

# Housing supply and demand

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## The failure of housing supply to keep up with rising demand has wide social and economic implications

It has been clear for some time that housing supply is not keeping up with demand. Reasons for rising demand include improved life expectancy rates and a growing number of one-person households. There are almost 1.8 million households on English local authority housing registers and significant levels of overcrowding in the private and social housing stock. Poor housing impacts directly on residents' health and educational attainment, while difficulties in accessing affordable housing can also limit the ability of people to move to find work. The need to increase the supply of housing and tackle affordability issues is a key housing policy issue. Yet despite the critical social and economic role that housing plays, it has tended not to have the same political profile as, say, health and education.

### HOW MUCH HOUSING?

In 2007 the Government set a target of increasing the supply of housing to 240,000 additional homes per year by 2016. Within this overall target was a commitment to deliver at least 70,000 affordable homes per year by 2010-11, of which 45,000 were to be new social rented homes. There was debate over whether this target would meet the demand for new housing and deal with the backlog of unmet housing need.

### THE CREDIT CRUNCH - IMPACT

In fact, the onset of the credit crunch in 2007 put the achievement of even these

targets under serious pressure. Despite rising demand, the collapse in mortgage advances meant that private builders reduced the supply of new housing. Put simply, house-builders will not build houses that they cannot sell.

Falling house prices in the recession have not solved the problem of affordability as they have been accompanied by tighter lending criteria, particularly larger deposit requirements. Indeed, the National Housing and Planning Advice Unit (a non-departmental public body) has said that the recession has increased the requirement for house building (e.g. to make up for the fall off in construction rates). It has advised that up to 290,500 additional homes may be needed in each year to 2031, although this requirement is not uniform across the regions.

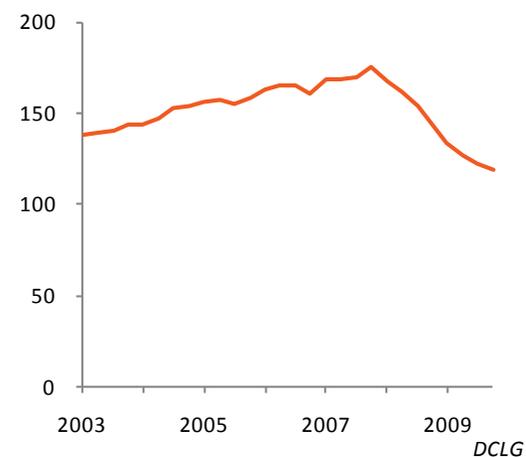
### PROSPECTS & ISSUES

Swift nationwide recovery in the housing market is unlikely while lenders remain cautious and house builders face difficulties in accessing commercial finance

Both the Labour and Conservative manifestos expressed a commitment to the extension of home-ownership. However, the Labour manifesto did not include any figures on the numbers of new homes that might be delivered beyond 2011. The Conservatives would seek to abolish regional housing targets and devolve decision making over the number of houses built to local authorities.

### Housebuilding has fallen sharply

Housing completions, England, 000s, four - quarter rolling total



In both cases this leaves the central question of whether the future supply of housing will actually meet demand (and outstanding unmet need) unresolved. The Liberal Democrats make no explicit investment promise around housing supply but have made reference to additional subsidy to allow an increase in the supply of new sustainable homes; there is also a commitment to bring 250,000 empty properties back into use.

Housing experts question whether it is appropriate to continue to focus housing policy on increasing levels of home-ownership when social and economic benefits could be gained from a more balanced approach to housing tenure. How far can sustainable home-ownership be increased while demand continues to exceed supply?

### CAN SOCIAL HOUSING FILL THE GAP?

In the face of the downturn the supply of new social housing has been supported through direct Government intervention in the form of accelerated and increased funding. There are questions around how the provision of new social housing can be sustained in the light of future cuts in public expenditure, while the final outcome of the Government review of council housing finance will be crucial in determining future investment in council housing stock.

Pressure is continuing within the housing industry to amend borrowing rules so that, in line with the rest of the EU, investment by public corporations is no longer counted as part of the public sector debt, thus removing a constraint on investment in council housing and creating more of a level playing field between the providers of social housing. Of the three main Parties, only the Liberal Democrats included a manifesto commitment to investigate this option.

There is general consensus over the need to increase the supply of housing but it is unclear whether or when the market will recover sufficiently to meet this need. The market downturn could result in a reshaping of tenure in the UK, with more focus on renting as a sustainable alternative to ownership in the longer term. Clearly, if the social housing sector is to meet the need for more housing, additional investment will be required.