

The Use of the Existing Housing Stock in the South East

Executive Summary

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Introduction

1. Much of the focus in housing policy has always been upon the quantity, tenure and location of new provision yet around 80% of households in 2026 will be living in already existing stock. It is the future condition and resource efficiency of the current stock which will largely determine the housing conditions of households living in 2026.

2. There are many forces determining the ways in which the existing stock is used. Drivers underlying possible changes to the use of the existing housing stock include changing demographics and household types, property prices, income levels, changing aspirations and preferences (for instance for urban or rural living), demand for second homes, and policies designed for other purposes (such as those helping older people to remain in their own homes). There are also some factors that affect the tenures differently, such as changes to social housing allocation policies, which can alter the ways in which social housing is used. Looking ahead to 2026 also elevates the importance of some drivers which we are only just feeling the impact of in 2006. The impact of climate change on our housing stock will be critical, both in terms of the ability of the existing stock to withstand the effect of climate change in terms of adaptation and also the on-going contribution that the existing housing stock makes to exacerbating the impact of climate change.

3. The three specific objectives of the study are:

- i) to assess the way in which the existing housing stock is currently used;
- ii) to analyse the key drivers that determine the way in which the housing stock is used and the way in which the impact of these drivers might change over the next twenty years, identifying areas of relative certainty and uncertainty;
- iii) to analyse the extent to which future housing need and demand can be accommodated within the existing stock in the form of high quality housing in sustainable communities; and

Current use of the existing housing stock: Key findings

4. The pattern of use of the existing housing stock has been changing in several ways over the past 20 years. Current patterns of use differ in the South East in some respects from those of the rest of the UK.

- *Tenure* - 11.6% of housing is privately rented in the South East, which is higher than any other region outside London, and has increased in recent years. 13.4% of housing is social rented, which is lower than the national average and is declining.
- *Occupancy* - Under-occupation levels in the South East are similar to that of the rest of the country and this is largely a feature of owner-occupation. Overcrowding levels are the second highest in England, but continued to decline during the 1990s.
- *Sharing and communal establishments* - Over the last 40 years there has been a gradual decline in the proportion of individuals living in communal establishments such as psychiatric institutions and children's homes.
- *Empty properties* - The South East has the lowest levels of vacant properties of any English region. Levels have decreased since 1991 and the majority of vacant

properties in the South East are found in the private sector. There are however stark differences within the region, with the Kent coast most affected.

- *Second homes* - There are approximately 23,000 second homes in the South East, representing less than 1% of the total housing stock. Second homes are highly localised and occur mainly along the South coast.
- *Extensions and conversions* - An important source of the increase in larger dwellings in the region has come about through extensions to existing housing. One source of stock net increase in South East is the conversion of non-residential buildings and flats and the sub-division of larger houses into smaller flats.
- *Stock condition* - 3.4% of the South East housing stock has been classified as unfit with the Kent coast being affected most. The number of homes failing the Decent Homes Standard is decreasing, but currently represents just under a third of all homes.
- *Resource efficiency* – Domestic consumption accounts for 50% of the UK’s water usage and almost a third of CO₂ emissions. Much of the existing housing stock is inefficient in terms of energy and water use and makes little use of available energy-saving technologies. Older and larger houses use more energy. Between 1996/7 to 2003/4 in the South East, municipal waste increased by over 14%.

Drivers affecting the use of the housing stock

5. Existing literature, together with a futures workshop conducted for this research, identified the drivers affecting the use of the housing stock into the following five areas: social, technological, economic, environmental and political.

1. Social drivers

- *Demographic changes* – Population and household trend-based projections suggest that the overall population of the South East will increase by nearly 900,000 by 2026, and nearly all of this increase will be in the over 55 age groups. This will be accompanied by a large increase in the proportion of one person households, composed mostly of older single person households. These smaller households will not necessarily want to live in smaller properties and are mostly in the age groups that often already own larger properties.
- *Changing aspirations* – Home ownership remains the strong aspiration of most households. As social rented housing declines, as a proportion of the total housing stock, it is likely to become increasingly stigmatised; as it is increasingly:
 - not seen as a legitimate tenure choice
 - becomes used increasingly only for those in the highest degree of need.

Increasing proportions of households are likely to aspire to second home ownership in the future. Interest in environmental issues is slowly increasing and research suggests that 84% of buyers say that they would be willing to pay 2% extra on the purchase price for an eco home.

2. Technological drivers

- *The internet and changing working practices* – Increasing numbers of people now work from home, at least part of the time. This increases the demand for housing space, and may alter the location of housing demand in the future.
- *Technologies in the home* – New technologies are being developed which help frail elderly people to remain in their own home. The general development of technologies in the home is increasing demand for housing space from all households.
- *Transport* – Increasing car ownership is increasing mobility and demand for housing in attractive rural areas.

3. Economic drivers

- *The economy* – Overall growth in the economy and in incomes will result in increased demand for housing space. More detailed changes within the economy (such as the decline of manufacturing) are likely to affect the location of housing demand.
- *The housing market* – A rising housing market causes affordability problems, which lead to some households overcrowding their housing. Conversely, those who own housing may be unwilling to sell or downsize if they see it as a good investment. Extensions to existing properties become more cost effective in a rising market. The split between private rented and owner occupied housing is also affected by the development of the Buy-to-Let market, which has boomed in recent years.

4. Environmental drivers

- *Climate change* - The impact of increased flooding, droughts, subsidence and extreme weather will be felt more in the South East than other parts of the UK. The existing housing stock will need to be made fit to cope with these conditions. Rising temperatures will increase demand for water, despite decreasing supplies.
- *Pressure on natural resources* – Oil is likely to become more scarce and hence more expensive within the next twenty years. This may increase demand for smaller and more energy efficient housing. Using low and zero carbon technologies (photovoltaics, PV and combined heat and power) at the household level will become increasingly more viable.

5. Policy drivers

- *New house-building* - The Barker review concluded that failing to build sufficient homes to meet growing demand is one factor that pushes up the price of housing. The type of housing built may also affect the use of the existing stock. High density new housing may offer little incentive for older under-occupiers to downsize.
- *Policies affecting tenure* – The Right-to-Buy currently continues to transfer social rented dwellings to the owner-occupied sector. Social Homebuy will continue this trend within the existing housing stock, whilst Open Market Homebuy will cause some private sector housing to become owned on a shared ownership basis.
- *Social housing allocation policies* – Districts in the South East generally have high demands placed on their social housing and closely match allocated properties to

household size. Older households tend to remain in their properties after their children have left home and systems encouraging them to downsize to smaller properties vary throughout the region.

- *Empty homes strategies* – New measures were brought in to address empty homes in 2001 and in April 2005, empty dwelling management orders came into use. These give local authorities additional powers to force empty homes into use, even if the owner is uncooperative.
- *Financial incentives to own housing* - Financial incentives to own housing affect the price of housing and also impact on the proportion of housing in owner occupation as opposed to private renting, and can also affect demand for different sized properties. The abolition of Mortgage Interest Tax Relief in April 2000 made home-ownership less financially attractive. Council tax, being linked to property value, provides an incentive to downsize to cheaper properties.
- *Lifetime homes* - The policy concept of Lifetime Homes involves the idea that all homes should be built to be suitable for their residents to remain in if they develop mobility difficulties. The majority of elderly people wish to remain in their own homes for as long as possible, and social care systems have adapted to enable them to do so whenever it is feasible, adapting existing housing if practicable.
- *Decent homes* - The Housing Act 2004 sets a target for 100% of all social housing to meet the Decent Homes Standard by 2010. In the private sector, the government has set a target to reduce to 30% the proportion of vulnerable households living in non-decent homes.

4. *The future use of the stock*

6. Future use of the housing stock is likely to be affected by both current patterns of use and the drivers identified above.

- *Aspects of housing that will not change*: The current pattern of usage will have a major impact upon usage in 20 years time. 80% of the 2026 housing stock already exists.
- *Tenure* – The social housing sector will decline as a proportion of the existing stock, though more slowly than in the past. The private rented sector may continue a slow growth. The government's target of 75% home ownership has already been achieved in the South East, but it is possible that levels could increase if nationwide policies are developed which encourage higher levels of home ownership.
- *Future housing markets* – The housing market in the UK is hard to predict and likely to suffer from both booms and slumps over the next twenty years, at uncertain times. The overall trend is likely to be towards worsening affordability. The main drivers behind affordability are demographic (increasing numbers of households), policy (rates of housebuilding), and economic (income levels, interest rates and levels of inherited wealth). The location of housing demand however, is likely to remain strong both in the greater London area, and also to have a knock on impact throughout the South East (and Eastern) region(s), impacting especially on the more attractive areas,

especially along the South coast. Analysis shows that these are the areas more commonly chosen by retired people who no longer need to live near to their place of work. Changing working patterns together with an increasing population of pensioners mean that more households are likely to be freer to choose where they live.

- *Occupancy* - It is income and equity already acquired in the housing market that are the major influences on housing consumption, much more so than household size and type. Older and better-off households choose to occupy the larger houses, and poorer younger households are more likely to be overcrowded. Overall, this research suggests that levels of under-occupation are likely to increase over the next 20 years, largely in the owner-occupied sector. Overcrowding has steadily decreased over the last 30 years and the main driver behind this has been the reduction in the numbers of larger families, who were most likely to be overcrowded. This trend is continuing. However, overcrowding is currently much higher in London than the rest of the country, suggesting that as affordability worsens, overcrowding levels may decline more slowly.
- *Sharing and communal establishments* – Housing with facilities shared with other households will remain a very small component of the total housing stock. Multi-adult households will rise, especially in areas where there are increasing numbers of students. The elderly population, previously accommodated in old people's homes will increasingly be looking to the general housing stock to meet their needs and aspirations.
- *Rates of empty properties* – The number of empty properties has fallen over the last ten years. The main driver behind the decrease is the buoyant housing market. The overall trend is likely to be towards a higher-priced market, meaning that rates should remain low. It is unclear how much potential there is in many parts of the South East for levels of empty properties to decrease much further as rates in many districts are below the 2% generally taken to be normal and necessary for a functioning housing system. The number of long-term empty properties in many districts is very low. Policy in this area has changed recently, and it is possible that the new powers given to local authorities could serve further to reduce levels of empty properties. This is likely to have the most impact in the areas where levels are highest and where there are long-term empty properties.
- *Demand for second homes* – Economic buoyancy is a key driver so as long as the economy and housing market remain strong, demand for second homes will continue to increase. It may however be increasingly met by the overseas market, which could limit the the growth of second homes in the South East region.
- *Extensions and conversions* – Extensions are likely to continue to enlarge the average size of existing dwellings. Conversions of non-residential to residential property, and of larger dwellings into multiple smaller ones, however, counterbalance this trend to some extent, but overall the average size of properties in the existing stock will increase.
- *Stock condition* – Increasing prosperity, together with government initiatives are likely to reduce the proportion of unfit private housing in future.
- *Resource efficiency* – As the housing stock ages, unless changes are made to both the housing and behaviour, energy efficiency will get worse. Without dramatic reversals

in worldwide CO₂ emissions the existing housing stock will probably need to adapt to cope with weather extremes, such as flooding and drought. The current housing stock is not yet fit to cope with major changes to the climate.

Conclusions

- There are some powerful drivers mitigating against efforts to make better use of the existing stock in meeting both demands and needs for housing in the South East over the next twenty years. Most importantly, increased demand for space and increasing affluence will enable more people to ‘under-occupy’.
- There is some potential for the conversion of larger dwellings into two or more smaller ones, and for meeting the demand for larger houses by extending existing dwellings.
- Reducing vacancy rates could bring benefits, but rates are already low by both national and international standards, so the potential is limited.
- Second home ownership is likely to continue its slow increase. It is concentrated in areas where housing demand is likely to grow most strongly so growth in second homes will reduce the available housing stock in areas where it is most needed.
- There are some tensions between different policy objectives. Meeting the needs and demands of one group of households may come at the expense of meeting the needs and demands of another.
- Climate change will require changes to the existing housing stock and coupled with energy and water efficiency could impact on the type of houses demanded.
- A variety of policy responses are needed at national, regional and local level in order to ensure that best possible use is made of the existing housing stock, and to enable it to meet the changing needs and demands placed upon it.