

REPORT TO: CABINET MEMBER FOR HOUSING 16 SEPTEMBER 2009

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SUBJECT UPDATE ON PORTSMOUTH'S HOUSING MARKET

1. PURPOSE OF REPORT

This is an interim report, midway through the financial year, to review the city's housing market. Where relevant, comparison is made with regional and national markets. Like the last review in February 2009, this is not limited to home ownership but includes private (market) renting and social renting from the city council and housing associations, also known as registered social landlords or RSLs. Whether home purchase is becoming more affordable is not considered in this report; but will be reviewed in the next housing market update in early 2010 when income data from the Office of National Statistics – an essential element for defining degrees of affordability - will be available.

2. RECOMMENDATION

It is recommended that the Cabinet Member for Housing notes the current situation with the housing market in Portsmouth.

3. SUMMARISING PORTSMOUTH'S HOUSING MARKET INDICATORS

Indicators suggest that the worst of the property recession is coming to an end with prices for completed sales rising slowly as the year advances, but from a very low level. When the home purchase market peaked in late 2007, several weeks elapsed before sales were reflected in Land Registry data. Thus the highest overall average, at £163,000, was not recorded until February 2008. By July 2009 this average was still 16 percent below the peak, at £136,000. Housing market prices thus have some way to go before reaching the level of two years ago.

As the Portsmouth Property Association (PPA) observe in a commentary supplied for this briefing the city's residential market 'shows good signs of recovery and enquiries from buyers are increasing'. This is significant as it refers to future intentions – compared to most data from public sources quoted here that monitor former transactions and are a step behind current market activities. Other positive indicators to note concern the supply of new housing: several hundred homes of all tenures are in the development pipeline, while the private rental market also remains active. The principal indicators are:

- **Sales are low but increasing:** total sales during 2009 are likely to be only a third of the long term average for the city; nevertheless the market seems to be improving as monthly sales have been rising during and since the spring
- **The average price of a home sold in Portsmouth was £136,000 in July,** up on the £128,000 low point recorded for April – ranging from £109,000 for a flat to £302,000 for a detached house
- **Prices of sold properties continued to fall during the autumn and spring** with April 2009 recording a 20 percent fall compared to 12 months earlier – but prices have since risen suggesting the market is slowly recovering.
- **Mortgage lending is rising,** but approvals are under half former levels
- **Mortgage loans often require 25 percent deposits** - a barrier for first time buyers
- **Fewer court possession orders are likely during 2009** due to new protocol arrangements between mortgage lenders and borrowers

- **Applications for social renting are up by nearly one third** compared to 2008
- **Homeless acceptances have risen by a fifth** compared to 2008
- **Around 900 new homes (all tenures)** are in the Portsmouth development pipeline for the year to March 2010
- **Over 300 affordable homes** are expected for the year ending March 2010; mostly for social rent but also for assisted purchase like open market *HomeBuy*
- **The private rental market continues to be active** with rents mostly stable

4. THE HOME OWNERSHIP MARKET IN PORTSMOUTH

4.1 **Overview:** despite conflicting information from public and commercial data sources a consensus is emerging that the worst of the property recession may be over, a view corroborated by the PPA in their comments on the state of Portsmouth's home purchase market:

The Portsmouth property market shows good signs of recovery. Enquiries from buyers are increasing and confidence is returning. Mortgage lending is rising albeit slowly and positive reporting in the media is helping to fuel the recovery.

There has been a "bounce" in the market over the last 3 months but mainly due to a shortage of houses available for sale coupled with buyers perception that prices are more likely to rise if demand out strips supply. Investors are returning to the market, which is a sure sign that prices have bottomed out.

The city has enjoyed a period of stable house prices since the start of the year. Recent reports of price rises might be slightly premature but optimism is high and the key factor is to get Banks lending again.

The following paragraphs review areas of the home purchase market in more detail.

4.2 **Number of sales:** A key indicator for the health of Portsmouth's housing market is the number of transactions – sales negotiated and agreed and subsequently recorded by the Land Registry as part of the legal process. Data from that source demonstrates that over many years Portsmouth usually has a very active residential property market, in part because the city is popular with first time buyers. As a result annual sales average around 5,000.

This ceased in 2008 when total sales fell to 2,468 – only half the former average. Based on known sales for the first two quarters of 2009 it is likely that sales could drop further to about 1,500 by the end of the year - only one third of the expected norm. See chart 1 in the appendix. However changes in the market in the early part of 2009 show a rising trend of completed sales month on month. See chart 2. Whether this will continue for the rest of the year cannot be forecast with meaningful accuracy, given the shortage of loan finance (discussed below in paragraph 4.4).

4.3 **House price trends:** price reductions *nationally* for sold properties in the year to July 2009 are between 6 and 14 percent depending on the data source. For Portsmouth, the Land Registry reports a 14 percent drop in the year to July, less than the 20 percent recorded in April, the low point for the last few months. See chart 3. The effect on prices, and the difference between dwelling types, is illustrated in Table 1 on the following page, which compares sold prices registered in July 2008 and July 2009.

Table 1: CHANGES IN AVERAGE PRICES IN PORTSMOUTH, BY DWELLING TYPE

SALE REGISTERED	OVERALL AVERAGE	DETACHED	SEMI-DETACHED	TERRACE	FLAT
July 2008	£159,314	£353,062	£211,606	£160,494	£127,524
July 2009	£136,316	£302,094	£181,059	£137,326	£109,115
Percent change	-14%	-14%	-14%	-14%	-14%

Source: Land Registry, House Price Index

Further evidence of movement in the housing market is that for the first time in months the price of sold properties is beginning to rise. The Land Registry reports that in July 2009 completion prices were, on average, 1.2 percent higher than in June; whether this is the start of a permanent trend will not be understood more completely until later in the year.

4.4 The mortgage market: Commentators and property practitioners are agreed that access to increased mortgage finance is the key to kick-starting the housing market. The Bank of England's *Trends in Lending* published July 2009 confirms that the volume of loan approvals remains low compared to two years ago, although has been increasing each month since the spring: see chart 4. This message is reinforced by a Council of Mortgage Lenders press release published 20 August 2009. Mortgage advances for completed purchases in July were 26 percent higher than June, as it is usual for lending to increase during the summer months. Nevertheless lending each month during 2009 continues to be low compared to the monthly sums in 2007 and 2008: see chart 5.

The difficulty however is not so much the volume of lending but that lenders have ceased advancing 95 percent mortgages, that is, advances with high 'loan to value' ratios. The Council of Mortgage Lenders reports in a press release dated 11 August 2009 that loans for first time buyers now average 75 percent of a property's value, thus requiring 25 percent deposits. This aspect of lending is one of the main reasons for the slow recovery of the British property market, rather than the cost of borrowing, or the price of property. House prices in Portsmouth are among the lowest in the South East, and the city is popular with first time purchasers. However the current reduction in asking prices and low interest rates for loans will not in themselves be sufficient if deposits of 25 percent continue to be required.

4.5 Court actions by mortgage lenders: housing market crashes, especially when linked to a recession in the wider economy, usually result in increased mortgage arrears, legal actions, court orders for possession and – relatively rare - repossession of the family home. This was the case in the early nineties when repossessions peaked at 75,000 in the UK, equivalent to nearly one percent of all residential mortgages.

However the Government's recent package of housing measures included new procedures to assist homeowners with severe payments and arrears problems. In this context monitoring local court action trends is essential. Fortunately the task is easier because new data published by the Ministry of Justice became available at local authority level from mid August 2009 (formerly, such information was only presented by County Court area).

This new information enables the city council to review court order trends (but not repossessions) for Portsmouth over several years: see chart 6. It will be observed that the

number of court orders for possession in Portsmouth began to rise five years ago and peaked at nearly 500 during 2008. The estimated total for 2009 is likely to be lower owing to a new protocol¹ implemented by mortgage lenders. In consequence a significant rise in repossessions (and potential homelessness) among Portsmouth households is unlikely in the immediate future. Data published by Communities & Local Government shows similar trends operating nationally – the number of home repossessions across the UK is now rising at a much slower rate than previously: see chart 7.

5. AFFORDABLE HOUSING IN PORTSMOUTH

5.1 Overview: the city’s affordable housing sector continues to be very active with growing demand, especially for social renting, and a successful programme of new development.

5.2 Demand for affordable housing: the Portsmouth Housing Register totalled 3,246 registered requests (including transfers) for accommodation as at 1 September. This compares to over 10,000 three years ago, the reduction being due to new criteria and procedures for managing the Register. Nevertheless, demand for affordable housing, especially rented, continues to be strong with new registrations up by a third when compared to last year. In 2008 new registrations averaged 153 per month; by September 2009 this monthly average had risen to 197. Homelessness has also witnessed an increase because formal acceptances (that is, requests accepted by the city council within the definitions of the legislation) were up by a fifth: the monthly average was 24 in 2008 and 29 in 2009, as at July.

5.3 The provision of affordable housing: supply relies mainly on the re-allocation of existing accommodation let by the city council and housing associations; and the development of new housing either by construction or conversion. Records of lettings arranged by the city council’s housing options team reflects both these sources and the table below illustrates the amount of lettings for the first seven months of 2009.

Table 2: LETTINGS ARRANGED THROUGH THE PORTSMOUTH HOUSING REGISTER

DWELLINGS OWNED BY	1 BED	2 BED	3 BED	4+BED	TOTAL	PERCENT
Portsmouth City Council	306	216	107	10	639	69%
Housing associations (RSLs)	109	144	29	5	287	31%
	415	360	136	15	926	100%
	45%	39%	15%	2%	100%	

Source: Portsmouth City Council Housing Options, for period January to July 2009

Most lettings (over 80 percent) are for one and two bedroom properties, due to the smaller size of housing available, rather than the type of demand – ideally a higher proportion of households on the Housing Register want and need larger homes with three or more bedrooms. Expectations for the development programme is that over 300 affordable homes should be achievable by the end of March 2010: about eight out of ten will be one and two bedroom homes and one fifth family housing with three or four bedrooms. In the medium and longer term the aim is to increase the number of larger properties developed for rent as this will free-up many smaller homes that are currently over-crowded. A third

¹The Mortgage Arrears Pre-Action Protocol introduced November 2008 and, according to the Ministry of Justice press release of 14 August 2009 sets ‘clear guidance on the steps lenders are expected to take before going to court and makes clear that applying for repossession must always be the last resort’.

source of housing, although not 'affordable' in the sense of social housing, is managed through the city council's *Access Scheme*: those willing to rent from private landlords are given advice and financial assistance where required. To date over 450 households have commenced tenancies since this scheme started in November 2008. The fourth source is *HomesinHants*, a marketing scheme aimed at people who want to buy a cheaper home through the *Homebuy* programme. As of August 2009 nearly 700 Portsmouth applicants are currently registered with HomesinHants.

6. THE PRIVATE RENTAL MARKET IN PORTSMOUTH

The PPA comments:

Demand for rented accommodation remains strong especially from the growing student population in the south of the city. First time buyers unable to secure mortgage funds are also relying on the rented market and as a result, rents are holding up well.

Information from the Valuation Office (who now manage what was formerly known as the Rent Service) confirms that private rents in the greater Portsmouth area have remained stable rather than dropping during the recession. Average weekly rents for July were

- One bedroom property £115
- Two bedrooms £144
- Three bedrooms £173
- Four bedrooms £230
- Five bedrooms £300

7 DEVELOPING NEW HOUSING IN PORTSMOUTH

The city council, as part of its planning remit, monitors current and future development in Portsmouth through a process known as a Strategic Housing Land Availability Assessment or SHLAA. The present review has reached a provisional conclusion that almost 900 (net) new homes are due for completion by March 2010 with a further 700 for each of the following two years. These estimates include market housing for sale, social housing for rent and assisted purchase options such as shared ownership part-buy/part-rent.

8. CITY SOLICITOR'S 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.

9 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) Land Registry, House Price Index
- 2) Halifax Building Society HPI
- 3) Nationwide Building Society HPI
- 4) Communities and Local Government housing market statistics
- 5) Council of Mortgage Lenders press releases August 2009
- 6) HM Revenue & Customs – monthly property transactions in the UK
- 7) Bank of England monetary and financial statistics
- 8) Ministry of Justice, possession statistics
- 9) Valuation Agency, LHA Direct

12. SIGNING OFF THE REPORT

Signed.....

Alan Cufley – Head of Community Housing

Dated

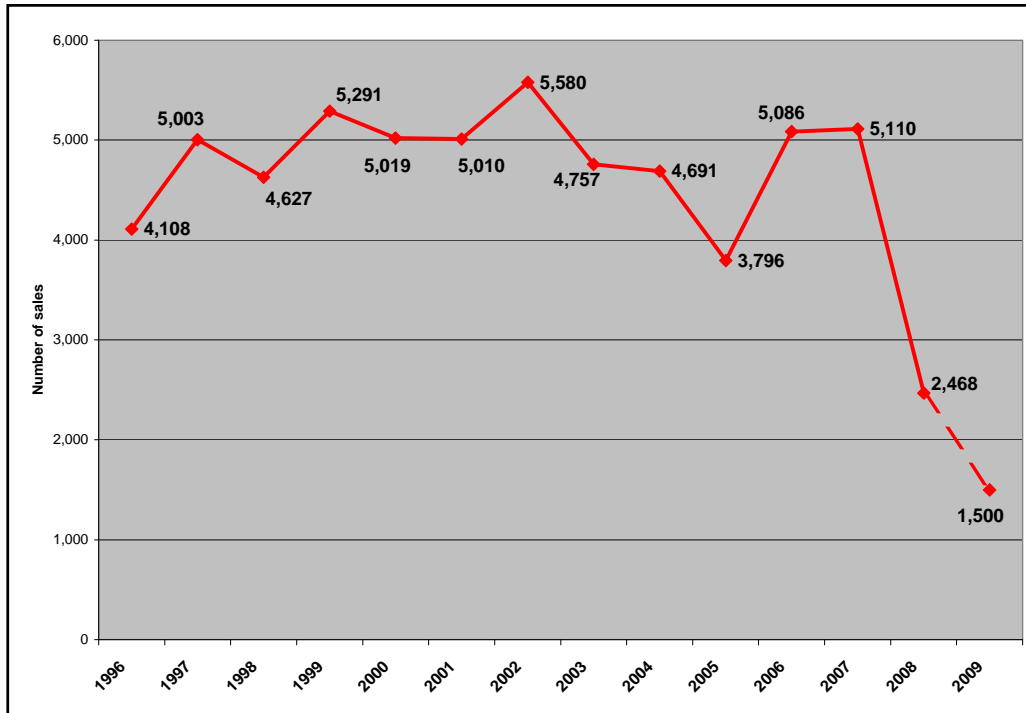
13. APPROVAL TO THE RECOMMENDATIONS

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

Signed.....

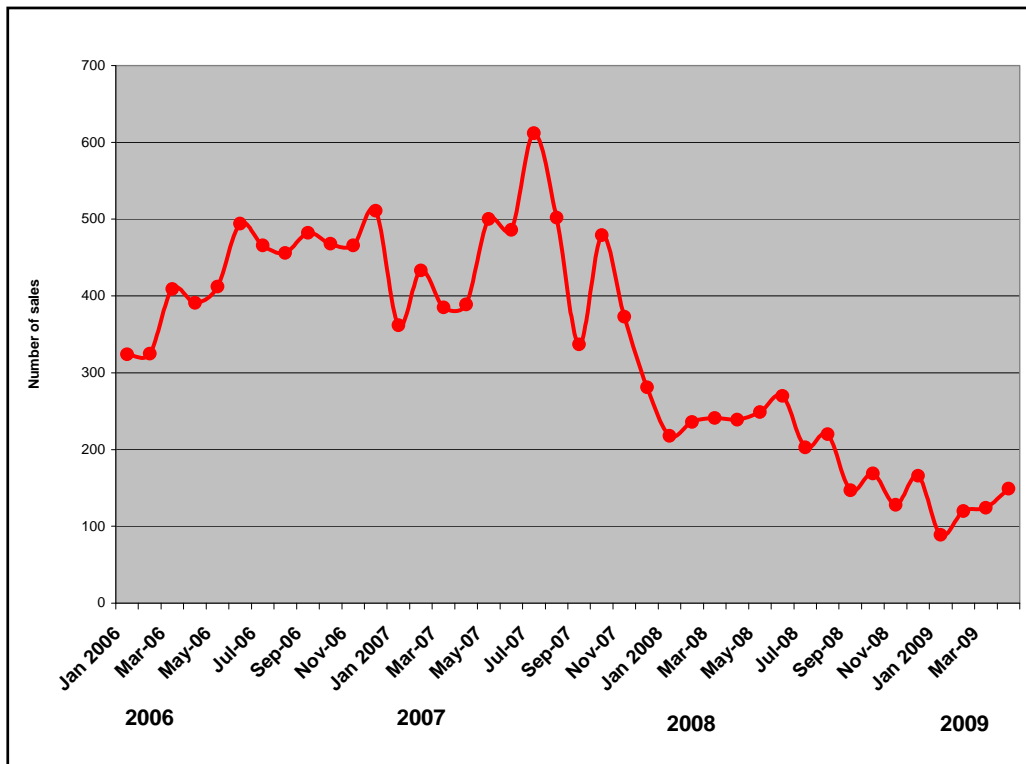
Councillor Steve Wylie, Cabinet Member – Housing

Chart 1: ANNUAL RESIDENTIAL SALES NUMBERS IN PORTSMOUTH
Estimates suggest 2009 may end with sales at a third the usual average



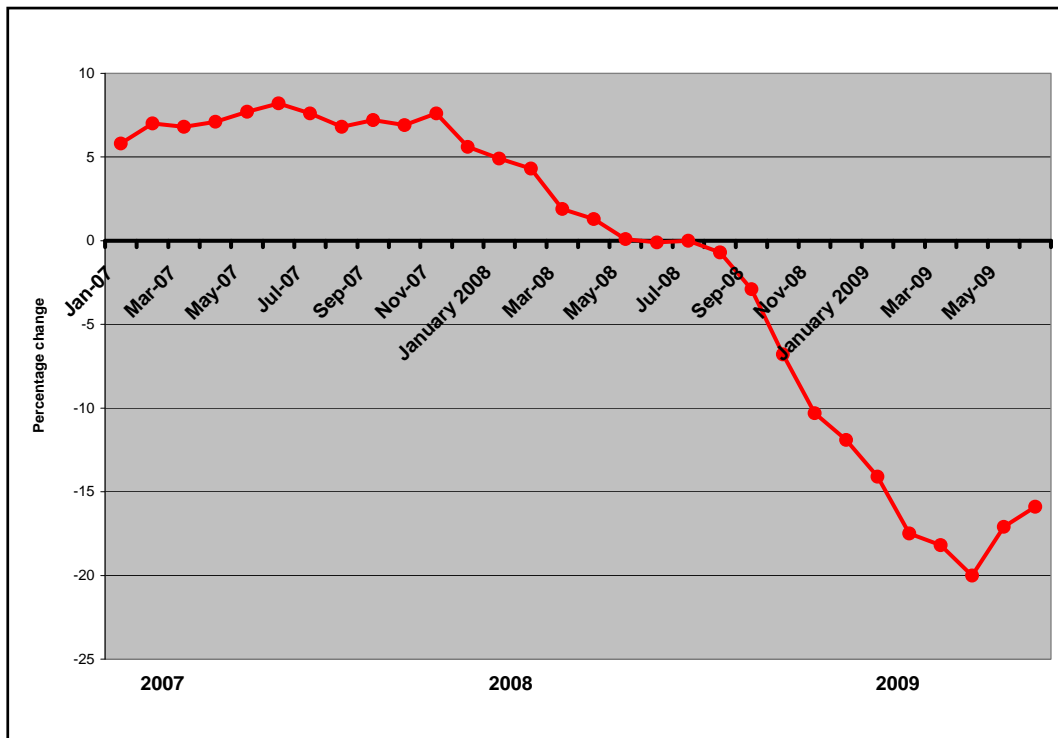
Source: Communities & Local Government, live housing market statistics, table 588.
 Estimates for 2009 by PCC Community Housing are derived from Land Registry data for January to April.

Chart 2: MONTHLY RESIDENTIAL SALES NUMBERS IN PORTSMOUTH
Land Registry data for early 2009 hints at rising sales for the rest of the year



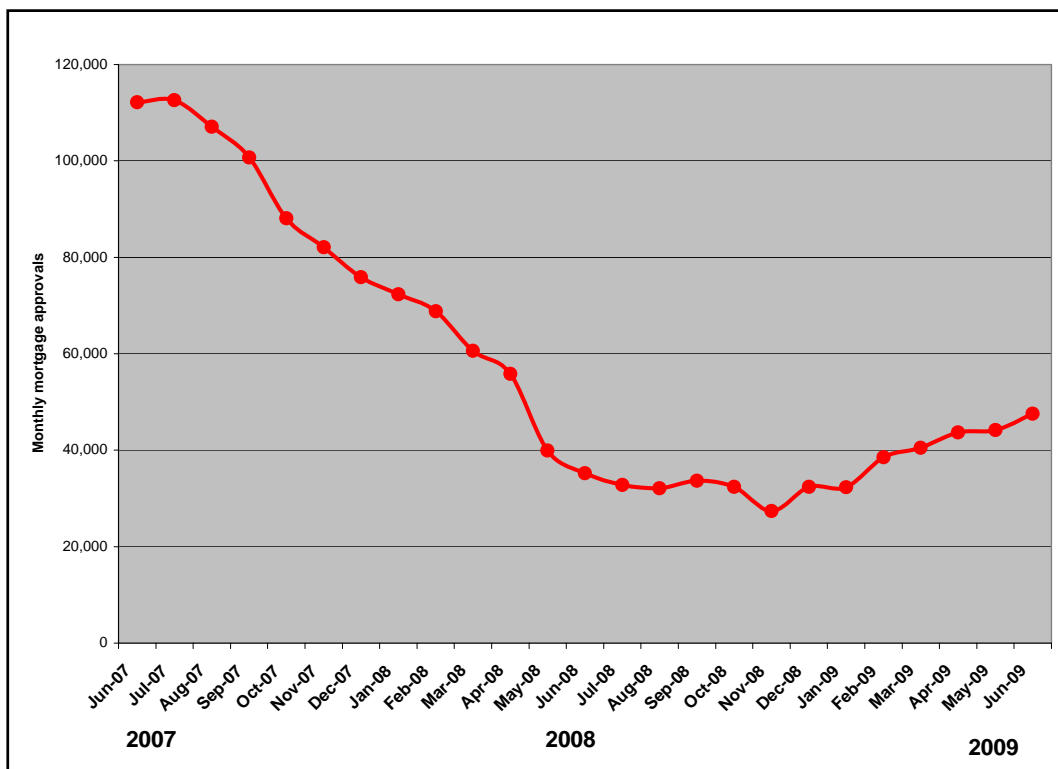
Source: The Land Registry, House Price Index, July 2009

Chart 3: PORTSMOUTH'S HOUSING PRICE CHANGES (PERCENT), BY MONTH
 The continuing fall in sale prices throughout 2008 appears to be reversed in 2009



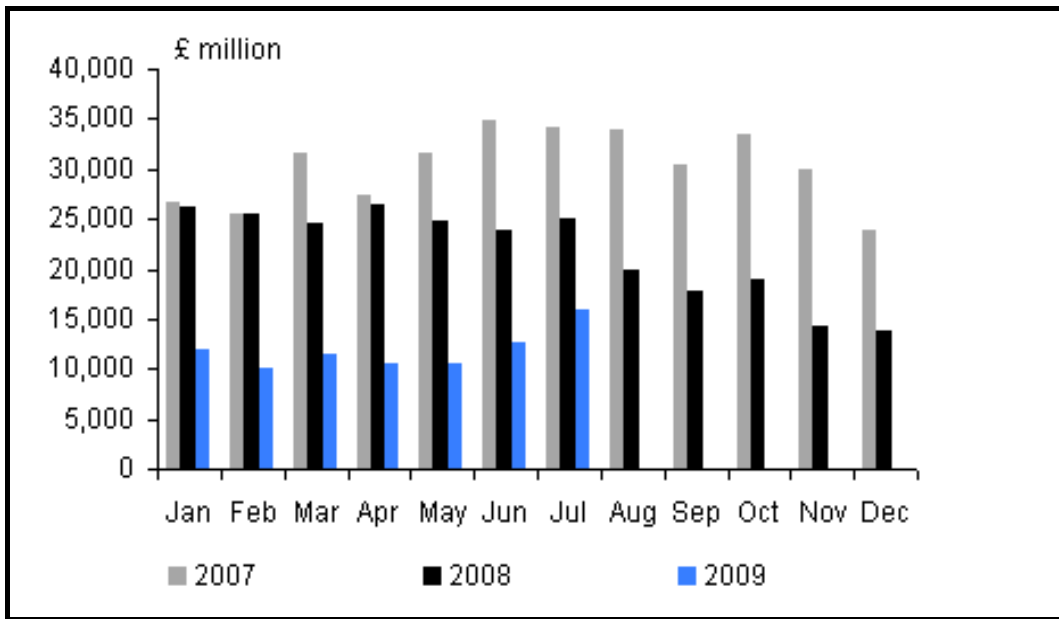
Source: The Land Registry, House Price Index, July 2009; values record percent change with previous year

Chart 4: TRENDS IN UK MORTGAGE APPROVALS, NUMBER BY MONTH & YEAR
 Loan approvals are rising in 2009, but still under half the level of two years ago



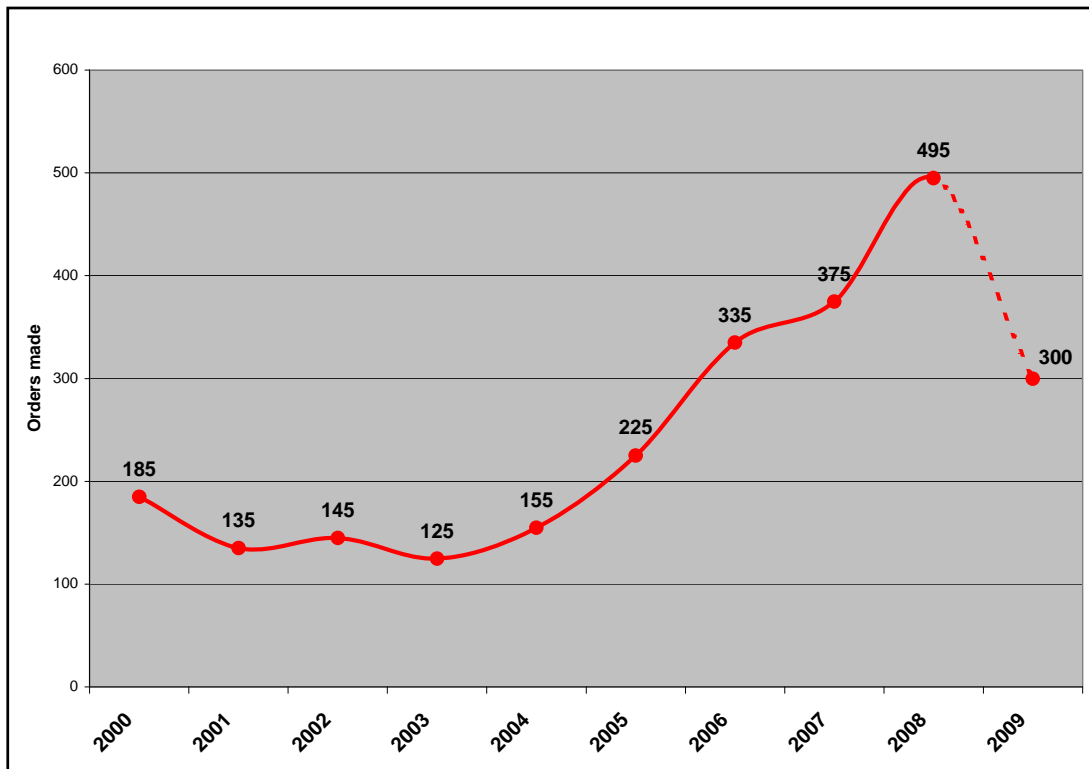
Source: Bank of England Monetary & Financial Statistics (Bankstats), July 2009; Table A5.4 Monthly Lending on Dwellings

Chart 5: TRENDS IN UK MORTGAGE COMPLETIONS, £ MILLION BY MONTH & YEAR
 Loans for purchases completed during 2009 are low compared to 2007 & 2008



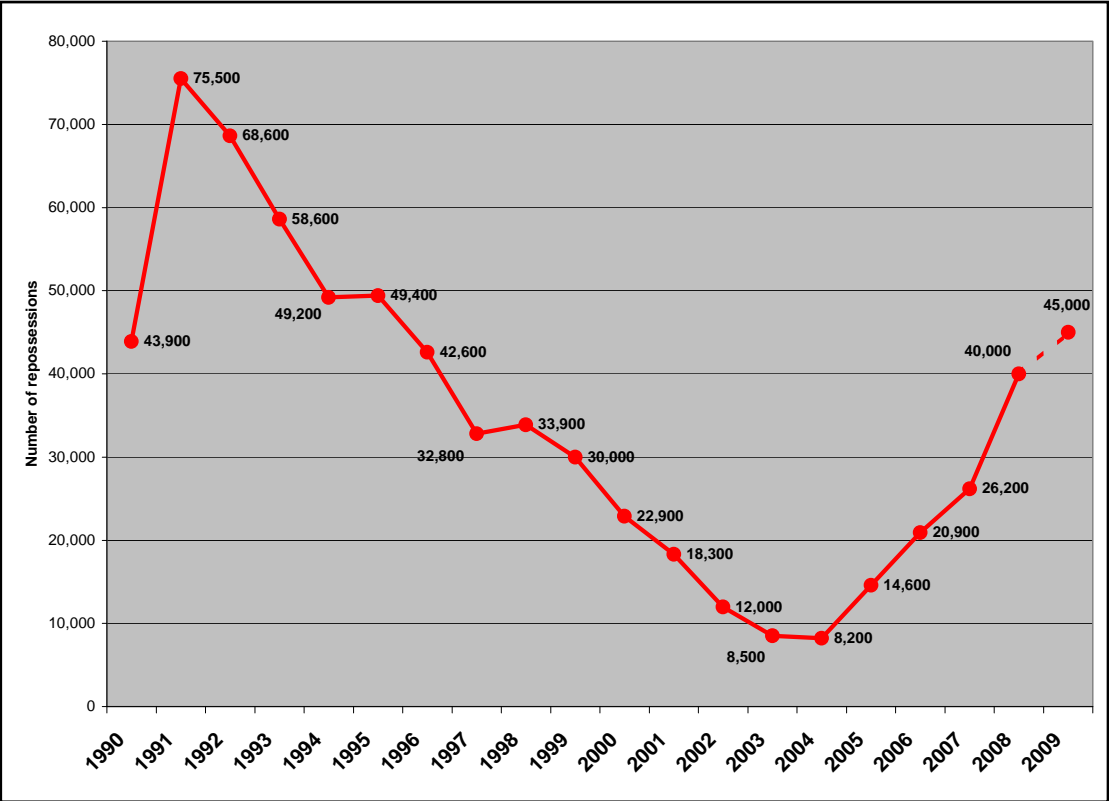
Source: Council of Mortgage Lenders press release 20 August 2009

Chart 6: MORTGAGE POSSESSION ORDER TRENDS IN PORTSMOUTH
 The 2009 estimate suggests falling court orders due to the arrears protocol



Source: Ministry of Justice, possession statistics by local authority, August 2009. The estimate for 2009 is by PCC Community Housing using MoJ data for the first three months.

Chart 7: UK HOME REPOSSESSIONS, WITH AN ESTIMATE FOR 2009
The rise in mortgage repossessions may be slowing due to the Mortgage Arrears Pre-Action Protocol introduced November 2008



Source: Communities and Local Government, repossession live statistics, table 1300, May 2009. Estimate for 2009 by PCC Community Housing using Council of Mortgage Lenders data for first Two quarters of the year.