

**REPORT TO: CABINET MEMBER FOR HOUSING 3 FEBRUARY 2009**

**REPORT BY: ALAN CUFLEY, HEAD OF COMMUNITY HOUSING**

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**SUBJECT PORTSMOUTH'S HOUSING MARKET  
AND THE ECONOMIC DOWNTURN**

## **1. PURPOSE OF REPORT**

The purpose of this report is to present the latest available information on the state of Portsmouth's housing market as at the fourth quarter of 2008, a description that includes house completions as well as price data; and to also explain responses planned by the Government and its agencies, notably the Homes and Communities Agency.

## **2. RECOMMENDATION**

It is recommended that the Cabinet Member for Housing:

- 1) Notes the current situation with the housing market in Portsmouth
- 2) Notes the Governments current and proposed policy initiatives to stimulate national and local housing markets
- 3) Endorses the current market-related activities by the city council and seeks a further report from the Head of Community Housing on other proposals and support when details have been clarified with the Government, the Partnership for Urban South Hampshire (PUSH), and other partners.

## **3. HEADLINE HOUSING MARKET TRENDS FOR PORTSMOUTH**

Although housing markets (national and local) has been in sharp decline for several months not all information is negative for this area: sale price reductions in Portsmouth (and south Hampshire) are less than national trends; the private rental market is active; new affordable housing continues to be built in substantial numbers; and repossessions and homelessness are not at present escalating at the rates anticipated. Headlines for Portsmouth are:

- **Sale prices in Portsmouth averaged £146,000** in November 2008, according to the Land Registry (see paragraph 5.1)
- **Sale prices have declined 6% to 11%** over 12 months, less than the national 12% to 16%, variations depending on the data source and period. (paragraph 5.1)
- **Mortgage legal proceedings are rising – but not repossessions.** Orders made by Portsmouth County Court rose by 13 percent for the first three quarters of 2008 compared to the previous year. Nationally, the increase was 21 percent. By comparison, the number of repossessed homes is low with the proportion in the UK less than one tenth of one percent for most of the last five years; no information on repossessions is currently available at local level, for Portsmouth (para 5.1)
- **House price to income ratios have worsened** over a decade and combined with reduced mortgage lending means that home purchase is no longer affordable for most first-time buyers (paragraph 5.2)
- **Residential sales are down by over 50%** according to the Portsmouth Property Association, a view corroborated by the Land Registry in December 2008 (para 5.2)
- **Demand for social rented housing is steady:** the Portsmouth Housing Register, with 3,500 applicants in mid January 2009, grew by an average of 126 new registered applications every month for most of 2008; (paragraph 6.2)
- **Homeless applications:** those accepted averaged 24 a month during most of 2008, meaning there has been no marked increase during the year (paragraph 6.2)

- **565 affordable homes** are expected to be delivered during the year ending March 2009, a total that combines both new-build properties and *HomeBuy* assisted purchases; a further 370 are forecast for the following year (paragraph 6.2)
- **Private rental market is active** with some agents reporting that demand is strong or very strong, with £144 a week (£625 month) being the average rent for a two bedroom home (para 7.1).

The rest of this report explains the above market features in more detail, and includes current Government intervention plans.

#### 4. DEFINING THE PORTSMOUTH HOUSING MARKET

Portsmouth's housing market can be understood geographically as the area within the city council municipal boundary. But a wider perspective should also take in all southeast Hampshire as well as west across the Solent sub region to Southampton. The term can also be viewed as types of property use and ownership – or tenure. **Home ownership** is the majority tenure at around 65 percent of households; **social renting** affects one in five households and the landlord is either the city council or one of over 30 housing associations with properties in the city; and **private (market) renting**, whose share has been growing in the last decade. The term **intermediate housing** is also used to describe cheaper home purchase or renting when the cost to the occupier is higher than social renting but less than the market price: shared ownership and other products in the *HomeBuy* programme are examples. **Affordable housing** is also used in this report to bring together housing priced at below-market levels.

Strictly defined, a housing market would not include social renting because this tenure is closely regulated and funded to a large extent by the Government and its agencies: it is not a market in the commercial sense. However, for the purposes of this report, a wider interpretation will be used to include all the categories listed above because their sales and rental transactions, looked at as a whole, are closely inter-linked.

#### 5. THE HOME OWNERSHIP MARKET IN PORTSMOUTH

##### 5.1 Overview

The Portsmouth Property Association (PPA) has commented:

'There remains a pent up demand and buyers are still in the market place wanting to purchase but are reluctant to commit until they are satisfied we are at the bottom of the market. The "wait and see buyers" are starting to return to the market following recent cuts in interest rates but we still need more action from the banks and building societies to make mortgage funds readily available and at reasonable rates.

Average sale prices in Portsmouth as at November 2008 were £146,000 (rounded) according to the Land Registry, with a flat selling for £116,000, a terraced home for £146,000, a semi-detached house for £193,000 and detached house at £322,000.

But to fully understand Portsmouth's housing market it is also necessary to monitor prices in terms of percentage changes, and new research commissioned by the Partnership for Urban South Hampshire (PUSH<sup>1</sup>) achieves this. The study records that, based on sales for the year ending third quarter 2008, prices were down between 3 and 8 percent with Portsmouth at 6 percent, the exception being Gosport and Test Valley where prices rose 4 percent.

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<sup>1</sup> Annual Housing Market Monitoring Report 2008, by DTZ, December 2008.

However, subsequent information confirms the percentage decline is accelerating. The three principal sources for residential sale prices (Land Registry, Halifax and Nationwide) later reported Portsmouth sales prices were down 11 percent by the fourth quarter 2008, compared to a national average fall of between 12 and 16 percent. Differences are due in part to timing: the Land Registry publishes information after sales are completed while Nationwide and Halifax use more recent mortgage approvals data.

Although Portsmouth's unemployment rate is less than the national percentage, numbers are rising and further job losses may result in higher levels of mortgage arrears and court proceedings for possession. Information from the Ministry of Justice shows that orders granted by Portsmouth County Court are still under half the number reached in the early nineties. However, repossession remains a comparative rarity. Council of Mortgage Lenders data shows that, nationally, homes taken into possession typically numbered around 0.01 percent of all loans. New protocols and other forms of assistance (see below and the appendix) should result in the number of homes repossessed by lenders continuing to remain very low – even allowing for increases in legal proceedings during 2009.

## **5.2 Demand and supply for home purchase**

Despite the property recession people still want to own a home, as the Portsmouth Property Association have confirmed. And Portsmouth's housing market has been, and continues to be, affordable compared to most areas in the South East. However the mismatch between prices and incomes has become so great that, with current reductions in mortgage lending, home purchase is now an unaffordable dream for the majority of first-time buyers. Over the last decade inflation in the city's housing market has resulted in sale prices rising faster than incomes: see appendix 1, chart 1. This illustrates the increasing gap between earned incomes (annual pay) and residential property prices. This gap can also be considered as a price-income ratio: see appendix 1, chart 2. In 1998 sale prices in Portsmouth were just over three times annual earned income; but a decade later this multiple had risen to six times. Price-income ratios across the South East are even greater.

Despite the affordability issues outlined above sales in Portsmouth are still being concluded according to the Land Registry's latest House Price Index. From this source it can be estimated that 2008 could end with around 2,800 sales, although it is too soon to provide a definitive figure. While this total is well below the 4,800 annual average for the last decade, it indicates that the city's residential purchase market is continuing to function.

New housing development across Portsmouth is monitored by the city council and the results of this assessment are published annually<sup>2</sup>. The latest report estimates that over at least the next five years (possibly longer) approximately 4,000 dwellings of all tenures could be built on identified sites. About one third will be affordable housing of differing tenures with the balance for sale on the open market. However, the rate of completions will depend on the state of the national economy and the city's housing market, as well as the supply of mortgage lending.

## **5.3 Government interventions in the home ownership market**

The Government has proposed several schemes to improve the housing market. These can be assessed either as help for existing homeowners, help for first-time buyers, and funding for new affordable housing and other capital projects. These are explained in the appendix 2.

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<sup>2</sup> Annual Monitoring Report 2008: local development framework; December 2008

## 6 THE AFFORDABLE HOUSING MARKET IN PORTSMOUTH

### 6.1 Overview

The term 'affordable housing market' encompasses several tenures whose price to the consumer is below that set by the market due to public subsidy/investment. There are three main components: social renting, intermediate renting (rents between social rents and the market), and low cost home ownership (several products including new build shared ownership). Demand for affordable housing of all kinds is steady, and development programmes for new homes are expected to provide at least 1,000 affordable homes over the three year period 2008 to 2011.

### 6.2 Demand and supply of affordable housing

For several decades the size of Portsmouth's housing waiting list (the Housing Register) has been the principal means of demonstrating the scale of demand for affordable, sub-market housing, usually for rent from the city council and housing associations. In recent years the tools for assessing this aspect of housing demand have been widened to include research such as housing needs studies (most recently in 2005) and housing market assessments (completed in 2006). But taken together they demonstrate that demand, especially for family sized housing at social rents, exceeds supply by a huge margin.

This is why the city council has reviewed the way the Housing Register is managed in order to focus on households with high priority and the reasonable chance of being re-housed. Today, it is half the size of five years ago, numbering around 3,500 registered households. Applications to rent were added to the Housing Register at an average 126 a month between April and December 2008 and of these 23 were administered under the city council's statutory homelessness powers. Those re-housed averaged 136 a month, higher than usual owing to the increase in completed schemes by housing associations.

Everyone who applies to the city council, whether or not they are formally registered, is advised about housing options available, and many are steered towards private rental solutions. This is the reasoning behind the Access Scheme managed by the city council's housing options service. Enquirers are referred to private landlords together with a package of advice that can include a bond in lieu of a rent deposit. The 200<sup>th</sup> successful introduction (and lettings sign-up) was completed in November 2008.

The Housing Register is no longer used to administer requests for low cost home purchase and all enquiries are referred to *HomesinHants*, a marketing organisation that works with several housing associations selling assisted home purchase products under the *HomeBuy* brand. Although there are about 800 Portsmouth applicants registered for *HomeBuy* (and 4,000 across Hampshire) there are nevertheless an estimated 150 unsold shared ownership dwellings in the city. Lack of mortgage finance is only part of the reason; purchasers are not actively entering the market until they feel confident that asking prices have reached their lowest point.

The affordable housing development programme – the outcome of close working between the city council and half a dozen housing associations - is forecast to deliver 2,000 homes for rent and purchase over six years by the end of March 2011; about 1,400 will have been completed by March 2009. This new supply supplements the existing stock of over 16,000 properties in Portsmouth owned and managed by the city council and over 30 housing associations (the city council also manages a further 5,000 properties outside the municipal boundary in Havant).

### **6.3 Government interventions in the affordable housing market**

Capital spending valued at over £1.5 billion is to be brought forward and includes substantial investment in new affordable rented housing, the Decent Homes programme and financial support for installing new renewable heating systems. A solution to the relatively large number of unsold shared ownership homes may be resolved during 2009 by switching these properties to affordable renting, especially sub-market or 'intermediate' renting. Achieving this will require increased funding from the Homes and Communities Agency. See Appendix 2.

## **7. THE PRIVATE RENTAL MARKET IN PORTSMOUTH**

### **7.1 Demand and supply for private rented housing**

Portsmouth has had a significant private rental sector for many decades that, in terms both of absolute size and market share, is much bigger than in the neighbouring communities of south-east Hampshire. Owing to the growth of the university a substantial part of the rental sector caters to the student market. But Portsmouth's private rental market also provides for single people, couples and families. Buy-to-let investors have grown in recent years but apart from anecdote there is no specific data on the contribution this has made to the supply of accommodation.

Enquiries with established lettings agents produced differing interpretations on the state of the city's private rental market. In part this reflects contrasting experiences with various types of rental customer – students compared to families for example. Nevertheless it is reasonable to conclude that Portsmouth's rental market is active even if some parts have slowed.

Feedback on individual themes can be summarised as follows:

- Demand for renting is considered to be strong/very strong
- Demand for two bedroom properties is especially keen (though the student market differs in wanting single rooms sometimes in multi-occupied properties). Two bedroom properties are let at around £600 a calendar month
- There has not been a substantial increase in demand due to people deciding to rent rather than buy.
- Deciding to rent privately is a substantial financial commitment requiring one months advance rent plus a deposit, totalling around £1,200 for a two bedroom property; this may dampen demand in a period of economic uncertainty with rising unemployment
- Agents' opinions on the supply of rented accommodation vary, with some viewing the number of new instructions as 'strong' and others as 'moderate'
- Some agents think the rental market is quiet while others think lettings business is very active; those specialising in student lettings also consider the market has slowed, but this is understandable given that the start of a new academic year is the busiest season rather than the weeks before and after Christmas.

### **7.2 Government interventions in the private rental market**

The Government has been able to influence the private housing market by, for example, changes to the housing benefit system, introducing licensing for housing in multiple occupations (HMOs), and a new health and safety rating system. But it has yet to introduce specific proposals in response to the downturn in the economy and the housing market. However this could change owing to the influence of the Rugg Report commissioned by the Department of Communities and Local Government, published

October 2008<sup>3</sup>. This comprehensive review makes several recommendations and all have an essentially long-term effect if implemented, rather than a short term response to the current property recession. Three examples are:

- Licensing of lettings agents and all private landlords
- Tax reliefs specifically for residential investment using tax vehicles such as Real Estate Investment Trusts (REITs) to increase the supply of rented homes
- 'Social lettings agency' in each local authority area acting as a management intermediary whose fee-earning services would reduce landlord's investment risk, especially when letting to low-income tenants receiving housing benefit.

## 8. CITY COUNCIL RESPONSES TO THE DEPRESSED HOUSING MARKET

While central Government has set the framework at a national level (see appendix 2) the city council, indeed all local authorities, can respond in a number of ways: assisting individual households experiencing financial difficulties or even homelessness; and by ensuring the continuing development of new (especially affordable) homes. Any assistance, however, needs to be planned in the context that new housing rarely contributes more than one percent of the housing stock while the other 99 percent requires the direct participation of sellers and buyers, landlords and tenants together with their advisors and agents. Confidence in the market is the essential element underlying the usual housing demand factors (new household formation for example). Although market confidence is principally a by-product of Government economic policy the city council can nevertheless contribute in a number of practical ways for example:

- 1) Mortgage rescue scheme: the city council is one of 50 local authorities participating in the Government's new mortgage rescue scheme. Households experiencing serious financial difficulties, and who have approached the city council for assistance, will be referred to the Community Legal Advice Centre (CLAC); rescue proposals also involve the *HomesinHants* programme managed by Swaythling Housing Association. The first client was referred to HomesinHants in early January.
- 2) The south Hampshire housing market report cited above concludes with three recommendations for all PUSH councils to consider. Opportunities exist to review housing schemes being planned in Portsmouth. The recommendations are:
  - a. Reviewing housing schemes on a site-by-site basis to improve development viability and secure delivery of both market and affordable homes
  - b. Identifying whether there may be opportunities to re-plan sites to improve viability...(and)... secure more family sized accommodation
  - c. Improving sales of unsold low cost home ownership properties by reviewing eligibility criteria or by switching tenure, eg., intermediate to social, to ensure properties are occupied.
- 3) The city council to bid directly to the Homes & Communities Agency for social housing grant to develop affordable housing itself (see appendix 2).
- 4) Participate in regular forums such as the LSP Housing Partnership where representatives of the city council and other organisations active in the local housing market such as the Portsmouth Property Association can identify and implement ways of improving the operation of the housing market in the city.
- 5) Continue to encourage the development of market and affordable housing with commercial developers and housing associations by using the city council's existing finance and Section 106 planning policies in a flexible and discretionary manner in recognition of the depressed housing market.

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<sup>3</sup> The Private Rented Sector: its contribution and potential. J Rugg and D Rhodes, York University, 2008

- 6) Continue to support and fund local independent agencies such as the Roberts Centre and the Community Legal Advice Centre to provide front-line advice and assistance to individuals and families with housing problems often linked to high personal and mortgage debt.
- 7) Continue working with other councils in the PUSH consortium to implement long term sub regional planning and housing policies that will simplify and facilitate the development and purchase of new homes in south Hampshire.
- 8) Continue consulting city council tenants on options for 2009-10 rent & service charges to include raising rents by less than government guidelines, and service charges by less than inflation, in order to minimise the effects upon city council tenants during a period of economic recession.

## **9. CONCLUDING REMARKS**

Using a variety of formal and informal sources this report seeks to convey the position of the housing market in December 2008 and January 2009. As nearly two in three homes in Portsmouth are occupied by their owners (60 percent with a mortgage) the market is dominated by transactional issues, whether the price of borrowing or residential values. These sources point to a substantial decline in sales transactions (at least half) while sale prices have declined by around 11 percent over the previous year, less than the national average, and with the likelihood of continuing price falls during 2009; but by what percentage cannot be forecast with any reasonable accuracy. Meanwhile the private rental market is active, providing an essential alternative to those who cannot afford to buy, or do not wish to buy. Social renting also continues to comprise an essential part of the housing market with one in five homes, steady demand and a development programme.

The fundamental issue, however, is that home purchase is still unaffordable for most first-time buyers in Portsmouth, even with prices being below regional averages. An increase in mortgage lending is essential, but in the meantime residential prices will need to continue falling so that price-income ratios become more balanced.

The Government's substantial additional investment in new affordable housing is to be welcomed. However details concerning implementation locally have still to be made public by the Homes and Communities Agency and central government. The Mortgage Rescue Scheme has considerable potential but it is too early to assess whether the options available and the budget (£200 million) will be adequate to the challenge; it is likely to be several months before court proceedings result in repossessions. As for the city council's part in responding to the market many of the initiatives listed above in paragraph 8 are already in use. A further report on their implementation can be presented when information is available from the partners and agencies involved.

## **10. CITY SOLICITORS COMMENTS/EQUALITY IMPACT ASSESSMENT**

The City Solicitor is satisfied that it is within the Cabinet Member's powers to approve the recommendations as set out. A full Equalities Impact Assessment is not required, as these proposals do not constitute a new service.

## **11 ACCESS TO INFORMATION**

The following documents disclose matters that have been relied upon to a material extent by the author in preparing this report:

- 1) PUSH Annual Housing Market Monitoring Report 2008, by DTZ, December 2008.
- 2) Annual Monitoring Report: local development framework, Portsmouth CC, 2008.
- 3) House Price Index, Land Registry, November 2008.
- 4) House Prices, Nationwide Building Society, 6 January 2009.
- 5) House Price Index, Halifax/HBOS, 2 January 2009.
- 6) The Private Rented Sector: its contribution & potential, University of York, 2008.

## **12. SIGNING OFF THE REPORT**

Signed.....

Alan Cufley – Head of Community Housing

Dated .....

## **13. APPROVAL TO THE RECOMMENDATIONS**

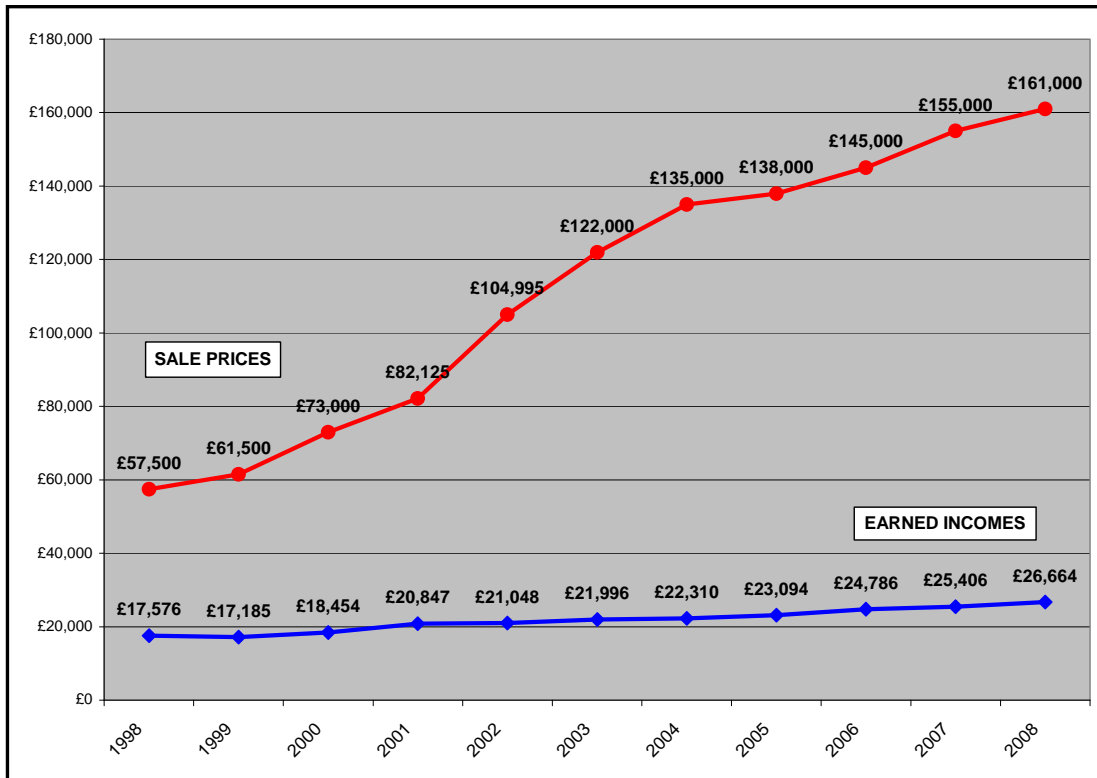
The recommendations set out above were approved/approved as amended/deferred/rejected by the Cabinet Member for Housing, on.....

Signed.....

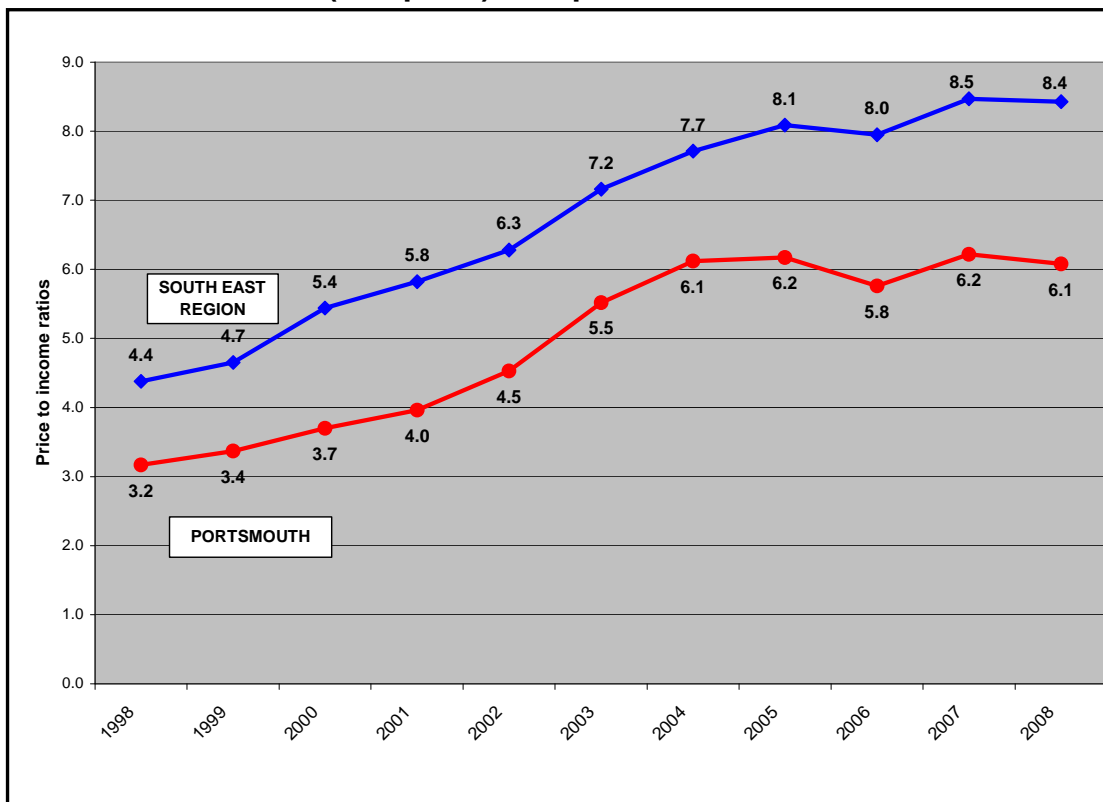
Councillor Steve Wylie, Cabinet Member – Housing



**Chart 1: PORTSMOUTH'S HOUSE PRICES RISE FASTER THAN INCOMES**  
 Comparing median (mid point) work place earnings with median sale prices



**Chart 2: HOUSE PRICE-TO-INCOME RATIOS HAVE WORSENE**  
 Derived from median (mid point) sale prices and median earned incomes



Sources: Incomes - Office for National Statistics; sale prices and price-income ratios - Communities & Local Government

## **GOVERNMENT INTERVENTIONS IN THE HOUSING MARKET**

### **1. HELP FOR EXISTING HOME OWNERS**

- 1) Income support for mortgage interest payments is now available after a reduced waiting period of 13 rather than 39 weeks on mortgages up to £200,000; this began on 5 January 2009.
- 2) Homeowner Mortgage Support Scheme will enable households experiencing a significant and temporary loss of income to defer a proportion of the interest payments on their mortgage for up to two years. Deferred interests payments will be guaranteed by the Government in return for lenders' participation in the scheme. The 8 biggest mortgage lenders working with the Government are HBOS, Nationwide, Abbey, Lloyds TSB, Northern Rock, Barclays, RBS and HSBC. Deferred interest payments will be added to the original loan, with the borrower paying this off when their financial circumstances improve. It is hoped the scheme will begin 'early' 2009.
- 3) Help for households experiencing financial difficulties:
  - a. Minimum three months wait by lenders before repossession proceedings
  - b. A new mortgage pre-action protocol establishes that repossessions are a last resort; introduced from mid December 2008
  - c. Free legal representation in county courts is expanded for households at risk of repossession
  - d. £25 million funding to increase the provision of legal and debt services to households experiencing financial problems.
- 4) Mortgage Rescue Scheme: using a £200 million budget local authorities can refer people to appointed housing associations: the aim of the scheme is to assist around 6,000 households in England. Portsmouth is one of 50 local authorities that have agreed to start the scheme as soon as practicable. It is being administered by the city council's housing options team, working with the Community Legal Advice Centre (CLAC). Clients will be referred to *HomesinHants* who manage the mortgage rescue scheme in this area. The first cases are being assisted from early 2009. Options on offer include the following:
  - a. Sale & Rent Back: for vulnerable households on low incomes with little chance of sustaining a mortgage; a housing association will purchase the property, repay the mortgage, and then let the dwelling to the occupiers
  - a. Shared Ownership: for those unable to meet their mortgage payments but still able to make a contribution to monthly payments; a housing association will buy a share and convert the property to shared ownership by issuing a shared ownership lease
  - b. Shared Equity: for those householders who have experienced payment difficulties and need some help in paying their mortgage; a housing association provides an equity loan enabling the household's mortgage payments to be reduced.

## **2. HELP FOR FIRST-TIME BUYERS**

- 1) Stamp Duty not payable for properties costing less than £175,000 (previously the limit was £125,000); implemented from September 2008
- 2) HomeBuy Direct for 10,000 first time buyers is similar to other *Homebuy* assisted purchase products with, for example, the same annual household income limits (less than £60,000). A Communities & Local Government £300 million budget will be available to help commercial developers offer equity loans to purchases on advantageous terms such as interest free for the first five years.

Developers Persimmon, Barratt, Galliford Try and Crest Nicholson have submitted bids to the Homes & Communities Agency to help fund the sale of 275 unsold properties in Portsmouth. The outcome of these bids is not known at the time of writing. Of concern is that *HomeBuy Direct* will be competing with other assisted-purchase schemes developed by housing associations on the same or adjacent sites.

## **3. NEW AFFORDABLE HOUSING AND OTHER CAPITAL PROJECTS**

- 1) Funding for affordable housing: £400 million of social housing grant was originally allocated for spending in 2010-11 but the Government has decided to bring this investment forward to 2008-10. The anticipated result is an additional 5,500 social rented dwellings over the next 18 months rather than in 2010-11. Local authorities with existing stock in management will be able to apply for this grant to build social housing alongside housing associations. This will give the city council direct access to social housing grant for the first time. However, bid arrangements have still to be announced.

Some of this increased investment – channelled via the Homes and Communities Agency – will be directed to convert some of the recently completed (and unsold) shared ownership properties to affordable renting, either at social or sub-market rents. This is particularly relevant to Portsmouth's circumstances with over 100 unsold shared ownership flats.

- 2) Funding for Decent Homes programme, regeneration and energy: Other Government spending plans, with a total value exceeding 1.2 billion have been brought forward. Some of these schemes will boost projects that have been slowed or stalled by market conditions. Included is spending on major repairs and the Decent Homes programme for local authority housing, more social rented homes, regeneration and housing infrastructure projects. A major aspect is £535 million to introduce a renewable heat incentive, that will provide financial support for households or businesses that install renewable heating. Details have yet to be announced.