

Agenda item: 

**Decision maker:** Cabinet Member for Housing

**Subject:** Update on Portsmouth's housing market

**Date of decision** 16 March 2010

**Report by:** Head of Community Housing & Regeneration

**Wards affected:** All

**Key decision (over £250k):** No

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- 1. PURPOSE OF REPORT:** the purpose of this report is to present the latest available information on the state of Portsmouth and south Hampshire housing markets as at the fourth quarter of 2009. It reviews not only residential purchase prices and the volume of transactions, but also demand for affordable housing (renting and purchase), the private rental market, and completions of new housing (affordable and market). Most data refers specifically to Portsmouth but some (mortgage lending for example) is national and others is either regional or sub regional. The opportunity is also taken to report on the outcomes of Government initiatives to stimulate housing markets that were launched over a year ago.
- 2. RECOMMENDATIONS:**  
It is recommended that the Cabinet Member for Housing:
  - 1) Notes the current situation with the housing market in Portsmouth
  - 2) Notes current progress with various initiatives to stimulate housing markets
- 3. REASONS FOR RECOMMENDATIONS**  
This report is intended as an information briefing to provide an informed context for developing strategies and delivering services.
- 4. BACKGROUND**  
Government guidance advises local authorities with strategic housing responsibilities to understand the characteristics of housing markets in their area with the purpose of creating informed and up-to-date evidence for policy development across a range of topics, especially economic. The regular preparation and presentation of this report is part of that remit. But it is also part of a continuing process that seeks to be better informed about housing across the sub region by commissioning *housing market assessments* for south Hampshire, most recently achieved through the PUSH consortium in 2005 and 2006 – and subsequently updated by annual housing monitoring reports in 2008 and 2009.

## 5. HOUSING MARKET UPDATE

### 5.1 HEADLINE TRENDS

- 1) **The national market:** the Communities and Local Government monthly bulletin published 16 February reports UK house prices as 2.9 % higher in December 2009 than December 2008. Several other sources also comment upon modest increases in residential prices and sales - but all indicators remain well below those of 2007. There is no consensus on prospects for 2010: forecasts vary from price falls of 10% to 15% to a modest 4% rise. The Nationwide's view that the housing market is 'unpredictable' would seem to speak for the majority.
- 2) **South Hampshire:** the 2009 annual housing market report commissioned by PUSH was completed just before Christmas. The executive summary is reproduced in [appendix 1](#). A copy of the full report is available at the PUSH website on [www.PUSH.gov.uk](http://www.PUSH.gov.uk)
- 3) **Portsmouth:** key indicators are highlighted below with additional detail in the rest of the report:
  - **Residential property sales in Portsmouth have risen for most months since the low point in January 2009**, according to the Land Registry; but they continue to be only half the number of transactions recorded during summer 2007. Total sales for 2009 are estimated at 2,200 (confirmed data due in the spring), compared to the 5,000 usual annual average for the city.
  - **The average sale price in Portsmouth was £142,000 in December 2009.** This represents a steady increase from April 2009 when £128,000 was recorded by the Land Registry; but is still well below the £163,000 peak recorded for February 2008.
  - **The affordability of home purchase is easier** according to reports the Communities & Local Government whose data shows that price-to-income ratios for Portsmouth were lower in 2009 than in 2008 –but are still high compared to a decade ago.
  - **Mortgage related Court orders in Portsmouth fell during 2009** according to the Ministry of Justice, as the new Lenders Protocol takes effect.
  - **Demand for social renting continues to rise**, according to the city council's Housing Register data, with the monthly average of approved applications up 51% during 2009 compared to 2008.
  - **Demand from people threatened with homelessness has also risen** – the monthly average for accepted applications rose 29% during 2009.
  - **New affordable housing completions should exceed 300** by the end of the 2009-10 financial year, according to records maintained by the Community Housing & Regeneration Service.
  - **Market (private) rents have remained stable** in the greater Portsmouth area reports the Valuation Agency.

### 5.2 THE HOME OWNERSHIP MARKET

- 1) **Overview:** The Portsmouth Property Association comments that '*The housing market recovery has been sustained into 2010. Buyer confidence has returned and prices for the better quality houses have risen due to a shortage of stock. Scarcity remains a problem with agents reporting a shortage of terraced, semi-detached and*

*detached houses. Buyers are reluctant to put their own property on the market until they find a house to buy and this is adding to the problem. Even poorer quality flats and cheaper value properties that attracted little interest pre-Christmas are now starting to sell. This indicates the recovery is across all price ranges.'*

- 2) **Number of sales:** the number of sales transactions recorded by the Land Registry is an important indicator of the health of the city's housing market. Long term records show that Portsmouth traditionally has a high volume of sales (usually averaging 5,000 annually) due mainly to the city's property prices being attractive to first time buyers. That at the present time market is greatly reduced and in consequence the latest estimates for 2009 suggest about 2,200 sales, half the usual volume, which is slightly better than anticipated last autumn: see appendix 2, chart 1.
- 3) **House price trends:** previous briefings in this series have reported Land Registry data that showed substantial percentage falls in Portsmouth's average house prices: at one point (April 2009) the average sale price was 20 percent less than 12 months earlier. Since then sale prices recorded by the Land Registry have risen month on month. By December 2009 the average sale price was only one percent less than December 2008: see table below. Comparisons are also shown between the peaks and troughs of Portsmouth's registered sale prices.

Table 1: CHANGES IN PORTSMOUTH'S SALE PRICES, BY DWELLING TYPE

12 MONTH CHANGE	OVERALL AVERAGE	DETACHED	SEMI-DETACHED	TERRACE	FLAT
December 2008	£142,916	£316,045	£189,420	£143,667	£114,153
December 2009	£142,063	£314,158	£188,289	£142,809	£113,472
Percent change	-1%	-1%	-1%	-1%	-1%
<b>HIGHS &amp; LOWS</b>					
High - Feb 2008	£163,031	£360,527	£216,080	£163,888	£130,220
Low - April 2009	£128,391	£283,926	£170,170	£129,066	£102,552

Source: Land Registry, House Price Index published January 2010.

- 4) **The mortgage market:** Mortgage lending across the country has been rising each month for the last year according to the Bank of England. However, loan approvals are only half the number three years ago: see Appendix 2, chart 2. This continuing slow market in mortgage business is emphasised by a Council of Mortgage Lenders (CML) press release of 18 February that confirms January 2010 as having the lowest value of advances for a decade. National information of this kind underscores why the volume of sales in Portsmouth has yet to reach levels common before the property slump. At the same time lenders are requiring much higher deposits than previously. Other press releases from the CML (August 2009 and January 2010) report that deposits from first time buyers required by lenders continue to average around 25 percent.

The Portsmouth Property Association comment:

*'Enquiries from first time buyers have increased since mid January and most have a minimum of 10% deposit. Lenders have mortgage products available but as funds are limited. Many are now committing to mortgages where they have access to a deposit and a suitable product is available. The shortage of affordable products is reducing choice and take up levels. There is an appetite for lenders to return to the first time buyer market but they are still very cautious and affordability criteria is key to approving loans. Funds for Buy-To-Let investors remain tight and a minimum 25% deposit is needed. Approvals are based on rental levels to service the loan but Banks place lots of obstacles in the way.'*

- 5) **Court actions by mortgage lenders:** the number of homeowners living in Portsmouth who are subject to court possession action has greatly reduced during 2009, a positive outcome of the new Lenders Protocol which seeks to minimise the prospect of eviction. Appendix 2, chart 3 illustrates how sharp this drop has been. Whether this trend is permanent is debatable, but one cause for concern is the national rise in home repossession as illustrated in Appendix 2 chart 4.

### 5.3 AFFORDABLE HOUSING – DEMAND AND SUPPLY

- 1) **Overview:** Portsmouth's affordable housing, with homes provided by housing associations and the city council, continues to be an essential component of the city's housing market, with strong (and rising) demand and consistent new supply despite the economic and property recession. This rise in demand is expressed most particularly for larger dwellings with three and four bedrooms, by growing families whose present accommodation is too small for their needs. A substantial increase in the supply of family sized dwellings would result in many transfer moves thereby freeing-up sufficient two bedroom homes to meet demand.
- 2) **Demand for affordable housing:** the Portsmouth Housing Register totalled 2,800 accepted registrations at the end of January 2010, of which one third were existing tenants seeking a transfer and two thirds were new applicants. This figure shows a reduction in the total recorded four years ago and is a result of changes to Portsmouth's allocations scheme, which now registers only those applicants with a housing need. Nevertheless demand for affordable rented housing remains strong – as evidenced by new registrations during 2009: the monthly average of 231 is 50 percent higher than in 2008.

Households who apply to the city council for information about assisted home purchase are referred to HomesinHants, operated by the Radian Housing Group, for promoting and marketing schemes such as shared ownership. The market for assisted home purchase is expanding: almost 800 Portsmouth applicants are registered with HomesinHants. Of these, nearly three quarters have household incomes ranging from £15,000 to £35,000 which makes them ideal candidates for shared ownership and similar methods of assisted purchase.

- 3) **The provision of affordable housing:** there are four main sources of supply for affordable housing in Portsmouth: re-letting existing properties that become vacant; letting newly developed homes, mainly by housing associations; tenancies via the city council's *Access Scheme* for properties owned by private landlords; and

*Homebuy* assisted purchase managed by *HomesinHants* but also, for a temporary period, by commercial developers such as Persimmon and Barratt.

The table below summarises the 1,635 lettings during 2009 of homes owned by the city council and housing associations; of these, 1,412 were 're-lets' while 223 were new homes from the development programme let for the first time; two thirds were let by the city council and one third by housing associations. Taken together this supply is an essential element of Portsmouth's housing market.

Table 2: NEW SOCIAL TENANCIES ARRANGED DURING 2009

DWELLINGS OWNED BY	1 BED	2 BED	3 BED	4+ BEDS	TOTAL	PERCENT
Pmouth CC	533	283	196	16	1,128	69%
Hsg Associations	181	259	45	22	507	31%
Total	<b>714</b>	<b>542</b>	<b>241</b>	<b>38</b>	<b>1,635</b>	<b>100%</b>
Percent	44%	33%	15%	2%	100%	

Source: Portsmouth City Council Housing Options for period January to December 2009.

The continuing – and expanding - supply of affordable housing depends on the development pipeline and current expectations are for just over 300 new homes by the end of the 2009-10 financial year. The forecast outcome is for just over half for social renting and the rest for low cost home purchase: this proportion of home ownership is higher than usual owing to the Government's *Homebuy Direct* programme (explained below in the section on market interventions). The *Access Scheme* began in November 2008 and by February 2010 580 tenancies had been arranged for households willing to rent from private landlords, often backed up by a city council deposit guarantee.

Homes developed for purchase with marketing by *HomesinHants* are estimated to total 124 for the year ending March 2010. This accommodation is a mix of new-build dwellings developed by housing associations (mostly with two bedrooms) built for sale with shared ownership leases; and properties purchased from commercial developers or individual owners, a higher proportion of which have three bedrooms. The table below shows the variety of purchase options.

Table 3: *HOMEBUY* HOME PURCHASE PROGRAMMES FOR 2009-10

NUMBER OF BEDROOMS	SHARED OWNERSHIP RSL new-build - Leasehold purchase		EQUITY LOAN Open market freehold & leasehold purchase		TOTAL	
	N <sup>o</sup>	%	N <sup>o</sup>	%	N <sup>o</sup>	%
ONE	7	14%	11	15%	<b>18</b>	<b>15%</b>
TWO	43	86%	44	59%	<b>87</b>	<b>70%</b>
THREE OR MORE	0	0%	19	26%	<b>19</b>	<b>15%</b>
TOTAL	50	100%	74	100%	<b>124</b>	<b>100%</b>

Source: PCC Community Housing & Regeneration as at third quarter 2009-10.

## 5.4 THE PRIVATE RENTAL MARKET

Rental information collected and produced by the Valuation Office confirms that market (private) rents in Portsmouth and district have remained stable for the last two years; they have not been subject to the price fluctuations so evident in the home purchase market. The Valuation Office operates a continuous survey of several thousand properties which is updated monthly with the mid-point (median) rents published on their website. The mid-point rents (that is, rents that are mid-way between the highest and the lowest) for January 2010 are as follows:

Table 3: MID-POINT MARKET RENTS FOR PORTSMOUTH & DISTRICT

PROPERTIES WITH	PER WEEK	PER MONTH
1 bedroom	£115	£500
2 bedrooms	£144	£625
3 bedrooms	£173	£750
4 bedrooms	£236	£1,023
5 bedrooms	£315	£1,363

Source: Valuation Office, January 2010

The Portsmouth Property Association has commented about the city's private rental market in the following terms: *'The private rented market remains strong with demand out-stripping supply. Many tenants have a desire to purchase but are trapped having little option but to continue renting because they cannot afford to purchase. This is keeping the rented market buoyant and rents are holding up well. Property remains a good medium to long term investment and those investors that can secure credit are returning to the market to cash-in on high rents and a good return on capital particularly from student lets.'*

## 6. HOUSING DEVELOPMENT AND THE HOUSING MARKET

The city council monitors housing development as part of its planning functions and the outcome of this process is published in an Annual Monitoring Report, most recently published November 2009 for the financial year 2008-09. This document reports that 1,309 dwellings of all tenures were completed during the year, almost 80 percent above the annual target in the South East Plan. Approximately 60 percent of the total was market housing built for sale, with the balance being affordable housing, the best result for years. Housing in development during 2009-10 is a very different situation owing to the economic recession and reduction in the supply of mortgages. However development of new affordable homes - mentioned briefly in previous paragraphs – is on track with no significant delays. The output for market schemes is more problematic, because some sites have slowed and even temporarily ceased construction; hence an estimate of output figures for the current and next financial year is not feasible or meaningful.

**7. HOUSING MARKET INTERVENTIONS - PROGRESS**

The Government’s package of measures – or interventions – were introduced over a year ago in attempt to stimulate the housing market and the construction industry as well as providing assistance for householders in financial difficulties. The effect of these interventions in the months since then has been varied. Thus the HCA *Homebuy Direct* grants for commercial developers resulted in over 36 affordable homes for purchase on three sites in Portsmouth. But HCA investment in Portsmouth for the Kickstart scheme never materialised. Further outcomes are in Appendix 3.

**8. EQUALITY IMPACT ASSESSMENT (EIA):** not relevant in this instance.

**9. HEAD OF LEGAL SERVICES COMMENTS:** There are no legal implications arising from this report.

**10. HEAD OF FINANCE COMMENTS:** No immediate spending consequences arise from this report.

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Signed by: Alan Cufley  
Head of Community Housing & Regeneration

The recommendations set out above were approved/ approved as amended/ deferred/ rejected by the Cabinet Member for Housing on 16 March 2010.

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Signed by Councillor Steven Wylie

**Appendices:**

- Appendix 1: PUSH Annual Housing Monitoring Report 2009
- Appendix 2: Charts with trends in sales, mortgage approvals, and court actions
- Appendix 3: Housing market interventions – an update on progress

**Background list of documents: Section 100D of the Local Government Act 1972**

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

<b>Title of document</b>	<b>Location</b>
Land Registry House Price Index with Portsmouth data	Internet
Bank of England ‘Bankstats’	Internet
Ministry of Justice mortgage possession statistics	Internet
Portsmouth Housing Register applications statistics	PCC Civic Offices
Valuation Office Agency private housing rent data	Internet – LHA Direct
CLG House Price Index December 2009 (published Feb 2010)	Internet



## APPENDIX 1

# PUSH ANNUAL HOUSING MARKET MONITORING REPORT 2009

### Executive Summary

2009 has been a year of recession in the economy and volatility in the housing market:

- **House price falls in the sub-region since Q2 2008 (-13%) followed the same path as the region.**
- These falls have moderated house price growth over the decade to 2009 but are modest in the context of long term price rises.
- **Various indices show price rises in the last quarter (Q2 2009)** and these are starting to balance out the price falls at the end 2008/ early 2009.

But the volume of transactions in the PUSH sub-region reached their lowest point in Q1 2009. **Home sales in South Hampshire and the South East fell to less than one third of volumes in a 'normal' market.** It is far from certain that sales will ever recover to levels associated with the decade to mid 2007.

Lack of turnover in the owner occupied sector will have implications for the flexibility of the economy. The private rented market may have an increasingly important role in providing this flexibility.

**Rental prices have remained stable** or fallen slightly over the last year in the PUSH sub-region. The supply of rental properties has increased and placed a downward pressure on rents. Demand has also changed, partly driven by households coming out of the mortgage market.

Population estimates suggest that the sub-region grew by 1% in 2008. Growth continues to be driven by growth in older age groups, as people live longer. There is net in-migration to South Hampshire. Net in-migration in 2008 was from young people

(16-24 year olds), families with children under the age of 15 and older people. Household projections, revised in 2009, expect household growth of 23% in the sub-region by 2026. This represents an increase on previous projections. A less buoyant economy will moderate population and household growth in the short term. But it may take time for the impact of negative job growth to feed through to migration patterns.

**Unemployment has almost doubled in the sub-region since last year – around 20,000 people are now unemployed.** The unemployment rate is now marginally higher than in the South East, having been lower than the South East one year ago.

In theory, affordability improved marginally in the sub-region as a whole last year as a result of falls in house prices. But affordability in some districts continued to worsen. In practice **the requirement for a 10%+ deposit means that there is a new barrier to home ownership, with first time buyers needing to achieve a 25% deposit to access reasonable interest rates.** The downturn is unlikely to reduce need for affordable housing. **Headline numbers of households on waiting lists have increased over last year.**

**4,000 households are actively looking at intermediate affordable housing.** Interest has remained consistent over the last two years; though new products have been introduced to deal with lower take up of low cost home ownership properties.

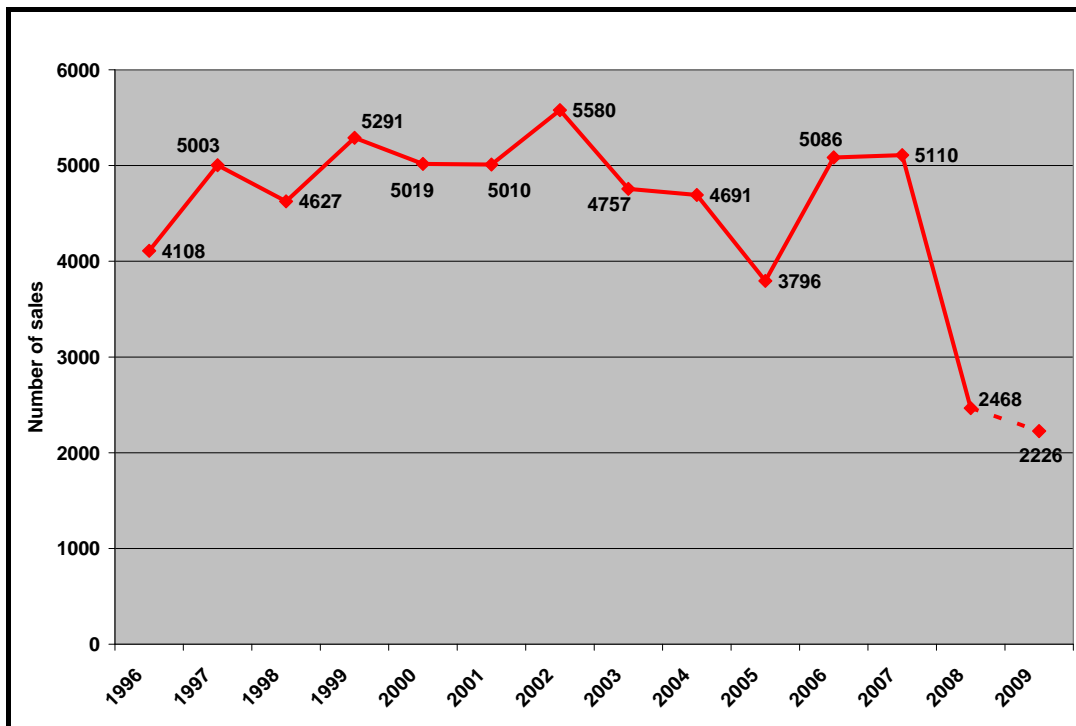
**3,990 new homes (net of demolitions) were completed in the sub-region in 2008/09,** despite challenging market conditions, meeting the annual target. **1,240 affordable dwellings (net) were completed in 2008/09, 31% of total completions - an increase of one third since 2007/08.** This is partly due to increased grant levels for affordable homes and the lag times involved in bringing forward development. But delivery continues to be dominated by flats and smaller homes.





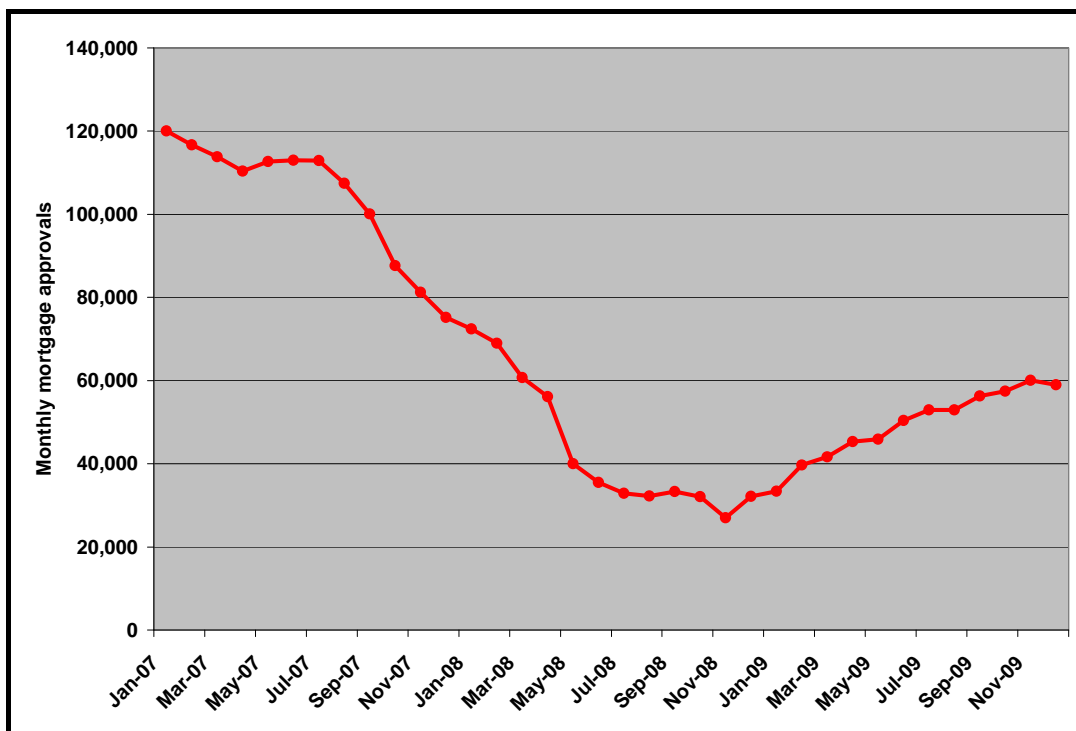
APPENDIX 2

**CHART 1: RESIDENTIAL SALES IN PORTSMOUTH WITH AN ESTIMATE FOR 2009**



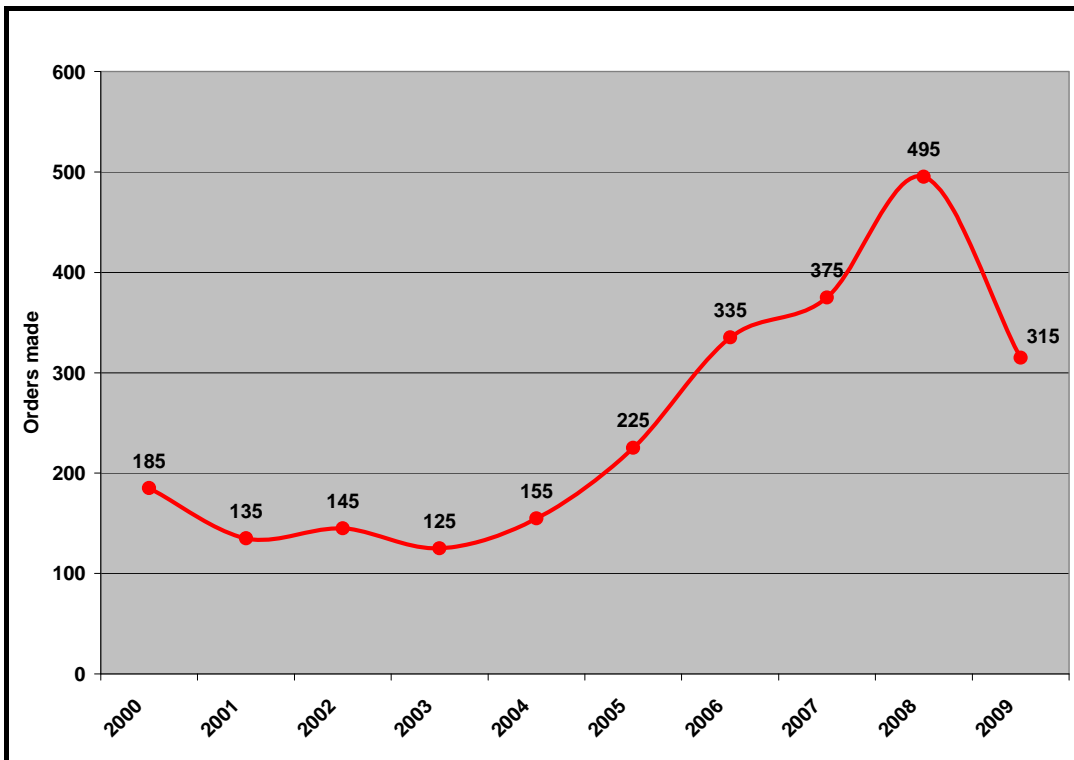
Source: Communities & Local Government and PCC.

**CHART 2: UK HOME PURCHASE MORTGAGE APPROVALS, TO DECEMBER 2009**



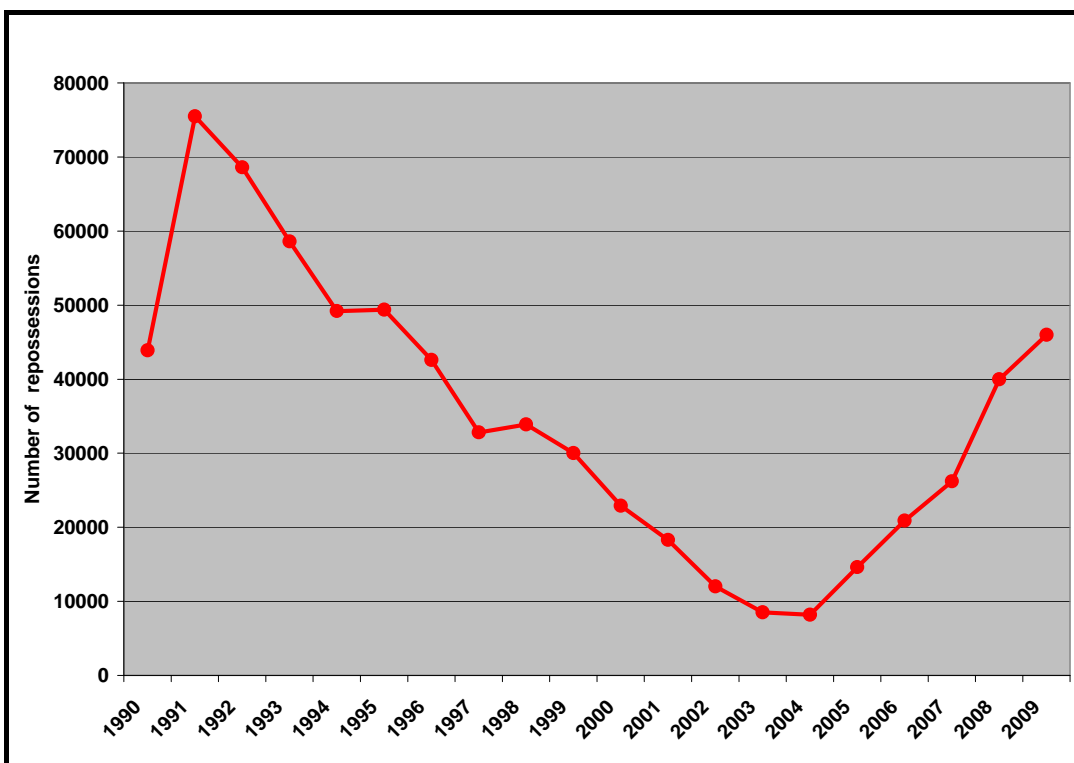
Source: Bank of England, January 2010.

**CHART 3: MORTGAGE POSSESSION ORDER TRENDS FOR PORTSMOUTH TO 2009**



Source: Ministry of Justice, February 2010.

**CHART 4: HOME REPOSSESSION TRENDS IN THE UK, WITH ESTIMATE FOR 2009**



Source: Communities and Local Government and Council of Mortgage Lenders

## **PORTSMOUTH HOUSING MARKET AND GOVERNMENT INTERVENTIONS**

### **1. Help for existing home owners**

- 1) Mortgage interest scheme: this helps mortgage payers in financial difficulties by paying the monthly interest payments. Until recently borrowers had to wait 20 weeks before being eligible to apply for assistance, a period when mortgage debt could escalate very greatly. The time threshold has now been reduced to 13 weeks. Information provided by the Department of Work and Pensions shows that despite the property market collapse and rising unemployment the number of claimants in south east Hampshire receiving mortgage interest (MI) relief has remained stable at around 1,700 to 1,900 over the last six years; while in Portsmouth numbers have stayed around 500 to 600 – although have risen to around 700 during 2009. Whether this is the start of a serious rise in MI claimants can only be understood later in 2010 when new information will be available.
  
- 2) Portsmouth County Court desk scheme: an advisory service that has been in operation for over a decade but since April 2008 has been managed by the Community Legal Advice Service (part of the You Trust) - joint funded by the Legal Services Commission and the City Council. CLAC have provided data on casework concerning mortgage possession cases. These records demonstrate a continuing monthly commitment of between 10 and 20 clients seen every month whose home may be threatened with repossession due to mortgage arrears. However there has been no sharp increase in clients seen which suggests that for the time being the new Lenders Protocol introduced by the Government is having an effect in containing the number of repossessions.
  
- 3) Mortgage Rescue Scheme: this initiative was launched by the Government in spring 2009 and is administered by HomesinHants in this area, with the local authority providing the appropriate referrals. Home owners in severe financial difficulties have the opportunity to sell either all or a part-share of their home to a housing association, and then continue in occupation as a tenant. Take-up has been slow and less than expected: HomesinHants have provided the following figures for Portsmouth to date:

• Cases Approved	3
• Transactions completed	3
• Pipeline cases	1

Communities and Local Government have been monitoring the scheme nationally, and their latest (provisional) information records that in England during 2009 there were over 15,000 enquiries made to local authorities about the scheme. By end of the third quarter (December) there were about 1,800 'live' cases being processed. But the cumulative total for the complete year showed only 276 transactions had reached an advanced stage, with offers accepted.

### **2. Help for first time buyers**

- 1) Stamp duty holiday: stamp duty was waived for residential properties sold for under £175,000 and this continued until the end of 2009. As at 14 February 2010 a press release by the Council of Mortgage Lenders (CML) reports a sharp increase across

Britain in the number of purchases by first-time buyers in the closing months of the year. The number of mortgage loans arranged with first time buyers in December (at almost 25,000) was the highest monthly total for two years. In the CML's view this is because buyers have wished to purchase before the stamp duty holiday ended. No data is available at a local (Portsmouth) level.

- 2) Homebuy Direct: the *HomeBuy Direct* scheme provides equity loans to help first-time buyers purchase selected new build properties from an HCA development partner. There have been 3 successful bids which affect Portsmouth. Persimmon have been successful in applying for grant to sell 28 homes at Dickens Quarter, St Marys Road and 14 homes at Compass Point, Matapan Road. Also Barratt have been allocated funding to sell 24 flats at Citigait, Portsea. The funding has been utilised to the extent that as at 19 February 2010 there are very few properties remaining to be sold.

In the Government's December 2009 pre-budget report an extra £150 million was announced for the Homebuy Direct scheme for next financial year - 2010/11. It was estimated that this sum will assist 3,000 additional households. A decision is awaited whether any of these funds will be invested in Portsmouth.

### 3. **New affordable housing and other capital projects**

- 1) Kickstart Housing scheme: The £400m Kickstart Housing Delivery programme was announced in the 2009 Budget - targeted at stalled sites, to support construction of high quality mixed tenure housing developments. Additional resources for Kickstart of £660 million were also announced in the CLG document *Building Britain's Future* on 29 June 2009. In Portsmouth the developers GalifordTry and Taylor Wimpey applied for funding from the homes and Communities Agency but neither were successful.
- 2) Local authority new-build: £100 million was announced as part of the spring 2009 Budget to fund local authority new-build housing. Further funding was subsequently announced as part of the *Building Britain's Future* package. Portsmouth City Council has been awarded £840,000 in grant to help the development of 12 homes at the former Watts Road Car Park and £1,640,000 to assist in the development of 29 homes at the Tipton House and Wellington Street car park sites in Somerstown.

### 4. **Other forms of assistance to the housing market**

- 1) Housing and Planning Delivery Grant: This Government grant is paid to local authorities for improved delivery of housing and other planning outcomes. The city council received a grant exceeding £100,000 for 2009-10 owing to the completion of significant projects, including a Strategic Housing Market Assessment and a 5 year Strategic Housing Land Supply Assessment.
- 2) Homelessness prevention: A £96,000 Government grant was received for 2009-10. Part of this sum has been used to finance advertising to promote the services offered by the city council's Housing Options team. Unspent sums will be carried forward to 2010-11.