

# Planning Committee

10.00am, Thursday 1 October 2015

## Housing Affordability and Supply in Edinburgh - referral from the Health, Social Care and Housing Committee

<b>Item number</b>	8.1
<b>Report number</b>	
<b>Wards</b>	All

### Executive summary

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The Health, Social Care and Housing Committee on 8 September 2015 considered a report by the Acting Director of Services for Communities providing an analysis of the rising housing costs in Edinburgh, along with trends in income levels and the supply of new homes in the city.

The report has been referred to the Planning Committee for consideration.

### Links

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<b>Coalition pledges</b>	See attached report
<b>Council outcomes</b>	See attached report
<b>Single Outcome Agreement</b>	See attached report
<b>Appendices</b>	See attached report

# Terms of Referral

## Housing Affordability and Supply in Edinburgh

### Terms of referral

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- 1.1 On 8 September 2015, the Health, Social Care and Housing Committee considered a report by the Acting Director of Services for Communities which responded to a recent analysis of house price growth in Edinburgh, which shows prices increasing at a faster rate than anywhere else in the UK. The report examined the relationship between housing costs and incomes and wealth and supply and demand for privately owned housing, house and land prices in the private sector, housing costs in the private rented sector and how these rising costs affect affordability in the city.
- 1.2 Edinburgh's population is projected to increase at a greater rate than the Scottish average, with an additional 88,000 households in the city by 2037. The Housing Needs and Demand Assessment 2 (HNDA2) estimated that around 4,000 new homes of all tenures are required in Edinburgh each year for ten years to meet current and future demand.
- 1.3 The Council has adopted a flexible and innovative approach to providing new homes. Partnership working with Registered Social Landlords has accelerated house building in the affordable sector. Homes have been delivered through the Affordable Housing Planning Policy, the Council's 21st Century Homes programme and the National Housing Trust (NHT). This has contributed towards trebling the number of affordable home approved each year to nearly 1,500. The Council is now embarking on the biggest local authority led house building programme in the country, with 3,000 new homes to be built.
- 1.4 Over the same period, the private sector has not kept pace with not for profit sector development. Although private house building activity has started to increase again over the last few years, the majority of this has been stimulated through public sector programmes such as Help to Buy or NHT. The level of unsubsidised private sector housing remains at very low levels, with an estimated 250 completions in 2013/14.
- 1.5 Residential land values in Edinburgh have been steadily increasing over the past five years, although they still fall short of their pre-recession levels. Greenfield residential values are currently estimated at around £1 million per acre, while brownfield residential values are estimated at around £1.75 million per acre, although there is significant variation between sites. Since 2009, the value of urban residential land in Edinburgh has more than doubled.
- 1.6 Much of this increase in Edinburgh land values has taken place more recently, with prices rising by 17% in the last 12 months alone. Residential land values in Edinburgh are the highest in Scotland. The value of brownfield land is estimated to be 75% higher in Edinburgh than Glasgow or Aberdeen, consistently maintaining that position over the past decade.

- 1.7 The Housing Land Audit 2014 forecast 10,048 programmed home completions between 2014 and 2019. Nearly 3,000 of the forecast completions do not yet have current planning consent. In addition, there is capacity for another 10,297 homes on constrained sites where no planning consent is in place. This high capacity for new homes on sites without current planning consent could present a risk of 'land banking' where developers hold on to land while values increase. This maximises the value of land for developers without delivering much needed new homes.
- 1.8 Low house building activity in the private sector is often attributed to land supply, infrastructure costs and planning contributions, such as the Affordable Housing Policy. Housing developers usually seek returns of at least 18% on developments and these requirements can adversely affect their profit expectations if they are not fully taken into account at the outset of a development.
- 1.9 Even if the private sector accelerates house building back to pre-2008 levels and the Council and its not for profit partners continue to use innovative solutions to deliver the current high levels of affordable housing, it is unlikely that a sufficient number of new homes will be built to meet demand in the city. In order to meet this demand, an acceleration of house building programmes is required across all tenures.
- 1.10 The Health, Social Care and Housing Committee agreed to:
- 1.10.1 Note the analysis of the impact of high housing costs on low to middle income households in the city.
  - 1.10.2 Note the continuing efforts made to accelerate the number of new affordable homes in the city by the Council and its public sector partners.
  - 1.10.3 To instruct officers to consider what options are available to the Council and its partners to respond to the impact of high housing costs on low and middle income households in the city within the next six months.
  - 1.10.4 To note the relatively low number of house building completions from the private sector in 2014/15 and the risk of land-banking and to refer this report to the Planning Committee for consideration.

## For Decision/Action

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- 2.1 The Health, Social Care and Housing Committee has referred the report by the Acting Director of Services for Communities to the Planning Committee for consideration.

## Background reading / external references

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[Housing Affordability and Supply in Edinburgh](#)

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## Links

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**Coalition pledges** See attached report

**Council outcomes** See attached report

**Single Outcome Agreement** See attached report

**Appendices** See attached report

# Health, Social Care and Housing Committee

10am, Tuesday, 8 September 2015

## Housing Affordability and Supply in Edinburgh

<b>Item number</b>	
<b>Report number</b>	
<b>Executive/routine</b>	Executive
<b>Wards</b>	All

### Executive summary

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This report provides an analysis of the rising housing costs in Edinburgh, along with trends in income levels and the supply of new homes in the city.

House prices in Edinburgh rose faster than any other city in the UK during the first half of 2015. The cost of renting a home has also risen significantly over the last few years.

Housing demand in Edinburgh is high, with an estimated 4,000 new homes required annually for the next ten years to meet need. While efforts by the Council and its public sector partners have led to a trebling of affordable home completions, activity in the private sector remains low.

Despite just an estimated 250 unsubsidised completions in the private sector in 2013/14, urban land values in Edinburgh have increased by 17% in the last 12 months alone, making them 75% higher than in Glasgow or Aberdeen.

Over the same period, 50% of the highest earning households in Edinburgh have benefited from a rise in their income, while those already on low incomes have seen theirs fall.

### Links

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<b>Coalition pledges</b>	P8, P9, P30
<b>Council outcomes</b>	CO7, CO8, CO9, CO10, CO16, CO19, CO25
<b>Single Outcome Agreement</b>	SO1, SO4

## Housing Affordability and Supply in Edinburgh

### Recommendations

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It is recommended that Health, Social Care and Housing Committee:

- 1.1 Notes the analysis of the impact of high housing costs on low to middle income households in the city.
- 1.2 Notes the continuing efforts made to accelerate the number of new affordable homes in the city by the Council and its public sector partners.
- 1.3 Instructs officers to consider what options are available to the Council and its partners to respond to the impact of high housing costs on low and middle income households in the city within the next six months.

### Background

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- 2.1 This report responds to recent analysis of house price growth in Edinburgh, which shows prices increasing at a faster rate than anywhere else in the UK.
- 2.2 During a meeting of the Policy Development and Review Sub Group of the Health, Social Care and Housing Committee in September 2014, a range of partners met to identify how new house building in the city could be accelerated. It was acknowledged that significant progress had been made in building new affordable homes, but there was concern about the low levels of activity in the private sector.
- 2.3 The City Housing Strategy Annual Review was reported to Committee on 16 June 2015, and set out progress towards meeting the aims of the City Housing Strategy 2012-17. One of the key objectives of the strategy is that 'people live in a home that they can afford.' The review noted the progress and success in building new affordable homes. However, it recognised the need to increase supply across all tenures was also identified.

### Main report

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- 3.1 The purpose of this report is to expand on recent media analysis of house prices in Edinburgh and examine the relationship between housing costs and incomes and wealth.
- 3.2 The report also examines supply and demand for privately owned housing, house and land prices in the private sector, housing costs in the private rented sector and how these rising costs affect affordability in the city.

### Supply and demand for housing in Edinburgh

- 3.3 Edinburgh's population is projected to increase at a greater rate than the Scottish average, with an additional 88,000 households in the city by 2037. The Housing Needs and Demand Assessment 2 (HNDA2) estimated that around 4,000 new homes of all tenures are required in Edinburgh each year for ten years to meet current and future demand.
- 3.4 In the social rented sector there are currently around 26,000 people registered with EdIndex, the city wide housing register. Last year there was an average of 144 bids for each home let. Mid-market rental properties have also seen very high levels of interest, with 430 homes developed and let in 2014/15 and a further 780 people still actively seeking mid-market rent homes.
- 3.5 The Council has adopted a flexible and innovative approach to providing new homes. Partnership working with Registered Social Landlords has accelerated house building in the affordable sector. Homes have been delivered through the Affordable Housing Planning Policy, the Council's 21<sup>st</sup> Century Homes programme and the National Housing Trust (NHT). This has contributed towards trebling the number of affordable home approved each year to nearly 1,500. The Council is now embarking on the biggest local authority led house building programme in the country, with 3,000 new homes to be built.
- 3.6 Over the same period, the private sector has not kept pace with not for profit sector development. Although private house building activity has started to increase again over the last few years, the majority of this has been stimulated through public sector programmes such as Help to Buy or NHT. The level of unsubsidised private sector housing remains at very low levels, with an estimated 250 completions in 2013/14 (see Figure 1 in Appendix 1).
- 3.7 Demand continues to increase at a faster rate than supply, which has the effect of increasing house prices and rents. This makes the housing market more competitive and housing harder to access for many.

### House prices and housing costs

- 3.8 The average house price in Edinburgh in 2014/15 was £235,566 according the Registers of Scotland 10 year Property Market Report. Edinburgh has the highest average house prices, when compared to other Scottish cities, and is 29% higher than the Scottish average. House prices in Edinburgh are on average 5.76 times the median household income, more unaffordable than any other Scottish City.
- 3.9 Registers of Scotland reported an increase in house prices of 8.4% in the 2014/15 financial year, the strongest growth since just before the financial crash in 2008. Recent media coverage highlighted that house prices in Edinburgh are growing faster than any other city in the UK. This analysis was based on data from property company Zoopla, indicating that house prices in Edinburgh have increased by 8.2% since January 2015. This growth outstrips any other city in the UK and represents an average increase of £20,465.

- 3.10 The private rented sector in Edinburgh has grown significantly in the last ten years, more than doubling in size. Households in the city are now twice as likely to be renting privately as the rest of Scotland, with 26% of Edinburgh households in the sector compared to 13% of households in Scotland. Over the same period, the percentage of owner occupied and social rented households has fallen, so the increase in private rented homes has not helped to increase the overall supply. The average time taken to let a private sector home has steadily reduced, taking 26 days in the second quarter of 2015. This indicates continuing high demand for private rented homes.
- 3.11 Rent levels in the private sector have risen by 25% since 2009. Citylets reported that the average rent for a two bedroom property in Edinburgh was £850 in the second quarter of 2015, an increase of 8.8% on the year before. This compares to a 6.1% increase in the rent of a two bedroom property across Scotland.
- 3.12 Private landlords, investing via buy to let mortgages, can push up house prices, without increasing the overall number of homes available in Edinburgh. While some tenants may value the flexibility of private tenancies, others have no alternative options due to high house prices, lack of mortgage finance and lack of eligibility for social housing and other affordable tenures.
- 3.13 There is evidence of demand for new private sector rented homes at scale, but as yet the market has not been able to respond to this. Other countries, such as Germany and Switzerland, have very large private rented sectors. However, these countries generally provide higher quality rented properties with longer, more secure tenancies.

#### Wealth, incomes and affordability

- 3.14 While housing costs are increasing, analysis shows that income growth has been strong for high earners, while incomes have fallen for those already on lower incomes. Figure 9 in Appendix 1 indicates rising income inequality in Edinburgh.
- 3.15 In terms of wealth distribution, people who own property benefit from rising house prices as their homes increase in value. Intergenerational effects of this increasing wealth inequality are emerging, as recent estimates from the Council of Mortgage Lenders suggest that over 50% of first time buyers require parental assistance.
- 3.16 Edinburgh's economy is strong, but economic growth in the city does not benefit all residents equally. Over the five years to 2013, housing has become less affordable for the poorest households in Edinburgh as their incomes fall whilst housing costs continue to increase. Over the same period, housing has become more affordable for higher income households, as their incomes have increased faster than the growth of housing costs.
- 3.17 This 'pincer effect' for those on low incomes, with both increasing house prices and decreasing incomes, means housing is becoming increasingly unaffordable for many people in Edinburgh. Along with above inflation increases in the cost of energy bills and food, this is contributing to a cost of living crisis in the city.

- 3.18 The cost of monthly mortgage repayments are often similar to, or lower than, private rents. However, the deposit and upfront costs of buying make ownership less accessible for those on low to middle incomes. As prices continue to increase, the average age of first time buyers is likely to increase as it takes longer to save for a deposit.
- 3.19 Since 2008, mortgage finance has become more difficult for first time buyers to obtain. Mortgage providers have become more cautious and high Loan to Value (LTV) mortgages have become less common. Figure 11 in Appendix 1 shows that around 15% of UK mortgages in 2007 were over 90% LTV, reducing to less than 5% of mortgages in 2014. Much higher deposits are now required for first time buyers, acting as a significant barrier to home ownership.
- 3.20 Static incomes and the lack of availability of high LTV mortgages have resulted in the average deposit of a first time buyer doubling from 40% of their annual income before 2008, to 80% of their annual income in 2013. This acts as a significant barrier to home ownership for many people, particularly those with low to moderate incomes who could afford mortgage payments but not the high upfront costs.
- 3.21 High housing costs could also pose a risk to the longer term economic growth of the city. A lack of affordable homes for lower-paid workers in vital industries, and the risk that companies struggle to attract and retain high quality staff, may act as a disincentive to businesses basing themselves in Edinburgh. The public sector may also be impacted as key workers, such as those in health or education, struggle to afford housing in the city.

#### Residential land values

- 3.22 Residential land values in Edinburgh have been steadily increasing over the past five years, although they still fall short of their pre-recession levels. Greenfield residential values are currently estimated at around £1 million per acre, while brownfield residential values are estimated at around £1.75 million per acre, although there is significant variation between sites. Since 2009, the value of urban residential land in Edinburgh has more than doubled.
- 3.23 Much of this increase in Edinburgh land values has taken place more recently, with prices rising by 17% in the last 12 months alone. Residential land values in Edinburgh are the highest in Scotland. The value of brownfield land is estimated to be 75% higher in Edinburgh than Glasgow or Aberdeen, consistently maintaining that position over the past decade.
- 3.24 The Housing Land Audit 2014 forecast 10,048 programmed home completions between 2014 and 2019. Nearly 3,000 of the forecast completions do not yet have current planning consent. In addition, there is capacity for another 10,297 homes on constrained sites where no planning consent is in place. This high capacity for new homes on sites without current planning consent could present a risk of 'land banking' where developers hold on to land while values increase. This maximises the value of land for developers without delivering much needed new homes.

### Resolving pressures in the housing market

- 3.25 Low house building activity in the private sector is often attributed to land supply, infrastructure costs and planning contributions, such as the Affordable Housing Policy. Housing developers usually seek returns of at least 18% on developments and these requirements can adversely affect their profit expectations if they are not fully taken into account at the outset of a development. The majority of the homes built by the private sector in the past few years have been targeted at the higher end of the housing market, with prices out of reach of the majority of people on low to moderate incomes.
- 3.26 Even if the private sector accelerates house building back to pre-2008 levels and the Council and its not for profit partners continue to use innovative solutions to deliver the current high levels of affordable housing, it is unlikely that a sufficient number of new homes will be built to meet demand in the city. In order to meet this demand, an acceleration of house building programmes is required across all tenures.
- 3.27 In April 2015, the Health, Social Care and Housing Committee agreed to consult partners on the scope, purpose and options for Edinburgh Homes; a new housing partnership. Edinburgh Homes would have the objective of building good quality, well managed homes to rent in the city, as a direct response to the pressures in the housing market. A separate report to this Committee on the Accelerating Housebuilding advises on the options for establishing a company to acquire housing specifically for market rent and incentivising house builders to develop sites that were purchased speculatively.

### **Measures of success**

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- 4.1 Increase in the supply of new affordable and market rent housing in the city, bringing supply more in line with demand, and making homes more affordable.

### **Financial impact**

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- 5.1 There are no financial implications arising from this report. A separate report on the Accelerating Housebuilding will be reported to this Committee.

### **Risk, policy, compliance and governance impact**

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- 6.1 Under the Housing (Scotland) Act 2001, local authorities are required to have a Local Housing Strategy. In Edinburgh, this is the City Housing Strategy (CHS). The CHS is reviewed annually to ensure strategic housing priorities reflect changes to policies and legislation, economic changes, financial pressures and wider council priorities. This report will help to inform the development of the next annual review of the CHS in 2016.

- 6.2 Progress on house building programmes such as 21<sup>st</sup> Century Homes and National Housing Trust are reported to programme boards and to the Corporate Programme Office as Major Programmes, the Cross Party Affordable Housing Political Sounding Board and the Health, Social Care and Housing Committee.

## Equalities impact

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- 7.1 An Equalities and Rights Impact Assessment has been carried out for this project. A range of positive impacts has been identified against the areas of rights and protected characteristics. These include:
- More accessible homes that are suitable for people who have mobility difficulties.
  - More affordable homes to enable people to have a good standard of living.
  - More people able to access housing which enhances rights in relation to privacy and family life.
  - Community benefits secured through housing contracts can enhance rights to education and learning through development of links with schools.

## Sustainability impact

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- 8.1 New homes are built to high energy efficiency standards, with lower carbon emissions, supporting Edinburgh's Sustainable Energy Action Plan. Building new energy efficient homes reduces heating costs, helping residents manage the costs of their homes in the long term.

## Consultation and engagement

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- 9.1 A wide range of organisations and individuals were consulted on the main challenges of accelerating house building through the Health, Social Care and Housing Policy Review and Development Sub Committee on 9 September 2014. In December 2014, a seminar was held with developers and investors to discuss opportunities to build new homes for private rent. The feedback from attendees and ongoing consultation through the City Housing Strategy Annual Review will continue to inform future housing policy.

## Background reading/external references

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[City Housing Strategy Annual Review 2014-15 – Health Social Care and Housing Committee, 16 June 2015](#)

[Edinburgh Homes: Accelerating Housebuilding – Health Social Care and Housing Committee 21 April 2015](#)

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## Links

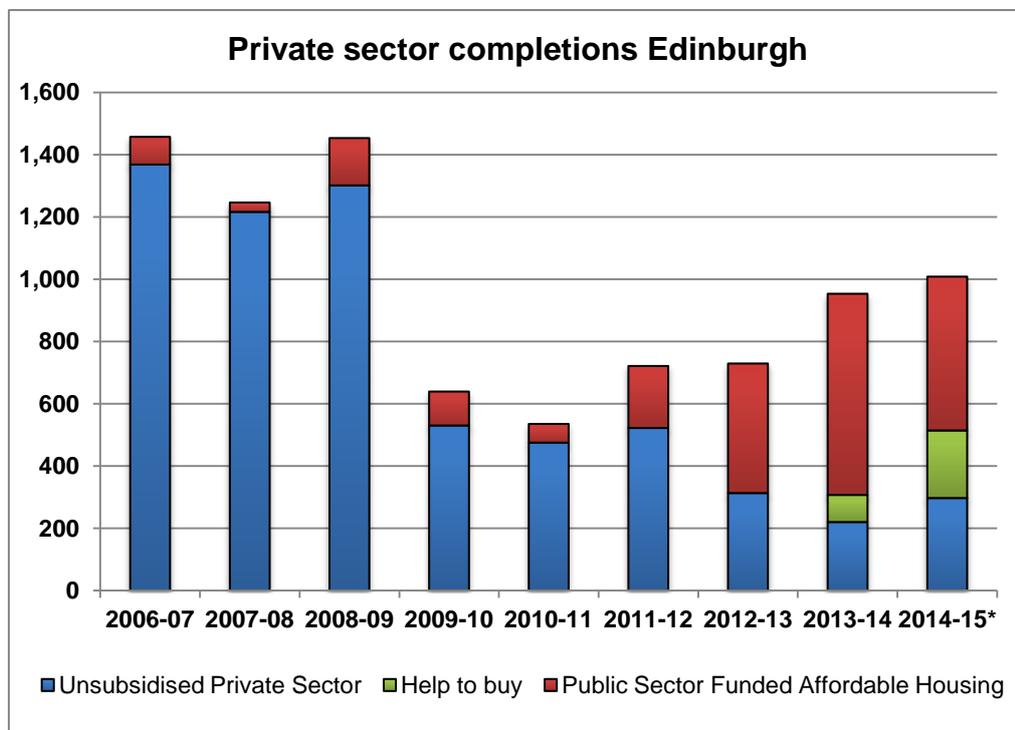
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<b>Coalition pledges</b>	<b>P8</b> – Make sure the city’s people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites <b>P9</b> – Work in partnership with Scottish Government to release more funds for council homes for rent <b>P30</b> – Continue to maintain a sound financial position including long term financial planning
<b>Council outcomes</b>	<b>CO7</b> – Edinburgh draws new investment in development and regeneration <b>CO8</b> – Edinburgh’s economy creates and sustains job opportunities <b>CO9</b> – Edinburgh residents are able to access job opportunities <b>CO10</b> – Improved health and reduced inequalities <b>CO16</b> – Well-housed – People live in a good quality home that is affordable and meets their needs in a well managed Neighbourhood <b>CO19</b> – Attractive Places and Well Maintained – Edinburgh remains an attractive city through the development of high quality buildings and places and the delivery of high standards <b>CO25</b> – The Council has efficient and effective services that deliver on objectives
<b>Single Outcome Agreement</b>	<b>SO1</b> – Edinburgh's Economy Delivers increased investment, jobs and opportunities for all <b>SO4</b> – Edinburgh's communities are safer and have improved physical and social fabric
<b>Appendices</b>	Appendix 1: Housing Affordability Data Analysis

# Appendix 1: Housing Affordability Data Analysis

## 1. Housing Supply and Demand

**Figure 1: The supply of new homes from the private sector decreased dramatically in Edinburgh**



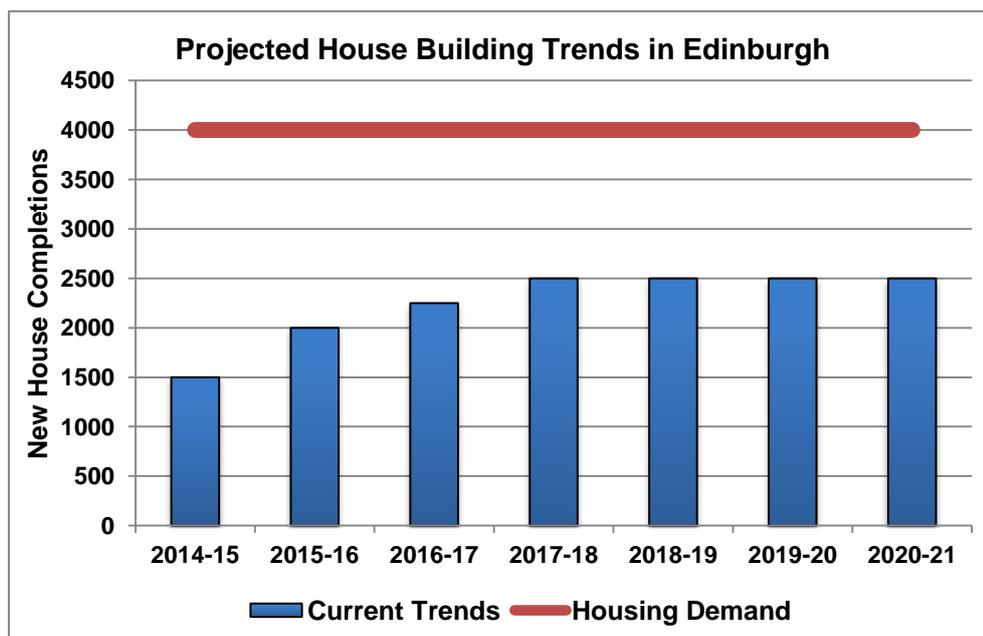
*Private sector house building has failed to recover since the 2008/09 recession.*

*The recent increase in new homes completed by the private sector is due to public sector funded affordable housing*

*Only a fraction of the recorded figures are unsubsidised private sector development*

Source: Scottish Government, City of Edinburgh Council \*2014-15 figures estimated based on data from Q1 – Q3.

**Figure 2: Current trends house building will fall short of housing demand for the foreseeable future**

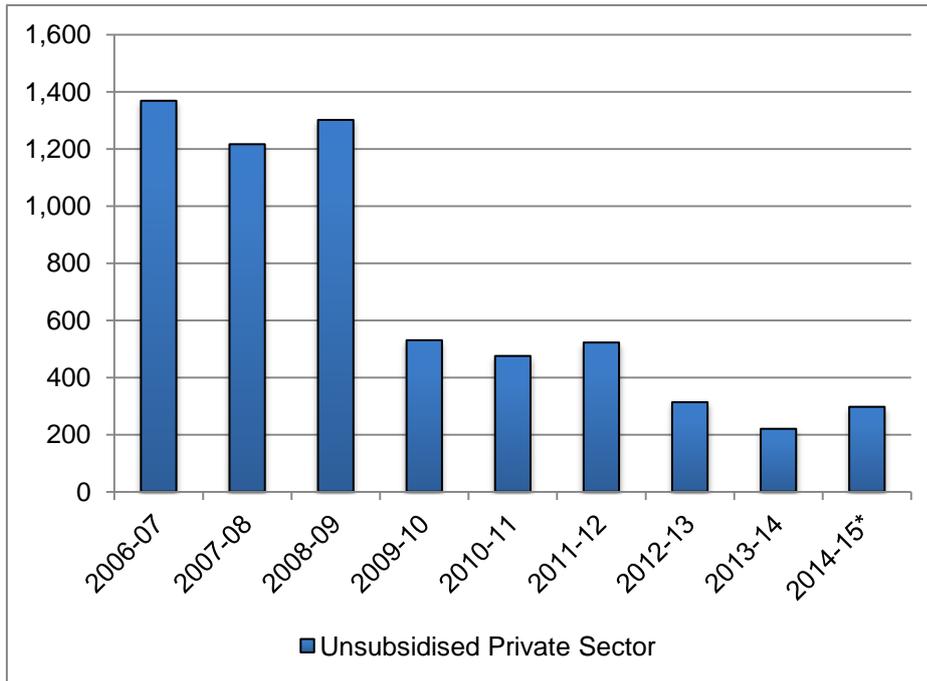


*Edinburgh's population is growing, while the average size of households is decreasing.*

*Around 4,000 new homes are required in Edinburgh each year to meet current and future demand.*

Source: Scottish Government, SESPlan Housing Needs and Demand Assessment

**Figure 3: Unsubsidised private sector house building has failed to recover since the financial crash in 2008**

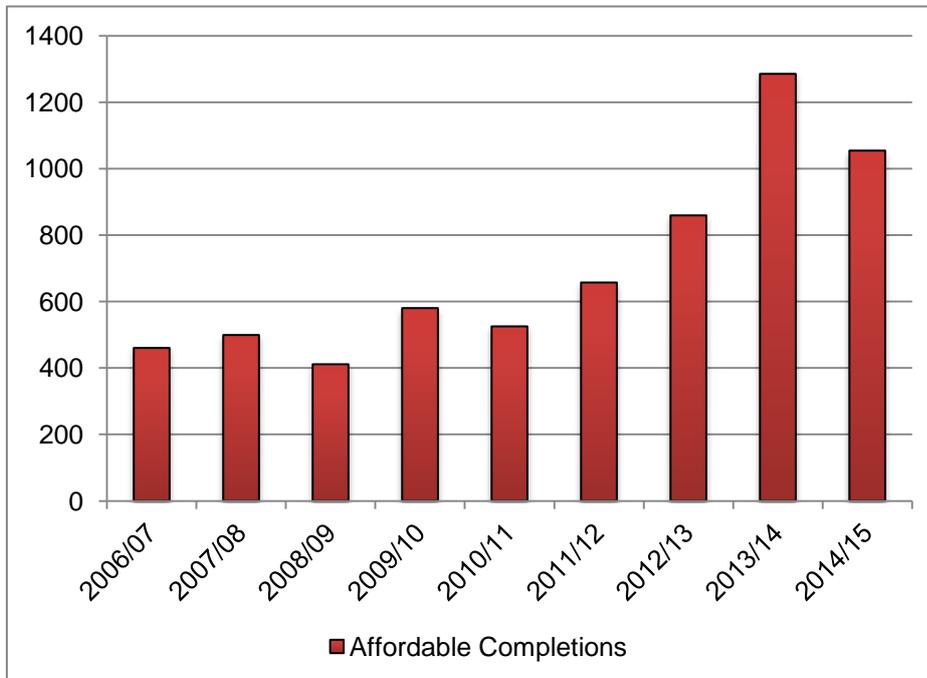


*Unsubsidised activity in the private sector has reduced from pre recession levels of 1,200 to 1,400 completions a year, to less than 400.*

*The private sector is currently being supported by public programmes such as help to buy and National Housing Trust.*

Source: Scottish Government, City of Edinburgh Council \*2014-15 figures estimated based on data from Q1 – Q3.

**Figure 4: Output of new affordable homes by the Council and its public sector partners has increased dramatically since 2008**



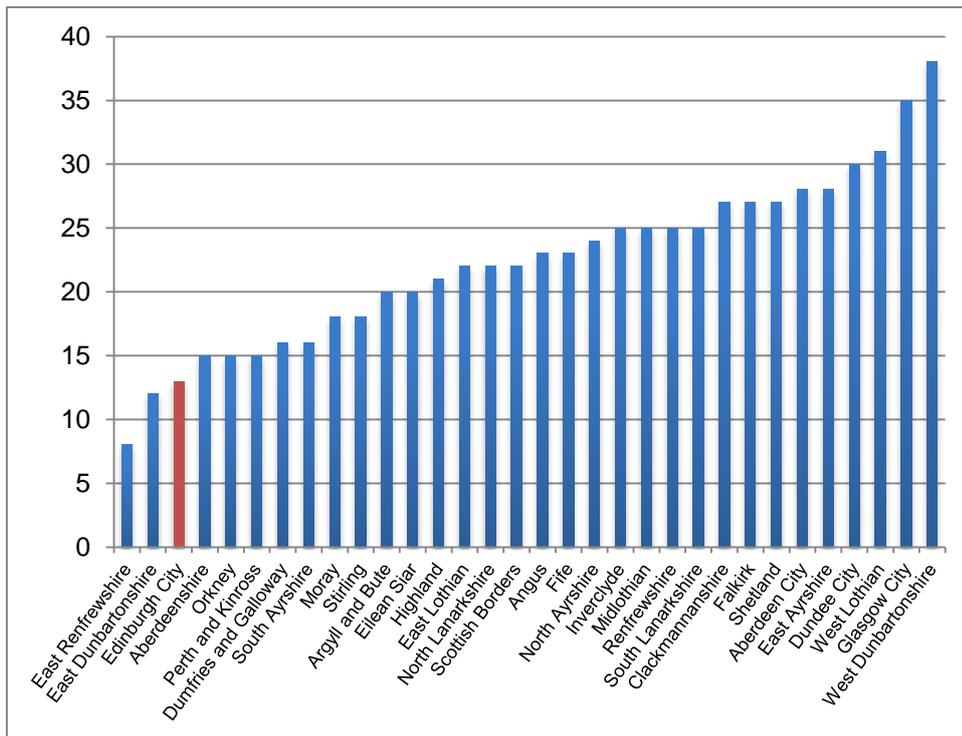
*Since the recession of 2008-09, the Council and its public sector partners have accelerated affordable house building.*

*This led to a trebling of completions from 411 in 2008/09 to 1285 in 2013/14.*

Source: City of Edinburgh Council

**Figure 5: Edinburgh has less affordable housing than other Scottish Cities**

*Percentage of Social Rented Homes by Local Authority*



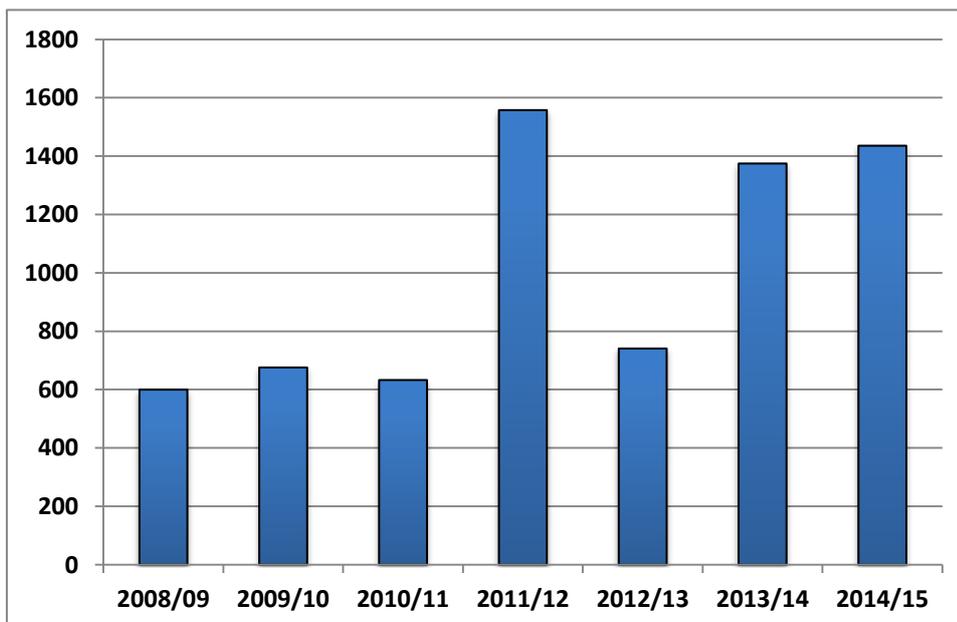
*Edinburgh has amongst the lowest levels of affordable housing when compared to other local authorities in Scotland.*

*Low levels of social rented homes mean that more people must rent privately, pushing up housing costs in the city.*

Source: Scottish Household Survey

**Figure 6: Approvals for new affordable home have increased significantly**

*Number of affordable housing approvals in Edinburgh*



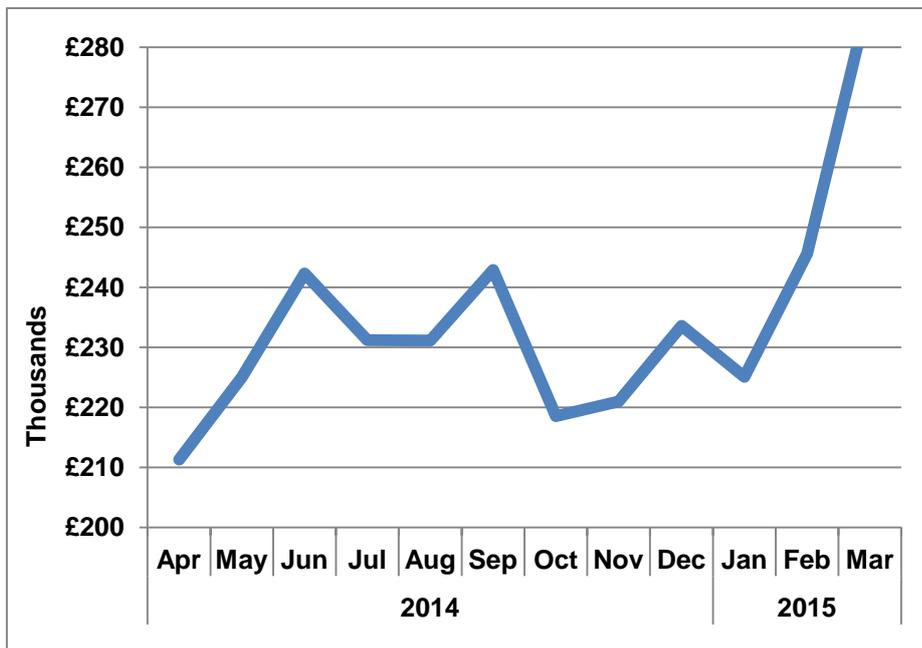
*The number of approvals for new affordable homes was 1,436 in 2014/15.*

*Efforts by the Council and it's public sector partners should see the continued building on new affordable homes in the city over the next few years.*

Source: Scottish Household Survey

## 2. Housing Costs

**Figure 7: House prices in Edinburgh are growing faster than any other city in the UK**



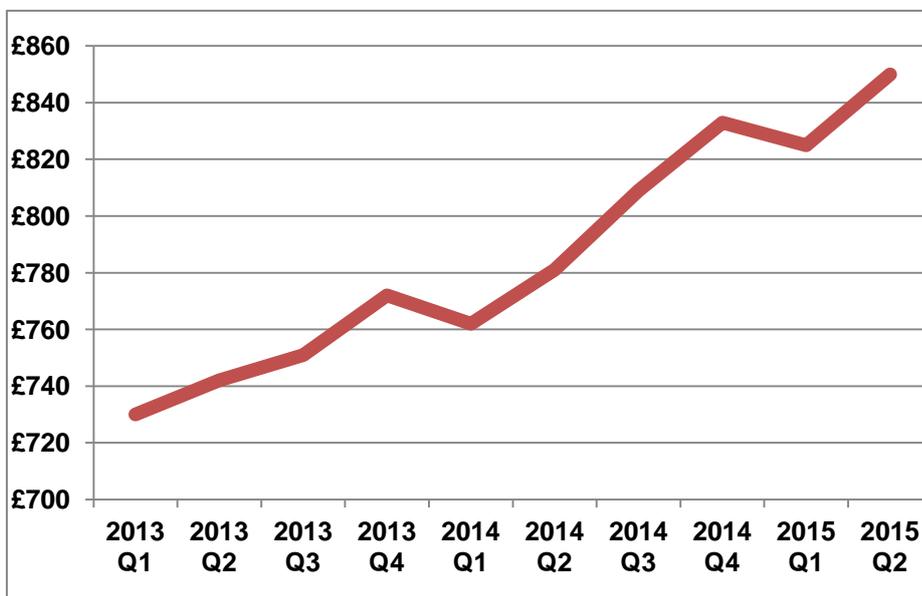
*House prices increased by 8.4% in the 2014/15 financial year, the strongest growth since just before the recession.*

*Edinburgh house prices have increased by 8.2% since January 2015.*

*This growth outstrips any other city in the UK with an average increase of £20,465.*

Source: Registers of Scotland

**Figure 8: Rental costs in the private rented sector have been rising consistently over the past few years**



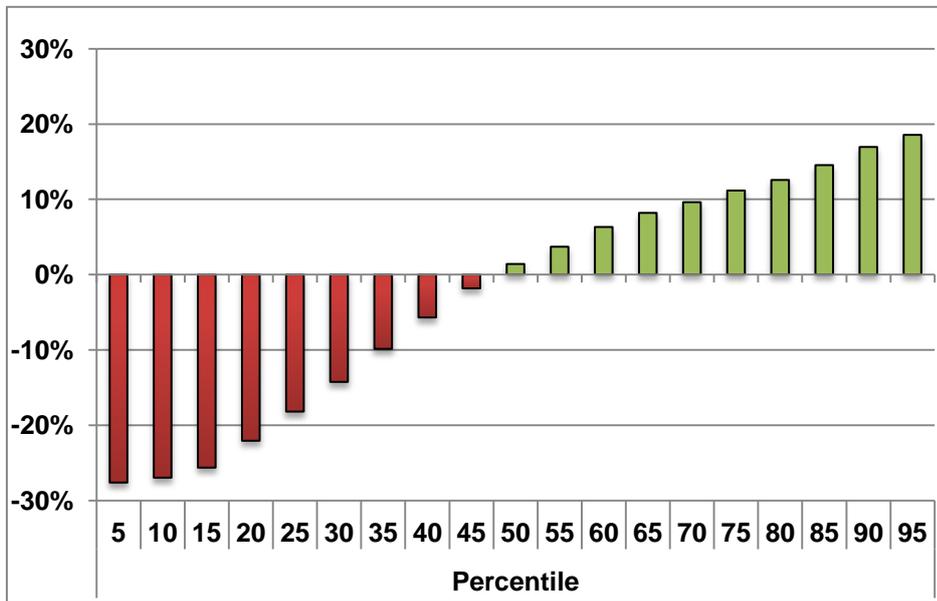
*The private rented sector has seen large increases in housing costs in recent years.*

*The average rental cost for a two bedroom home in Edinburgh is now £850, an increase of 8.8% in the past year, and a 25% increase over the last five years.*

Source: Citylets

### 3. Income Growth and Affordability

**Figure 9: Household incomes for high earners have risen, whilst lower earner incomes have fallen**

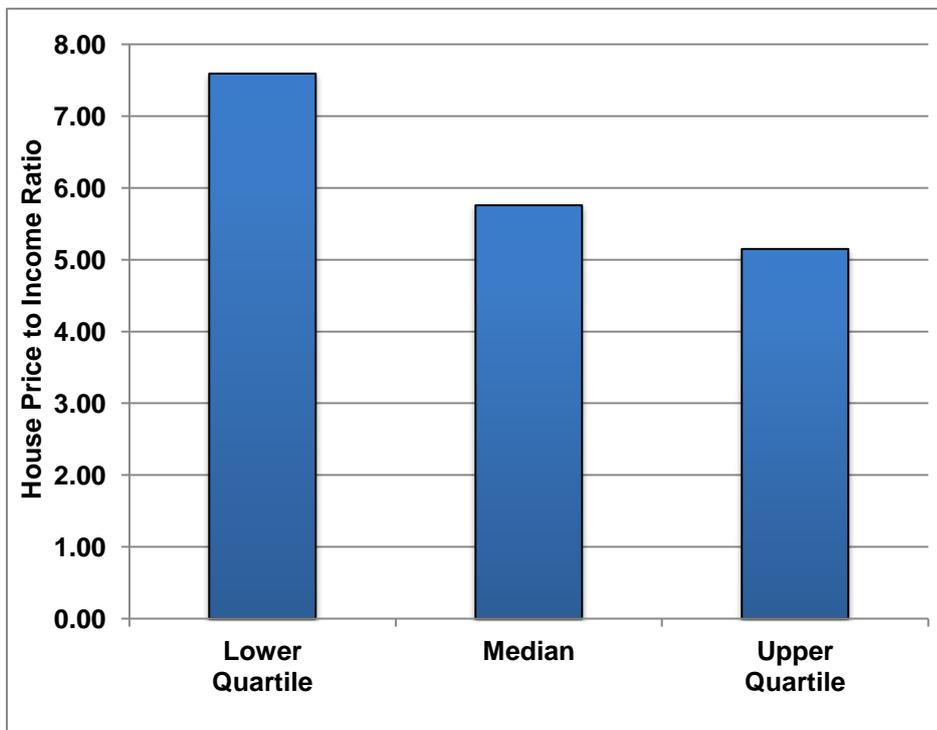


Between 2008 – 2013 income growth has been strong for high earners, while incomes have fallen for those already on low incomes.

This has a ‘pincer effect’ for those on low incomes, with both increasing house costs and decreasing income. It means housing becomes less affordable for many low to moderate income households in Edinburgh.

Source: CACI income Data

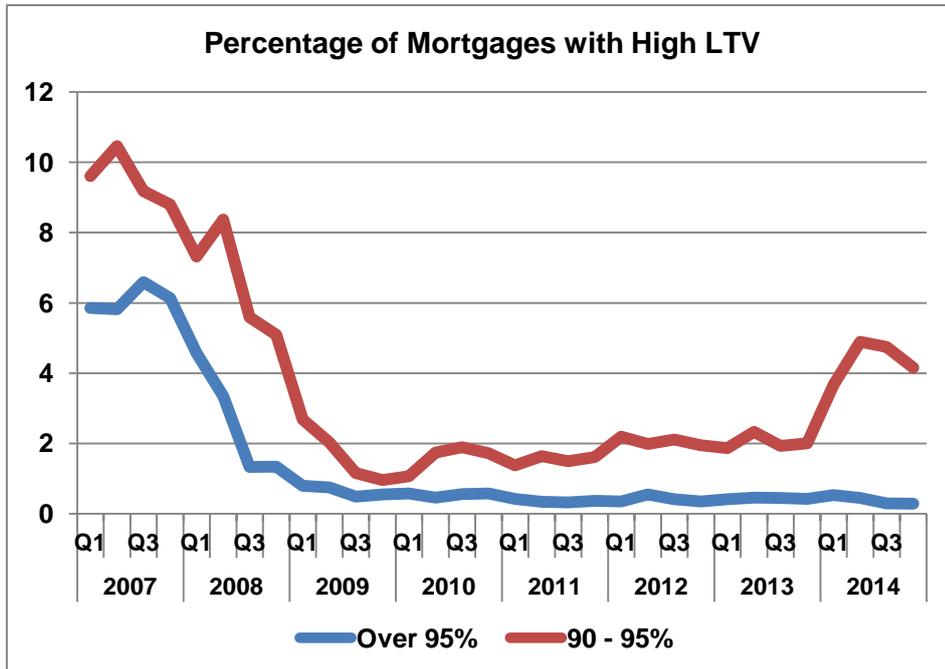
**Figure 10: Housing is less affordable for the poorest households in Edinburgh**



The cost of owning a home is proportionally higher for low income households. Lower quartile house prices are 7.5 times the lower quartile household income, while upper quartile house prices are 5 times upper quartile income.

Source: CACI Income Data, Registers of Scotland

**Figure 11: The number of mortgages with high LTV has decreased since 2008**



Since 2008, mortgage providers have been more cautious in their lending and the number of mortgages with high LTV has decreased dramatically.

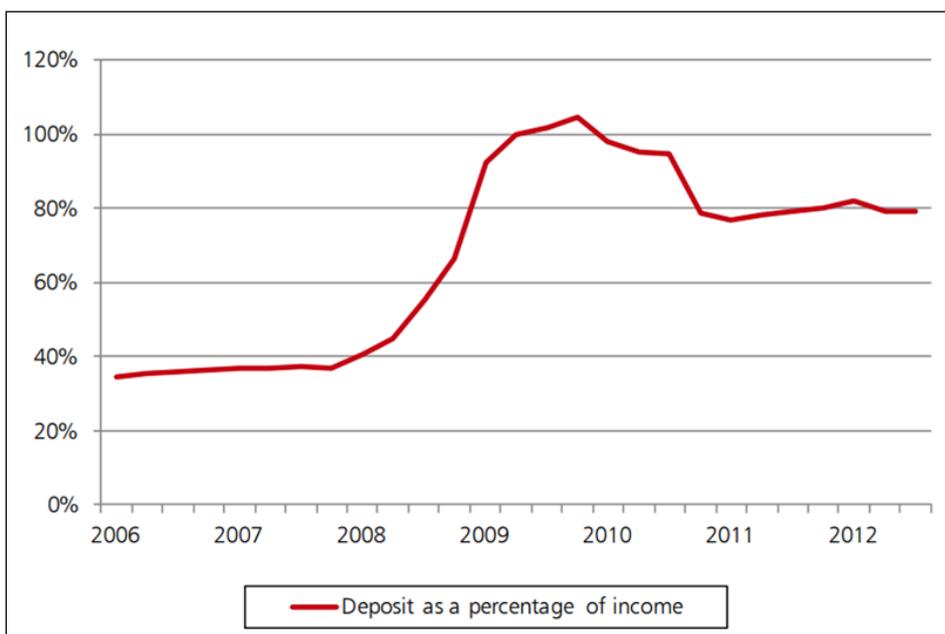
As a result, first time buyers must now save up larger deposits in order to purchase a property, acting as a significant barrier to home ownership.

While there are signs of a limited recovery in the last 12 months it will be some time before the impact of this on housebuilding can be evaluated.

Source: Financial Conduct Authority

**Figure 12: The average deposit for a first time buyer has increased significantly**

*First Time Buyer Deposit as a Percentage of Income*



Before 2008 a first time buyer would need 40% of their annual income on average for a deposit. This has now increased to around 80% of the average income.

Source: HM Treasury Analysis, Council of Mortgage Lenders