



Committee report

Committee	CORPORATE SCRUTINY COMMITTEE
Date	14 JUNE 2022
Title	AFFORDABLE HOUSING
Report of	DEPUTY LEADER AND CABINET MEMBER FOR COMMUNITY PROTECTION, DIGITAL TRANSFORMATION, HOUSING PROVISION AND HOUSING NEEDS

SUMMARY:

1. Corporate Scrutiny has asked for an update on the issue of affordability of housing and the provision of affordable housing on the Island.

BACKGROUND:

2. On the Island, the average cost of a new-build dwelling is **£373,663** (Source – Jan 2022 - UK House Price Index – HM Land Registry Open Data: Accessed 20/05/22)
3. In 2010 the average sale price of a new build was £189,742 this is a 96.9% increase and means that in the last ten years, average house prices have almost doubled.
4. Unsurprisingly, this market price is not affordable for most Island residents. In fact, the Isle of Wight Council considers an income of more than **£62,400¹** would be required to buy a new build house at this price without assistance this also assumes they have a 10% deposit of £37,366.
5. Calculating the household income required to afford open market property prices involves making an assumption about the size of the deposit, and an estimate of the income relative to the size of the loan (mortgage).
6. As a useful comparator, the median house price on the Isle of Wight as of June 2021 was £255,000, with properties cheaper than across the South East and England. Lower quartile (entry-level) properties cost £188,000, more expensive than across England, but cheaper than the regional averages
7. At an income needed of **£62,400** this equates to only **16.8%²** of the population of the Island able to afford new build properties based on household earnings. Or, put another way, **83.2%** per cent of Island residents cannot afford a new-build home on the open market on their incomes alone.

¹ **Price** £373,663 **Deposit** £37,366 **Rate** 2.8% = **Monthly repayments:** £1,560 * 12 = £18,720 / 30 (30% of income) * 100 (100% total income needed) = **£62,400**

² 11,102 out of 65,056 households have a household income of £62,400 or over.

8. Assistance therefore comes via affordable home-ownership 'products' such as Help to Buy and shared-ownership schemes. These all fall within the formal planning definition of affordable housing as set out in national planning policy in the National Planning Policy Framework (NPPF). However, many of these affordable home-ownership products are still not actually affordable to most Island residents.
9. The table below assesses each of the different affordable home-ownership products against the income required to afford them and then considers what percentage of the district would not be able to afford these products

Affordable Home Ownership Options Scheme	Monthly Income Required	Commentary
Help to Buy: Equity Loan (20%)	£1,155.91	<p>More than 30% of gross earnings spent on housing is viewed as unsustainable so:</p> <p>With a Mean income of £37,826, roughly 43.6% of the island have a household income at this level and can afford housing payments of £945 per month</p> <p>With a Median Income of £31,370, 50% of the island are have a household income at this level and can afford housing payments of £784.25 per month</p> <p>With a <u>Lower Quartile Income</u> £18,360, 25% of the island are have a household income at this level and can afford housing payments of £459 per month</p>
Help to Buy: Shared Ownership (50%)	£865	
First Homes (30% discount)	£875 Note: A buyer will be likely limited to borrowing 4.5 Earning so will not be able to purchase the average house with average earnings they would likely be capped to borrowing £31,370*4.5 = roughly £140,851 (Nationwide)	
Help to Buy: Shared Ownership (25%)	£750	

10. In addition, paying the average open-market rents of £733 is deemed unaffordable for an estimated 40per cent of households in on the Island.
11. For this group, there are two types of rental products that fall within the formal planning definition of 'affordable housing'. The first is affordable rent, which on the Island is approximately 20 per cent of the cheapest market rents, i.e. not necessarily that affordable and subject to usual market price rises. The second is the social rent, which is set according to a complex formula but is typically between 50 per cent and 60 per cent of market rent. This is the cheapest route to accommodation and on the Island is about £463³ a month.
12. It is unsurprising then that the council considers the most pressing affordable housing need for the Island is for the genuinely affordable homes to rent. The Housing Needs Assessment 2022 update (see Appendix 1) considers 372 social rent homes are now required a year. There is then a lesser need for affordable home-ownership products (117 required a year). In total that's 489 affordable homes required a year on the Island.
13. Like many other local authority areas the council has not generally built houses. Rather, the model is that a developer is expected to use a small proportion of the financial gain it gets from

³ £733 * 0.6 = £463.8

a grant of planning permission to provide a certain number of affordable houses alongside the market houses it sells. On the Island that target is that on sites delivering a net gain of 10 or more dwellings, 35 per cent of all homes built should meet the NPPF planning definition of affordable.

14. So how many affordable homes have been provided on the Island under this model over the last 10 years? The next table sets out how many of each type of affordable house has been built over this period.

Year	Total homes built	Number of affordable homes	Affordable homes as %	Total homes built
2011/12	418	155	37%	418
2012/13	409	131	32%	409
2013/14	410	152	37%	410
2014/15	396	123	31%	396
2015/16	417	35	8.4%	417
2016/17	321	34	10.6%	321
2017/18	360	18	5%	360
2018/19	350	0	0%	350
2019/20	253	6	2.4%	253
2020/21	445	138	31%	445
Total	3,779	792	21%	3,779

15. With an overall total of 3,779 new homes having been built within on the Island across this period, the 792 affordable homes completed equates to 21 per cent across all types against the target of 35 per cent.
16. As of 1st April 2021, on the Island there are sites with full planning permission totalling some 1,216 new homes. Specifically, with respect to affordable housing, 958 of these are on large sites (10+ units) that can be expected to make a policy compliant contribution to affordable housing meaning there are potentially 335 affordable dwellings with full planning permission in the pipeline. Emerging monitoring data for 2021/22 shows that a further 112 affordable homes were completed in 21/22, and a further 56 commenced on site during the same period. The Island has however failed the government's Housing Delivery Test for not building enough houses when considered against the standard method, meaning that the Island is now subject to the presumption in favour of sustainable development until either the Island Planning Strategy is adopted, or house building rates increase substantially to over 550 a year for at least three consecutive years.

17. The restricted Island housing market is such that in the recent absence of major national housebuilders promoting sites and securing planning permission, it is also unlikely that in the immediate future the Island housebuilding market is able, or indeed willing, to build at such a level on a consistent basis that may constitute, at an Island level at least, 'over-supply' and cause a reduction in price and therefore profit.
18. The absorption concept was recently highlighted by Sir Oliver Letwin in his government-commissioned independent review of buildouts. Here he found the "fundamental driver of buildout rates once detailed planning permission is granted for large sites appears to be the 'absorption rate' – the rate at which newly-constructed homes can be sold into (or are believed by the housebuilder to be able to be sold successfully into) the local market without materially disturbing the market price". Alongside this, there are island specific practical constraints, including a low number of housebuilding contractors that slows delivery, together with national issues such as the current labour and materials shortages.
19. However, and perhaps most significantly, it is housing market demand rather than need that drives affordability. Currently this demand is being fed as much by monetary policy and financial markets as by physical shortages. Low interest rates and readily available mortgage credit, coupled with state assistance policies such as Help to Buy Equity Loans, are arguably allowing those already in the position to buy a house to offer ever more. They are often bidding against others in a similar position, pushing the market prices up in the process. Meanwhile, those not already in a position to buy get left even further behind.
20. The council's housing strategy⁴ (2020-2025) has four overarching themes of People, Properties, Place and Partnerships and sets out six strategic housing priorities:

Priority One: New housing supply – Ensuring the right supply and mix of new homes and increasing 'affordable' housing through the efficient use of land and capital resources including those the council owns or has control of.

Priority Two: Housing affordability – We have defined "affordability" on the Island through detailed research of both incomes and housing costs to inform both planning and housing policies going forward.

Priority Three: Private sector housing – Ensuring that the private housing sector provides enough good quality market housing through support for landlords and, where necessary, robust quality control and regulation.

Priority Four: Homelessness and housing need – Reducing homelessness and rough sleeping through effective prevention work and build a new homeless pathway through expanding our accommodation options and linked support services.

Priority Five: Special housing needs and vulnerable people – Ensuring that specialist accommodation is available for vulnerable people including primarily extra-care housing for older people, and those with special housing needs including young people and people with disabilities.

Priority Six: Partnerships – Enabling Housing associations and our other partners to build more new 'affordable' homes for Island residents whilst maintaining their current homes to a high standard.

⁴ [Viewing Document: Isle of Wight Housing Strategy 2020-2025 \(iow.gov.uk\)](https://www.iow.gov.uk)

21. To deliver these priorities, the strategy commits the council to:

- Setting out clear and strong planning requirements in our emerging Island Planning Strategy that appropriately balance social, economic and environmental considerations in the Island context.
- Continuing to champion sustainable development: sustainable in location, carbon footprint, building materials and sensitivity to the local environment.
- Seeking high quality design from any new developments.
- Help promote the positive benefits of new development to the island's future sustainability. Continuing to support the retrofitting of existing stock to improve energy efficiency (subject to available funding).

APPENDICES ATTACHED

22. Appendix 1 – Local Housing Needs Assessment 2022

BACKGROUND PAPERS

23. [Isle of Wight Council Housing Strategy 2022-2025 -
https://www.iow.gov.uk/documentlibrary/view/isle-of-wight-housing-strategy-2020-2025](https://www.iow.gov.uk/documentlibrary/view/isle-of-wight-housing-strategy-2020-2025)

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