmet housing needs over a longer period. It could also be argued that some part of the backlog is purely transitional, and that an element of that will inevitably continue going forward. It should also be noted that the assessments of affordable housing needs in England and Wales, as well as being based on a fundamentally different methodology, do not include any provisions for dealing with backlogs.

Projections, housing need and supply in Northern Ireland

The Northern Ireland 2012-based household projections suggest an increase of 104,000 households over the 25 years to 2037.¹⁴ This is a 15 per cent increase over the period, or an average of 4,200 additional households a year. This compares with a 10 per cent projected population increase over the same period.

However, as can be seen from Table 2.2.4, the projected rate of household growth is slightly higher over the initial ten-year period, when the average annual average growth is a little over 4,400. Moreover 2014-based population projections for Northern Ireland have now been published,¹⁵ and they suggest a marginally higher rate of population growth compared to the 2012 projections.

Nonetheless the projected rate of household growth is very considerably lower than in the decade between the 2001 and 2011 Census, when it averaged almost 7,700 annually. In the wake of the recession house building rates in Northern Ireland also fell sharply, but even so new completions averaged just over 5,600 a year over the five years to 2014/15.¹⁶

Table 2.2.4 Northern Ireland household and population projections, 2012-2037

Population and households	2012	2022	2037	Increase 2012-2037
Population	1,823.6	1,918.5	2,004.5	180.9
Households	708.6	752.9	812.7	104.0
Household headship rate	2.57	2.55	2.47	- 0.10

Source: NISRA.

A housing needs study was undertaken for the Northern Ireland Housing Executive, ahead of the 2012 household projections, taking 2011 Census household data as its starting point.¹⁷ Having reviewed alternative approaches the study focused on a 'net stock' model, essentially contrasting estimated household growth with a projection of private sector house building, and deriving an estimated requirement for affordable housing on the difference between the two figures. The model also includes a limited 'backlog' provision based on the numbers of 'concealed' households, and the numbers of homeless households in temporary accommodation. However as the analysis deals with the period between 2011 and 2021 it implicitly aims to deal with that backlog over a ten-year period, rather than the five-year period argued for in Scotland.

Overall the Northern Ireland report suggests a need for some 1,500 additional affordable housing dwellings a year over the period. This is rather more than 500 a year more than was achieved over the five years to 2014/15.

That said, as the research report itself recognised, its estimates have been overtaken by the 2012 household projections, which suggest household growth over the decade to 2022 at little more than a half the level estimated based on the 2011 Census data.

Some concluding observations

While there are differences in national circumstances, and in the household projection and housing needs assessment methodologies used in each country, there are also some common themes.

A first point to recognise is that projections are what they say they are – they are primarily projections based on past trends, rather than estimates of what will happen in practice. A second point is that any projections – or estimates for that matter – are highly problematic in periods of rapid change and uncertainty. Levels of net migration are, for example, inherently volatile and difficult to predict. It is also difficult to rely solely on demographic analyses during periods of significant economic upheaval, and all models now have to deal with the as yet still somewhat uncertain consequences of a private housing market including a much more significant private rented sector.

Many of those factors contribute to the questions about what will happen to average household headship rates, through which population projections are translated into household projections. But despite all those uncertainties there are some clear common themes – and none more so than the evidence of a rapid growth in the numbers of older households – an increasing proportion of whom will be homeowners. The clear need to develop the housing and related policies and services for this group is one of the few certainties to be taken from all these analyses.

References

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