# Northern Ireland Housing Market

Housing Executive

# Review and Perspectives 2008-11

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Housing Executive

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# Preface



We are pleased to present the "Northern Ireland Housing Market: review and perspectives 2008-2011".

This is one of the most important documents that the Housing Executive produces on an annual basis in its role as the Regional Strategic Housing Authority. It remains a key pillar on which we build and prioritise our strategic intervention in the market.

This year is a particularly critical one in Northern Ireland's housing market. The boom in house prices which has characterised it for over 10 years came to an end over the summer of 2007. Nevertheless first-time buyers continue to experience severe difficulties in gaining their first foothold on the ladder of owner-occupancy. There is no doubt we are already seeing significant reductions in house prices. These were from an unsustainable level when the higher interest rates for mortgages and the larger deposits being demanded by lenders are taken into account there is little doubt that first time buyers are going to continue to face considerable difficulties for the foreseeable future.

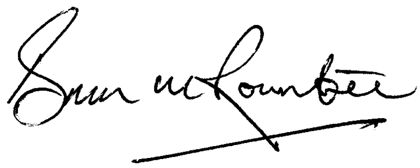
The 2006 House Condition Survey shows clearly that we have made significant progress in terms of improving the quality of the housing stock. The rate of unfitness has fallen from 4.9 per cent in 2001 to 3.3 per cent in 2006. The number of homes meeting the Government's key measure, the Decent Homes Standard, has risen from 68 per cent to 77 per cent in 2006. The Housing Executive stock, in particular, showed substantial improvement.

In 2001, 50 per cent of all Housing Executive dwellings had failed the Decent Homes Standard, but by 2006 this proportion had halved to 25 per cent largely as a result of the significant investment in new more efficient heating systems.

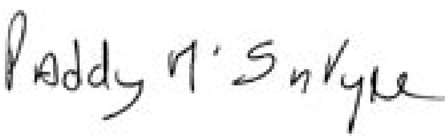
The 2006 survey also showed the considerable progress made in relation to the energy efficiency of the stock. The average energy efficiency rating for all dwellings increased by 7 percentage points over a five year period, brought about by significant increases in the proportions of dwellings with cavity wall insulation, loft insulation and double glazing. However, as expected the proportion of households in Fuel Poverty increased substantially between 2001 and 2006, reflecting the dramatic increase in the price of fuel over the last two years.

The 2006 House Condition Survey also confirmed the extent of the large increase in the number of privately rented dwellings in Northern Ireland. In 2006 there were almost 100,000 dwellings in this sector, many of them occupied by households who were unable to find accommodation in the owner occupied sector as first-time buyers or in the social-rented sector. The sharp downturn in the market will mean that the rapid expansion of the sector has come to an end. However, it may also mean that investors are no longer able to rely on capital appreciation to secure a sufficient return, thereby helping to reduce the high levels of vacancy which characterise this sector. Some investors may of course sell their property. This too may help the first-time buyer. At present there are no indications of wholesale disinvestment.

The social sector is also feeling the effects of the rising demand for social housing, with the total waiting list now in excess of 40,000. There is no doubt that the additional £205 million secured by the Minister, Margaret Ritchie, MLA was vital to ensure that we could provide a substantial programme of new social housing in the next three year period. Overall, more resources are still required for the Housing Executive to deliver much needed investment programmes. We will be working hard during the coming year to try and address this issue. This Review will be central in building a case for further investment.



Brian Rowntree
Chairman



Paddy McIntyre
Chief Executive

## Introduction

The Housing Executive publishes the "Northern Ireland Housing Market: Review and Perspectives" annually in its role as the regional strategic housing authority. This is the twelfth year it has been produced. It provides a comprehensive insight into all sectors of the market, highlighting the factors which will influence the development of these sectors in the coming three year period, and on this basis sets out the key issues and perspectives.

## Chapter 1
## The Strategic Context

This chapter examines the key economic, social and demographic factors driving Northern Ireland's housing market. It begins by giving an overview of developments in housing policy, planning and finance.

### Programme for Government

Whilst providing reasonable provision for ongoing revenue funding, the planned capital investment in housing contained in the draft Programme for Government, and associated budget, fell significantly short of the amount required to deliver the improvement programmes and address housing need. The shortfall in the capital budget over three years (£600m), represented a reduction of 40 per cent against the existing base line. However, the final budget for 2008-2011, published on 22nd January 2008 makes provision for additional capital allocations of £70m, £75m and £60m over the next three years with the aim of delivering 1,500, 1750 and 2,000 new units of social and affordable accommodation. The details of this remain to be worked out.

### Review of Affordable Housing

Sir John Semple's Review of Affordable Housing was launched in September 2006 with the overall objective of considering the range of Government interventions in the housing market via the planning and housing systems that increase the supply of social housing for rent, support the private rented sector and assist intermediate households into home ownership.

The final Report was published in Spring 2007 and made a total of 80 recommendations. A number of these were of particular importance for the housing market:

- Affordable housing costs should not exceed 35 per cent of gross household income: affordable housing is defined as social rented and intermediate (shared ownership) housing.
- The Department for Regional Development should complete the review of the RDS housing requirement for 2008-2015, currently set at 208,000.
- A target of 2,000 completions per annum is required for social house building.
- A system more like the English Local Development Plan System should be introduced.
- The provision to apply planning obligations under Article 40 of the 1991 Planning Order should be introduced via a revised PPS12.
- A number of fundamental changes to the Co-Ownership Scheme are recommended, such as abolition of the current property value limits.

In response to the Semple Report an Advisory Panel of experts from the statutory, voluntary, private and academic sectors was established to provide advice and expert opinion to the Minister to help move forward the recommendations of the Semple Review. The Advisory Panel evaluated Semple's 80 recommendations in the context of changes to the wider economy and the housing market in Northern Ireland with a view to making recommendations which could be progressed within a short-medium timescale.

The Panel proposed a number of short term solutions to providing more social and affordable housing:

- Provide an immediate commitment to introduce developer contributions for social and affordable housing, recognising that actual delivery on the ground will be in the medium-longer term.

- Use development briefs for the sale of public sector land to achieve 60-70% social and affordable housing on these sites.

- Set in place best practice guidelines and multi-skilled teams to negotiate developer contributions.

- Expand the Co-Ownership model and explore the case for additional equity sharing schemes through existing and proposed vehicles employed in Great Britain and Ireland.

- Explore the role of existing vehicles such as Government Equity Loans.

- Give consideration to voluntary arrangements where developers offer social and affordable housing in return for fast tracking through the planning system.

In her statement "A New Agenda for Housing" to the Assembly on 26th February 2008, the Minister for Social Development, Margaret Ritchie MLA, made a number of key commitments to address the affordability issue:

- An extra £205 million over three years would permit a Social Housing Development programme of 1,500 dwellings in 2008/09, 1,750 in 2009/10 and 2,000 in 2010/2011.

- A proposed addendum to PPS12: Housing in Settlements to facilitate the introduction of developer contributions for social and affordable housing.

- An Action Plan on Empty Homes, which includes contacting up to 4,000 owners of empty dwellings and encouraging them to make these dwellings available to new occupants.

- Enhancements to the Co-Ownership Scheme by abolishing the existing price limits and enabling people to begin Co-Ownership by buying a 25 per cent stake in the property rather than the current minimum of 50 per cent.

- A review of the House Sales Scheme which will permit all social housing tenants to own a share in their home.

However, it is important to note that despite the considerable additional monies made available to the capital budget for social housing, the Housing Executive will have to rely on in-year bids to undertake its planned capital programmes.

### The World Economy

Developments in the global economy, have an important bearing on Northern Ireland's housing market. In the USA there are clear indications that the world's dominant economy - that of the USA - is entering recession as a result of the crisis in sub prime lending in its housing market and the concomitant "credit crunch". In Japan the longstanding cycle of deflation has proved difficult to overcome and economic growth has been erratic. In the Eurozone, economic indicators have been largely negative, with declining economic growth, and an emerging crisis in Spain's housing market.

In the UK economic growth has declined over the past year. The rising level of consumer debt (£1.4 million), rising fuel and food prices and falling retail sales indicate a prolonged period of economic turbulence, reflected in extreme stock market volatility. Interest rates were reduced twice: by 0.25 percentage points both in December 2007 and February 2008 and are expected to be reduced further. Economists are divided on how effective this will be in preventing the UK economy entering recession.

In the Republic of Ireland the rate of economic growth has fallen sharply and there have been significant reductions in average house prices.

### The Northern Ireland Economy

During the first half of 2007 Northern Ireland's economy generally performed well. Employment rose to a new peak of 780,000 and unemployment declined to 30,000 (3.3%) by September. However, since then economic inactivity has grown, manufacturing employment is continuing to decline (with unemployment rising to 4.3% by the end of 2007). Public expenditure is set to increase at a slower rate than in recent years and the combination of growing indebtedness, higher food and fuel prices and increases in local taxation, will impact in a negative way on purchasing power and economic growth, and in turn on the housing market.

### Demographic Profile

In March 2001 there were some 1,686,000 people living in Northern Ireland; by 2006 this had risen to 1,742,000. The most recent population projections indicate the following key trends:

- An increase in the number and proportion of children under 16: (partly as a result of an increase in birth rate and partly due to immigration). Between 2006 and 2021 the number of children is expected to increase by 3.3 per cent from 380,000 to 393,000.

- A growing number and proportion of people of pensionable age: between 2006 and 2021 the number is expected to increase by 55,000 to 339,000, a smaller number than expected, reflecting an increase in the pension age.

- Between 2006 and 2021 the number of people aged 75 and over is projected to increase substantially by 54,000 (45%), to 164,000.

Average household size has continued to fall over the last five years and in 2004, more than a quarter (29%) of all dwellings were occupied by single person households. This proportion is expected to grow to 34 per cent by 2019, (a 42 per cent growth in numbers).

International migration is also starting to have a significant impact, with an estimated in-migration of nearly 10,000 in 2005/06.

This demographic profile has important implications not only for the number of new dwellings required, but also their design and the growing need for housing support services to help older people live independently in their own homes.

## The Waiting List, Homelessness and the Need for Social Housing

The waiting list for social housing, including the number of applicants in housing stress continued to grow rapidly last year. In March 2007 the overall number of applicants stood at approximately 36,200, an increase of 13 per cent on March 2006. The number in housing stress was approximately 19,700, an increase of some 2,500 (14%) on the previous year and comprising more than 54 per cent of the total waiting list). By September 2007 the number in housing stress was approaching 21,000.

This rapid growth was to a considerable degree due to growing homelessness, associated with the increasing incidence of marital, relationship and sharing breakdown. In the year to March 2007 the numbers presenting as homeless increased by 4 per cent to over 21,000, while the number accepted as homeless remained constant at approximately 9,750.

The revised 2001 census based housing need models run in 2003 estimated that between 2001 and 2011 there was an annual requirement for around 1,500 additional social dwellings to meet the expected rate of household formation. In 2006 the Net Stock Model was revisited and the most recent estimate published in February 2007 indicates that 2,200 new social dwellings are required to meet the ongoing demographic demands, while an overall figure of 2,500 is required to allow for the growing backlog. This model will be revised in 2008 in the light of updated household projections and housing stock figures.

## Key Indicators

The 2006 House Condition Survey provided an update on a number of key housing indicators:

- Unfitness
  The headline unfitness rate for 2006 was 3.4 per cent (24,200 dwellings), a significant reduction from 2001 when it was 4.9 per cent (31,600 dwellings). Unfitness remained higher in rural areas (5.4%) than in urban areas (2.6%). Nearly two- thirds (58%) of all unfit properties were vacant and almost two-thirds (62%) were built prior to 1919.

- Decent Homes
  In 2001 almost one-third (32%, 206,000) of all dwellings failed the Decent Homes Standard. Almost nine-tenths of these (88%) failed on the basis of the thermal comfort criterion. There was considerable progress by 2006 when only 23 per cent (162,000) failed the Decent Homes Standard. Again the vast majority failed on the thermal comfort criterion.

- Energy Efficiency
  The Housing Executive is continuing to make good progress towards its target of reducing energy efficiency by 34 per cent. The 2006 House Condition Survey confirmed that between 1996 and 2006 energy efficiency for the pre-1996 stock improved by 20 per cent. It also confirmed the ongoing decline of solid fuel heating and the rapid growth of gas and oil fired central heating systems. By 2006, 88 per cent of dwellings had either oil fired or gas central heating.

- Fuel Poverty
  The 2001 House Condition Survey showed that 203,000 households (32% of the total) were in fuel poverty, i.e. had to spend more than 10 per cent of their income on domestic energy costs. This compared with only 9 per cent of households in England. The main factors in this were lower household incomes in Northern Ireland, higher dependency on benefits,

much greater reliance on more expensive solid fuel and oil central heating and much higher electricity prices. During the intervening five year period a revised, more sophisticated model and improved data sources, were used to provide a revised figure of 27 per cent (167,000) for 2001. Using this new model the 2006 House Condition Survey indicated that Fuel Poverty had risen markedly to 34 per cent (226,000 households). This was essentially due to the rapid increase in fuel costs. Analysis indicated that if it had not been for the improvements in energy efficiency standards and rising incomes over the five year period Fuel Poverty in 2006 would have been 66 per cent. Improved energy efficiency measures in particular had a marked positive effect by reducing fuel poverty by 20 percentage points.

## Key Issues and Strategic Perspective

- A significant downturn in the American economy, associated primarily with the recent slump in the US housing market, does not augur well for the economies of western Europe. In Northern Ireland a combination of lower increases in public expenditure, increasing levels of debt, rising unemployment, a tightening credit environment and falling house prices will reduce purchasing power in the economy and the housing market.

- Northern Ireland's demography is continuing to change. New households are forming at a steady rate, driven by population growth (including a substantial influx of migrant workers) and single living associated with marriage/relationship break up. The continuing trend towards more single person and older households, will result in a sustained demand for accommodation and in particular for smaller units of accommodation and supported housing.

- The continuing rapid growth in the number of applicants on the waiting list and those in "housing stress", indicates that despite sustained economic growth in Northern Ireland over the past five years, and the construction of record numbers of new private dwellings, there is an ongoing shortfall in the supply of social housing. The latest analysis indicates that there is an annual requirement for 2,500 additional new social dwellings for the period 2008-11. It is unlikely that this can be achieved given the final budget settlement for 2008-11. This means that other sources of funding for social and affordable housing, such as developer contributions and the sale of assets are likely to be required.

- The housing stock has grown at an accelerated rate over the past five years and its condition has also improved markedly. The 2006 House Condition Survey shows that between 2001 and 2006 the rate of unfitness fell significantly from 4.9 per cent to 3.4 per cent and the proportion of homes meeting the Decent Homes Standard rose from 62 per cent in 2001 to 77 per cent in 2006. However, in order to ensure that current levels of fitness are maintained and improved, adequate public funding is required.

- Good progress has been made over the last five years in relation to increasing the energy efficiency of the stock. However, the most recent Fuel Poverty figures (34% in 2006), and the perspective of much higher energy prices for the foreseeable future indicates that any significant reduction in the level of Fuel Poverty poses a huge challenge.

# Chapter 2
# Owner Occupation

## New Housing

The owner occupied sector continued to grow steadily in the year to March 2007, with the construction of some 14,000 new private dwellings and 2,200 Housing Executive sales. In March 2007 more than 488,000 dwellings (nearly 69% of the total stock) were owner occupied. However, the proportion of the total stock in owner occupancy actually declined, as a significant proportion of the new and existing private stock entered the private rented sector or became vacant. The number of new dwellings started remained static compared with the previous year. The first six months of 2007/08 have seen a significant drop (20%) in new private housing starts compared to 2006/07, an indication already in the early months of 2007 of the coming downturn in the market.

## House Prices

In the UK as a whole average house prices during 2007 grew at a sustainable rate of around 10 per cent until November, when the combined effects of rising interest rates, increasing levels of debt and the "credit crunch", brought about a sharp reduction in the annual rate of growth. Indeed for Quarter 4 (Q4) 2007 both Nationwide and Halifax recorded reductions in average house prices for the UK as a whole.

In Northern Ireland the rate of house price increase has dropped sharply from an unsustainable annual rate of 51 per cent in Q2, 2007 to 40 per cent in Q3. The quarter on quarter increase dropped from a rate of 10.5 per cent (Q2) to 3.6 per cent in Q3. A further marked reduction occurred in Q4, 2007. While house prices grew by 26 per cent on an annual basis, quarter-on-quarter prices fell by an average of 1.2 per cent to £231,168. Both the Halifax and Nationwide also confirmed seasonally adjusted reductions in average house prices during Q4, 2007 in Northern Ireland (-1.7% and -0.2% respectively).

## Affordability

The Housing Executive's affordability index is based on a typical annuity formula used by mortgage lenders and a combination of house prices, median household incomes and interest rates and is designed primarily to assess changes in affordability over time and by location. Figures for 2006 indicate that affordability has become a significant problem for almost all areas in Northern Ireland. Other indicators also show a marked deterioration in the position for first time buyers. The proportion of house sales to first-time buyers has continued to fall rapidly during 2007. Whereas in 2001, 60 per cent of all sales were to first time buyers, by 2006 the figure was 33 per cent and by September 2007 the proportion had fallen to 10 per cent.

## Sale of Housing Executive Dwellings

Since 1979 the Housing Executive has sold approximately 116,000 dwellings to sitting tenants. They now account for approximately one-fifth of the owner-occupied sector and provide an affordable, sound investment for first-time buyers. Last year (2006/07) some 2,500 Housing Executive dwellings were sold. As expected the total has reduced significantly following the implementation of the new house sales regulations in 2004. This year (2007/08) it is expected that less than 1,000 will be sold.

## Condition of the Stock and Grant Aid

Although the 2006 House Condition Survey showed that unfitness had declined markedly since 2001 in the owner occupied sector, more than 70 per cent of all unfit dwellings in Northern Ireland (18,000) were in this sector (compared to 24,000 in 2001). Grant aid, particularly in rural areas such as Fermanagh has made an important contribution to this improvement in housing conditions.

## Key Issues and Strategic Perspective

- The existing housing finance framework will ensure that owner occupation will continue to be financially the most attractive option for households who can afford it. However, there are strong indications it will grow at a slower rate as a result of the downturn in the housing market and as the private rented sector continues to expand. In the next three year period it is expected that owner occupation will grow by around 5,000 dwellings annually.

- Between 2001 and 2004, Northern Ireland's house prices rose at a more sustainable rate than in many parts of the UK. During the three year period 2004-07 this relative position was reversed primarily due to an unprecedented investor driven boom. This rate of increase (51%) became totally unsustainable by mid 2007 and in Q4, 2007 the average price of a house in Northern Ireland fell sharply by nearly £20,000. Prices are expected to fall by at least 10-15 per cent during 2008.

- The affordability issue in Northern Ireland has become markedly more serious during the last two years. Throughout Northern Ireland first time buyers are experiencing severe difficulties in gaining a foothold on the ladder of owner occupancy. In 2007 only 29 per cent of house sales were being taken up by first time buyers and in all District Council areas there was an "affordability gap" of at least £50,000. It is expected that this situation will continue over the next three years, as it is unlikely that prices will fall back so much to make a significant difference to first time buyers faced with a more difficult, more expensive credit environment.

- Sold Housing Executive dwellings have generally provided a good source of high quality affordable homes, particularly for first time buyers, but modified rules in terms of eligibility and discount, together with rapid house price inflation, have resulted in a significant reduction in the rate of house sales. The annual number of Housing Executive dwellings sold to sitting tenants in 2007/08 will be less than 1,000 and will continue to decline.

- The condition of the owner-occupied stock has improved markedly since 2001 and home improvement grants have played an important role in this. It is important that sufficient resources are made available to support the discretionary grants scheme.

## Chapter 3
## The Private Rented Sector

The 2006 House Condition Survey estimated that there were some 81,000 occupied dwellings in Northern Ireland's private rented sector (11.5% of total stock) , a substantial increase over the 49,400 (7.6%) recorded in 2001. Indeed the rate of growth has accelerated considerably. Between 2001 and 2004, almost 4,400 dwellings per annum entered the private rented sector reflecting the growing interest in buy to let during this period. Between 2004 and 2006 this increased to 9,200 dwellings per annum. If vacant dwellings, classified according to their previous occupancy, are included, the overall figure for 2006 was 94,600 (13.4%).

### A Profile of the Private Rented Sector

The 2006 House Condition Survey confirmed there are still significant concentrations of the private rented sector in its traditional locations in Belfast and Derry City. However, in 2006 only 27 per cent of the sector was located in these two council areas (compared to 35 per cent in 2001), reflecting the rapid growth of this sector in Northern Ireland's district towns, such as Craigavon, Limavady and Dungannon.

The profile of the stock is continuing to change. In 2006 the sector still had a high proportion of pre-1919 dwellings (22%) but this had fallen dramatically from 38 per cent in 2001, mainly as a result of the growth of newer buy-to-let properties. Unfitness has continued to reduce since 2001. In 2001 it stood at 8.7 per cent and by 2006 this had fallen to 2.7 per cent (2,200 dwellings). However, this rate of unfitness is still higher than for the remainder of the occupied stock.

Research commissioned from the University of Ulster on the Private Rented Sector, which was published in January 2007 indicated that:

- it is experiencing much higher levels of turnover;
- it is increasingly dominated by younger households;
- in this sector less than half of heads of household were employed and average incomes were much lower than in the owner occupied sector;
- most landlords (71%) had a maximum of five properties;
- the vast majority of landlords (84%) borrowed to fund their purchase and more than half had loan to value ratios of over 75 per cent.

### A Strategy for the Private Rented Sector in Northern Ireland

In May 2004 the Department for Social Development and the Housing Executive jointly launched their strategy for the private rented sector entitled "Renting Privately: A Strategic Framework".

The overall aim of the strategy is "to promote and sustain a healthy private rented sector, which offers choice and flexibility by influencing supply and securing a better quality, better managed sector".

Progress in implementing the strategy has been made in a number of ways, including:

- The Private Tenancies (NI) Order came into effect in April 2007 with the aim of targeting unfitness and disrepair through enforcement and rent control and simplifying, clarifying and raising awareness of landlord and tenant obligations. The new system encourages landlords to improve unfit properties with the prospect of a more viable return on their investment.

- The development and improvement of relations and communications with landlords.

- Progress has been made on the development of a "Best Practice" guide.

### Houses in Multiple Occupation

Houses in Multiple Occupation (HMOs) have continued to play a vital role in providing accommodation for a more transient section of the population: for young professionals, students and migrant workers. However, there are now indications that people are staying longer in HMOs as growing affordability problems make it more difficult to gain access to owner occupation. A survey undertaken in 2003 showed that the vast majority of HMOs met the Fitness Standard, but up to two thirds were unfit for multiple occupation on the grounds of means of escape from fire. This issue is being addressed with the aid of HMO grants. By March 2007 more than £38 million had been spent on HMO grants.

However, under the new grants legislation mandatory HMO grants are no longer available. The new discretionary system permits better targeting and these are only available if landlords register with the Housing Executive. The statutory Registration Scheme for HMOs was implemented in May 2004 on the basis of an area based approach, initially in five areas in Belfast, Derry/Londonderry and Portstewart. In September 2007 these areas were expanded to include other areas in these cities as well as in Dungannon, Cookstown, Coleraine and Bangor.

### Key Issues and Strategic Perspective

- The private rented sector will continue to be an increasingly important part of Northern Ireland's housing market. Rising waiting lists for social housing and severe affordability issues for first time buyers, coupled with changing lifestyles and labour markets, will ensure that the private rented sector will continue to play a very important role in Northern Ireland's housing market, underpinned currently by Housing Benefit payments totalling £150 million.

- There is, however, some qualitative evidence that interest in buy-to-let tailed off significantly in the second half of 2007 as the effects of unsustainable house price increases and the "credit crunch" combined to take their toll.

There is a possibility that the introduction of a single 18 per cent Capital Gains Tax rate for private rented dwellings from April 2008 and the potential tax savings for recent investors, may encourage large numbers of investors to sell their properties. However, given the expected continued demand for private renting from first-time buyers unable to afford their first house and migrant workers, and the continuing pressure on the social housing budget, the risk of large-scale disinvestment is seen as low.

- The age profile of the stock continues to be older than other tenures (although less pronounced than in 2001) and there are still somewhat higher levels of unfitness, although the 2006 House Condition Survey indicated that these differences are reducing.

- Houses in Multiple Occupation (HMOs) will continue to play an important role in housing single person households including students, young professionals and those on low incomes. This form of tenure is particularly important for migrant workers. The statutory licensing of HMOs will help ensure management standards improve.

- The new strategy for the private rented sector is continuing to address housing conditions and a range of legal and management issues. The new legislation introduced in April 2007 targets unfitness in the sector and provides a framework which will give clarification on the roles and responsibilities of both landlords and tenants in the sector.

# Chapter 4
# Social Housing

## The Social Housing Stock

In March 2007 Northern Ireland's social housing sector consisted of approximately 113,300 dwellings (16% of the total stock). The Housing Executive owned and managed some 91,000 dwellings and registered housing associations some 24,000. Over the past five years the social sector has contracted as the programme of new social dwellings has replaced only one-third of Housing Executive stock lost due to house sales and demolitions. However this decline has now come to a halt as less than 1,000 dwellings are due to be sold this year.

The condition of the stock is good. The 2006 House Condition Survey confirmed that only a small number of Housing Executive and housing association dwellings fail the Fitness Standard. Nevertheless there is a significant amount of improvement and replacement work to be carried out. The number of Housing Executive homes failing the Decent Homes Standard has fallen dramatically from 50 per cent in 2001 to 25 per cent in 2006, due mainly to the introduction of new heating systems. However, evidence from the Continuous Tenant Omnibus Survey confirms the growing residualisation of the Housing Executive's stock, characterised by a growing concentration of low income households.

## The Social Housing Programme

Research on Future Housing Need in Northern Ireland published in January 2004 indicated that on the basis of the 2001 census data there was an annual need for some 1,500 new social dwellings. However, this was updated in December 2006 in light of the latest trends in demography, the most up to date housing stock figures and the growing backlog in terms of delivery. There is now an annual requirement for 2,500 new social dwellings.

## Co-Ownership Housing

The Northern Ireland Co-Ownership Housing Association continues to fulfil a vital role in facilitating the access of low income households to owner occupancy at a time of severe affordability problems for first time buyers. In 2006/07 a further 325 properties were bought through the co-ownership scheme. This was a reduction from the previous year and reflected the difficulties of operating within specified value limits in a rapidly rising market. The introduction of higher value limits and lower rental charges has made it easier for first time buyers to access co-ownership. This is reflected in the rapid increase in take up in 2007/08.

## Improvement and Maintenance Programmes

There continues to be a need for adequate funds for maintenance and improvement of the social housing stock. Some 4,000 Housing Executive dwellings still require improvement works to bring them up to modern day standards. Some 22,000 dwellings still require heating conversions to ensure they meet the Decent Homes Standard and although only very few Housing Executive dwellings fail this standard on the modernisation criteria, there is an ongoing need for kitchen and bathroom replacements to ensure that this position does not change. There is also an ongoing demand for adaptations for the elderly and people with a disability. Finally, there is also a growing need for major repair schemes in the housing association sector.

## Key Issues and Strategic Perspective

- Over the next three years, it is anticipated that the level of social housing will remain broadly static, as the number of house sales and demolitions falls below 1,000. It is hoped that subject to funding, this will be more than outweighed by the number of new social dwellings which are acquired or built.

- Since 2001 the Social Housing Development Programme has failed to keep pace with the steadily rising need for social housing. The most recent census based model of the future need for social housing, published in February 2007, estimates that there is an annual requirement for 2,500 additional new social dwellings.

- It is estimated that the final Programme for Government and the associated budget published in January 2008 will provide finance for 5,250 new units of social and affordable accommodation over a three year period. Progress on developer contributions to the provision of these dwellings is being made, but experience from Great Britain and the Republic of Ireland indicates that it will be a number of years before this route effectively delivers any significant numbers.

- Co-Ownership has been revitalised by the raising (and more recently, abolition) of its financial limits and the lowering of rental contributions. This financial year the demand for Co-Ownership has risen dramatically. The scheme will continue to play a vital bridging role for first time buyers trying to enter owner occupation.

- Sufficient expenditure on maintenance and improvement is vital to ensure that stock condition is maintained. The proportion of dwellings meeting the Decent Homes Standard has risen significantly as multi-element improvement and heating conversion programmes are implemented. However, despite the reduced number of dwellings heated by solid fuel and electricity, rising fuel costs have resulted in a rise in the level of fuel poverty in social housing too, with 41 per cent of Housing Executive and 21 per cent of housing association households in fuel poverty in 2006.

- There will be ongoing demand for adaptations for people with disabilities. It is very important that adequate funding is made available to facilitate this work.

## Conclusion

During 2007, Northern Ireland's housing market experienced a significant spike in house prices. The enormous investor driven increases in house prices reached their peak in the Spring. Over the Summer a period of caution followed, with investor interest moving to Great Britain and further afield. Transaction levels fell markedly as buyers waited for prices to drop and sellers held back hoping to achieve the prices of early 2007. During the last quarter of 2007 significant price reductions became increasingly apparent and developers and vendors accepted that the prices achieved in the first two quarters of 2007 were no longer sustainable.

There is no doubt that the future of Northern Ireland's housing market is closely tied up with developments in the world economy. The USA remains the hub of global economic activity and any assessment of the future of Northern Ireland's housing market must have as its point of departure the likelihood, duration and depth of a downturn in the US economy and its effects on the rest of the industrialised countries. There are increasing signs that the US economy has already entered a more prolonged recession. The dependence of the UK economy on the financial sector makes it particularly vulnerable to the ongoing effects of the "credit crunch". Northern Ireland's economy will not escape the effects of this economic turbulence.

Northern Ireland's consumers too are facing the impact of a declining manufacturing base, lower increases in public expenditure, increasing levels of debt, higher fuel and food prices and increases in local taxation. In addition lenders are being more cautious in terms of lending policies and the price of credit has increased. These factors combined indicate a significant downturn in Northern Ireland's housing market, with sustained difficulties for most first time buyers.

It is likely that an increasing number will seek to meet their accommodation needs in the private rented sector or social rented sector. This may mean that the risk of disinvestment by landlords on a larger scale is less likely. In the social rented sector it is likely to result in increased waiting lists.

However, there is no doubt that despite the further significant improvement in housing conditions recorded by the 2006 House Condition Survey, there remains an ongoing demand for investment in new social housing, in improvement and maintenance and in measures to help alleviate Fuel Poverty.

# Introduction

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The “Northern Ireland Housing Market: Review and Perspectives” is published each year by the Housing Executive in its role as the regional strategic housing authority and emphasises the organisation’s commitment to promoting and facilitating all housing tenures. This is the twelfth consecutive year that the “Review and Perspectives” has been published and it comes at a critical time for housing in Northern Ireland with significant pressures on the budget for social housing combined with growing signs of a much more challenging economic environment.

The “Review and Perspectives” synthesizes the most recent market intelligence, drawing on the latest statistics compiled by the Housing Executive, Government departments and the private sector. Summaries of the key findings of housing research undertaken or commissioned by the Housing Executive are also included. The “Review and Perspectives” forms not only the basis for the Housing Executive’s Corporate Plan, thus helping to guide the organisation’s intervention in the housing market, but is also an important means of monitoring the impact of this intervention.

Chapter 1 provides the strategic context for Northern Ireland’s housing market. It begins by looking at recent major developments in the policy and finance context. It examines Northern Ireland’s economy in connection with international economic developments. It also reviews the social and demographic factors, which are often perceived as the most direct influences on developments in the housing market.

Chapters 2-4 analyse developments in each of the four main housing tenures: owner occupation, the private rented sector, Housing Executive and housing association dwellings. The most recent statistics and trends are examined as the basis for estimating how each of the tenures will develop in the coming three year period, in the context of the strategic factors set out in Chapter 1. Each chapter ends by highlighting the key issues emerging from the analysis and the strategic perspective.

Finally, the short conclusion summarises the key trends and factors which will help determine Northern Ireland’s housing market over the coming three years and highlights the housing priorities which emerge from the document as a whole.

Housing Executive

# Chapter 1

# The Strategic Context

## Housing Finance and Housing Policy

### Pre Budget Report

The Pre Budget report presented by the Chancellor of the Exchequer in October 2007 reiterated the Government's commitment to prioritise spending on health, education and overseas aid. This was to be paid for by a significant increase in borrowing. Presenting the report, the Chancellor emphasised that the rapid growth in public spending in recent years was giving way to much more restrained increases, as the economy entered a period of greater uncertainty. He cut the forecast for economic growth for 2007/08 from the 3.5-3.0 per cent contained in the March budget to 2.0-2.5 per cent. As a result of the slowdown and the concomitant reduction in tax revenues from the City in particular, the Treasury would borrow an additional £4bn this year and a total of £13bn over the coming three years.

The Pre Budget report contained two specific proposals which impact on the housing market.

- A reduction in inheritance tax from April 2008: an estimated 2.5 million properties valued at between £300,000 and £600,000 will fall outside the inheritance tax threshold - saving households up to £80,000 - by allowing married couples and civil partners to "double up" on the tax allowance - at present £300,000 and increasing to £350,000 by 2010. The chancellor estimated that this measure would ensure 97 per cent of estates fell outside the inheritance tax threshold.

- The introduction of a single 18 per cent Capital Gains Tax (CGT) rate from April 2008. Both the current scale of CGT rates known as taper relief (which varies from 40 to 10 per cent) - and the indexation allowance are to be scrapped. The impact of these proposals will vary depending on the type of property and the length of time it has been owned. Buy-to-let investors and second home owners who have bought in recent years as prices rose rapidly could make substantial savings, paying 18 per cent CGT rather than in some cases 40 per cent. In some instances, however, investment properties deemed to be "furnished holiday lets" are currently taxed at only 10 per cent. This will rise to 18 per cent from April 2008.

### Programme for Government 2008-11

The Northern Ireland Executive published its Programme for Government 2008-11 and a Draft Investment Strategy 2008-18 in November 2007. On the basis of an over-arching aim of building a peaceful, fair and prosperous society, the Programme for Government highlighted a number of priorities:

- Growing a dynamic, innovative economy.

- Promote tolerance, inclusion and health and well-being.

- Protect and enhance our environmental and natural resources. This priority specifically recognised the need to provide more social and affordable housing as a cornerstone of sustainable communities.

- Invest to build our infrastructure. This priority gave a commitment to investing at least £1.4 bn in social and affordable housing by 2018.

- Deliver modern high quality and efficient public services.

The Draft Investment Strategy set out a number of infrastructure investment pillars to support these priorities. Housing is seen as an important element of the social pillar with a commitment to the completion of up to 10,000 new social and affordable houses over the next five years, working with the housing associations and the private sector. However, the initial budgetary allocation was grossly inadequate to deliver this commitment. The Housing Executive estimated that there was a shortfall of £600m over the three year period in what was required to deliver this level of new investment in social and affordable homes. However, following a consultation process with key players in the housing market, and with the help of the recommendations of the Affordability Review Advisory Panel, Margaret Ritchie, the Minister responsible for housing was able to announce in January 2008, that an additional £275 million for social housing had been made available: £70 million in the current financial year 2007/08 and an additional £205 million for the following three years. The detailed implications of this additional funding for the Housing Executive and housing association investment programmes will emerge in March 2008.

### A New Agenda for Housing

In her statement "A New Agenda for Housing" to the Assembly on 26th February 2008, the Minister for Social Development made a number of key commitments to address the affordability issue:

- An extra £205 million over three years would permit a Social Housing Development programme of 1,500 dwellings in 2008/09, 1,750 in 2009/10 and 2,000 in 2010/11.
- A proposed addendum to PPS12: Housing in Settlements to facilitate the introduction of developer contributions for social and affordable housing.
- An Action Plan on Empty Homes, which includes contacting up to 4,000 owners of empty dwellings and encouraging them to make these dwellings available to new occupants.
- Enhancements to the Co-Ownership Scheme by abolishing the existing price limits and enabling people to begin co-ownership by buying a 25 per cent stake in the property rather than the current minimum of 50 per cent.
- A review of the House Sales Scheme which will permit all social housing tenants to own a share in their home.

However, it is important to note that despite the considerable additional monies made available to the capital budget for social housing, the Housing Executive will have to rely on in-year bids to deliver its planned capital programmes.

### Housing and Regeneration Bill

Introduced in the House of Commons in November 2007, the Housing and Regeneration Bill follows the Hills Review of social housing, the Cave Review of social housing regulation and the Housing Green Paper. Its broad aim is to help deliver on commitments for more and greener homes in mixed and sustainable communities. The Bill, which will apply primarily in England and Wales (although some aspects may have an impact in Northern Ireland and Scotland), has three main aspects:

- Creation of the Homes and Communities Agency (HCA), which will replace the Housing Corporation, and the Urban Regeneration Agency and Commission for New Towns (jointly English Partnerships).

- Creation of the Office of Tenants and Social Landlords ('Oftenant') as a stand alone regulator of 'registered providers' of social housing, taking on the regulatory functions of the Housing Corporation.

- Other provisions, including sustainability certificates and landlord/tenant matters.

The Homes and Communities Agency will work to improve housing supply and quality, and will undertake the regeneration and development of any type of land or infrastructure as well as having a more general role in supporting the well-being of communities. The Bill also paves the way for the HCA to take on broad or specified planning powers from a local authority in certain circumstances.

The Office of Tenants and Social Landlords will have a range of objectives, which include encouraging a supply of well-managed, quality social housing; affording choice, protection and opportunity for involvement to tenants; and guarding against misuse of public funds. The Office's regulatory functions will apply only to registered providers' activities in relation to social housing. This includes both low cost rental accommodation, low cost home ownership, (such as shared ownerships, equity percentage and shared ownership trusts), and not to other areas of business such as, for example, development of housing for sale on the open market.

Oftenant will have powers to set the standards that registered providers must adhere to, covering matters such as the nature of housing demand to be addressed, criteria for allocating accommodation, terms of tenancies, levels of rent, maintenance and repair, methods for consulting and informing tenants, and anti-social behaviour.

### Other Provisions

The Bill also facilitates a number of other initiatives. Following a consultation in 2007, it gives regulatory powers to facilitate a mandatory rating of sustainability for new homes in England and Wales. This will place a duty on anyone selling a newly-constructed residential property to give the purchaser information about the property's sustainability (a Sustainability Certificate) as part of the Home Information Pack before the sale is agreed, free of charge. Provision is also made for the creation of 'Family Intervention Tenancies' which offer less security than either a secure or assured tenancy. This can be used to encourage engagement by families at risk of eviction due to their anti-social behaviour, who are generally moved into specialist accommodation as part of an intervention programme.

The Bill has been debated in the Commons on a number of occasions and, at the time of writing, over 200 amendments have been proposed. Further discussion and refinement are likely before it is enacted.

## The Regional Development Strategy

The Regional Development Strategy (2001) continues to play an important role in shaping Northern Ireland's housing market. Its overall purpose is to provide the spatial planning framework to guide physical development and in particular housing, in Northern Ireland to 2025, emphasising:

- The importance of decent housing, including the availability of affordable and special needs housing and the need for balanced and integrated development.
- The original Regional Development Strategy (RDS) envisaged a requirement for 160,000 additional dwellings during the period 1998-2015; 77,500 of these in the Belfast Metropolitan Area (BMA) and its hinterland and the remaining 82,500 in the remainder of Northern Ireland.
- Housing growth indicators were set out which reflected demand and potential for growth for each of the district council areas outside the BMA.
- The strategy also set a regional target of 60 per cent for the location of urban housing growth within existing urban areas (settlements over 5,000) for the period 2010, in order to achieve more sustainable forms of development and reduce greenfield developments.

In 2003 as part of its ongoing monitoring of the implementation of the Regional Development Strategy, the Department for Regional Development examined its estimates for new housing in the period to 2015 taking into account new figures emerging from the 2001 census of population. This initial revision resulted in a new target of 166,354 (an additional 6,454 houses) for the period 1998-2015.

However, the 2002-based population estimates by the Government Actuary's Department, although projecting a lower population figure for Northern Ireland in 2015 (1,776,000) than the original 1998-based projection of 1,794,000, suggested a more rapidly declining average household size. This, together with more up-to-date information on the housing stock, in particular from the 2001 House Condition Survey, prompted the Department for Regional Development to undertake a fundamental review of the Housing Growth Indicators.

The revised household projection model developed by NISRA's demographic experts envisaged that by 2015 Northern Ireland will have almost 745,000 households, a huge increase from the 719,000 households projected by the original RDS figure. Average household size was newly estimated to be 2.34 persons in 2015, not 2.44, resulting in an increase of around 26,000 households.

In addition, it was estimated there would be a higher rate of vacancies leading to an additional requirement for 6,000 dwellings a higher rate of demolitions (an additional 7,000) and more second homes (an additional 1,000). In total this amounted to a requirement for an additional 40,000 homes in 2015 (a 25 per cent increase over the original estimate), bringing the overall total required to 200,000.

These 200,000 dwellings were then allocated to each District Council using the housing need estimates as a starting point and then adjusting the additional 40,000 to reflect the original goals of RDS - in particular maintaining a strong economic heart around the BMA. All District Councils received an additional allocation compared to the original Housing Growth Indicators (HGIs) ranging from 500 in Antrim to 3,000 in Newry and Mourne and 11,500 in the BMA. In addition an equality impact assessment resulted in 200 dwellings in Derry City and 300 in the BMA being reallocated to Magherafelt (100), Cookstown (200) and Omagh (200).

The formal consultation process ended on 25 March 2005. However, in the light of comments received during this process the Minister for Social Development decided to hold a Public Examination. This Examination was held in February 2006.

The independent panel appointed to conduct the Public Examination published its report in March 2006. The panel broadly endorsed the methodology used by the Department for Regional Development to calculate the Housing Growth Indicators (HGIs) including the estimates of the component parts (household formation, vacancies, demolitions and conversions and second homes), but recommended that the HGIs for Northern Ireland as a whole should be increased by 8,000 to 208,000 to take account of more recent (2004 based) population projections. The panel made a number of other important recommendations:

- PPS12 - Housing in Settlements should be revised to clarify and strengthen policies on affordable housing in order to facilitate their delivery through the development plan process.

- The continued development of single houses in the countryside should be curtailed as a matter of urgency through the review of rural planning policy.

- Future HGIs should be provided on a sub-regional basis to align geographically with new local government Districts arising from the Review of Public Administration.

- A Policy Statement should be issued with some urgency, which explains how the process of monitoring the HGI's is to work and how the results will feed into the development plan process.

In June 2006 the Department for Regional Development (DRD) issued its response to the Report of the Independent Panel which undertook the Public Examination. Most of the recommendations were accepted. In addition the DRD agreed with the Housing Executive to review the housing need projections following the development of new 2006 based household projections, which will take account of the rapid influx of migrant workers to Northern Ireland, and new housing stock related figures emerging from the 2006 House Condition Survey. The new household projections are scheduled to be completed in March 2008 with new Housing Growth Indicators to be published in June 2008.

## The Semple Review of Affordable Housing

Sir John Semple's Review of Affordable Housing was launched in September 2006. The overall objective was to consider the range of Government interventions in the housing market via the planning and housing systems that increase the supply of social housing for rent, support the private rented sector and assist intermediate households into home ownership.

The final Report was published in Spring 2007 and made a total of 80 recommendations. A number of these were of particular importance for the housing market:

- Affordable housing costs should not exceed 35 per cent of gross household income: affordable housing is defined as social rented and intermediate (shared ownership) housing.
- The Department for Regional Development should complete the review of the Regional Development Strategy housing requirement for 1998-2015, currently set at 208,000.
- A target for social housing completions should be set at 2,000 per annum (10,000 over 5 years).
- A system more like the English Local Development Plan System should be introduced.
- The provision to apply planning obligations under Article 40 of the Planning (NI) Order 1991 should be introduced via a revised PPS12.
- A number of fundamental changes to the Co-Ownership Scheme are recommended, such as abolition of the current property value limits.
- Planning permissions should be granted on a three year basis and should no longer be automatically reviewed.
- A new system of rating should be introduced to provide for 100 per cent rates liability if properties remain vacant for six months or more, rising to 200 per cent if a property lies vacant for more than a year.
- A comprehensive review of the House Sales Scheme should be undertaken.
- The registration of Houses in Multiple Occupation should be extended and a system for wider landlord registration developed.

In response to the Semple Report, an Advisory Panel of experts from the statutory, voluntary, private and academic sectors was established to provide advice and expert opinion to the Minister to help move forward the recommendations of the Semple Review. The Advisory Panel evaluated Semple's 80 recommendations in the context of changes to the wider economy and the housing market in Northern Ireland with a view to making recommendations which could be progressed within a short-medium timescale.

The Panel proposed a number of short term solutions to providing more social and affordable housing:

- Provide an immediate commitment to introduce developer contributions for social and affordable housing, recognising that actual delivery on the ground will be in the medium-longer term.

- Use development briefs for the sale of public sector land to achieve 60-70 per cent social and affordable housing on these sites.
- Set in place best practice guidelines and multi-skilled teams to negotiate developer contributions.
- Expand the Co-Ownership model and explore the case for additional equity sharing schemes through existing and proposed vehicles employed in Great Britain and Ireland.
- Explore the role of existing vehicles such as Government Equity Loans.
- Consider voluntary arrangements where developers offer social and affordable housing in return for fast tracking through the planning system.

### PPS12: Housing in Settlements

In July 2005 the Department for Regional Development published Planning Policy Statement 12 (PPS12) - Housing in Settlements. Its purpose was "to provide strategic direction and guidance in the form of regional planning policy" to assist the implementation of the Regional Development Strategy. It is seen as a key mechanism for the implementation of the RDS.

The policy objectives of PPS12 are:

- to manage housing growth in response to changing housing need;
- to direct and manage future housing growth to achieve more sustainable patterns of residential development;
- to promote a drive to provide more housing within existing urban areas;
- to encourage an increase in the density of urban housing appropriate to the scale and design of the cities and towns of Northern Ireland; and
- to encourage the development of balanced communities.

In September 2007, in response to the Review of Affordable Housing, the Minister for the Department for Social Development (DSD) formally asked the Department for Regional Development (DRD) to review Planning Policy Statement 12. DRD convened an interagency working group with representation from DRD, DSD, Department of the Environment (DOE) and the Housing Executive to undertake this task. The main focus of this group has been to revise the development control policy, Policy HS2, in order to make it an effective instrument for delivering social and intermediate housing. A consultation draft of a revised PPS12 is scheduled to be published later this year. This consultation draft will be a material consideration which will be given substantial weight, in the determination of planning applications from the date of publication. Consideration is also being given to amending PPS12 to permit it to be used as the policy platform for the operational use of Article 40 agreements, which will force developers to set aside an agreed proportion of new developments for social and affordable housing. It is hoped that a revised PPS12 may be adopted by the end of 2008.

### Development Plans

PPS12 is a key planning policy document which guides the Development Plan process and which in turn is the main vehicle for assessing the future requirement for housing land. An important element of the Development Plan process is the Housing Needs Assessment prepared by the Housing Executive.

The Housing Needs Assessment:

- sets the regional housing market context within which specific housing needs exist;
- highlights housing trends to provide a descriptive baseline and draw attention to any issues that are significant;
- analyses housing trends and the factors that are driving the housing market and gives an indication of the relative importance of those drivers;
- assesses the impacts of local housing needs on the wider housing market; and
- identifies the range of housing needs.

In relation to the Development Plan process, progress is slow as a result of judicial reviews of the draft Magherafelt and Northern Area Plans. The challenges made to these two Area Plans related to the legality of their Strategic Environmental Assessments under the relevant European Directive. A judicial review has also been undertaken of the draft Banbridge, Newry and Mourne Area Plan.

Following Justice Weatherup's judgement in respect of the challenges to the Northern Area Plan and Magherafelt Area Plan in September 2007, Planning Service conducted a review of its decision to carry out an environmental assessment of the draft plans under the terms of the European Directive and the 2004 Regulations. In November 2007 it decided it was not feasible to carry out an environmental assessment in accordance with both the Directive and the 2004 regulations. The Remedies hearing in November 2007 ruled not to quash both plans, but rather that matters of non compliance with the European Directive should be resolved by Planning Service. The Area Plan programme is, therefore able to move forward (subject to no further legal challenges on the outcome of the Remedies hearing).

### PPS14: Sustainable Development in the Countryside

PPS12 only dealt with housing in settlements: in cities, towns, villages and small settlements. Housing in rural areas is dealt with by PPS14: Sustainable Development in the Countryside.
The ministerial statement that accompanied the publication of draft PPS14 in March 2006 indicated that it represented a clear sea change in Government and planners' attitude to developments in rural areas by proposing "a presumption against new development in the countryside" outside designated settlements limits, with a limited number of exceptions. The Government saw the high rate of new buildings in the countryside as unsustainable, leading to irreversible and unacceptable impacts on the environment.

The objectives of PPS14 were:

- to manage growth in the countryside to achieve appropriate and sustainable patterns of development that meet the essential needs of a vibrant rural community;
- to conserve the landscape and natural resources of the rural area and to protect it from excessive, inappropriate or obtrusive development and from the actual or potential effects of pollution;
- to facilitate development necessary to achieve a sustainable rural economy; and
- to promote high standards in the design, siting and landscaping of development in the countryside.

Policy CTY1 - Development in the Countryside clearly states that there will be a presumption against development throughout the countryside, with the exception of a limited number of types of development which are considered in principle to be acceptable:

- A farm dwelling which is seen as essential to meet the needs of a viable farm;
- A dwelling for a retiring farmer and/or partner on the land farmed.
- A dwelling to meet the essential and site specific needs of a non-agricultural business enterprise.
- A replacement dwelling; a presumption in favour of the retention of listed and non-listed vernacular dwellings, will only be overridden in exceptional circumstances.
- For social housing (Policy CTY6) planning permission (subject to a sequential test) may be granted for a small group of dwellings (generally no more than 8) to provide social housing for the rural community, where a demonstrable need has been identified by the Housing Executive which cannot be met within the existing settlement in the locality.

However, following extensive criticism of the draconian character of PPS14 and a judicial review judgement given in October 2007, the detail of PPS14 is being reviewed by the Department of the Environment. In February 2008 the Minister for the Environment, stated that in her view small clusters of social and affordable housing should be built in some areas and that existing dwellings could be used to create more rural homes. A revised draft PPS14 is to be available by May 2008 for consultation.

## The World Economy

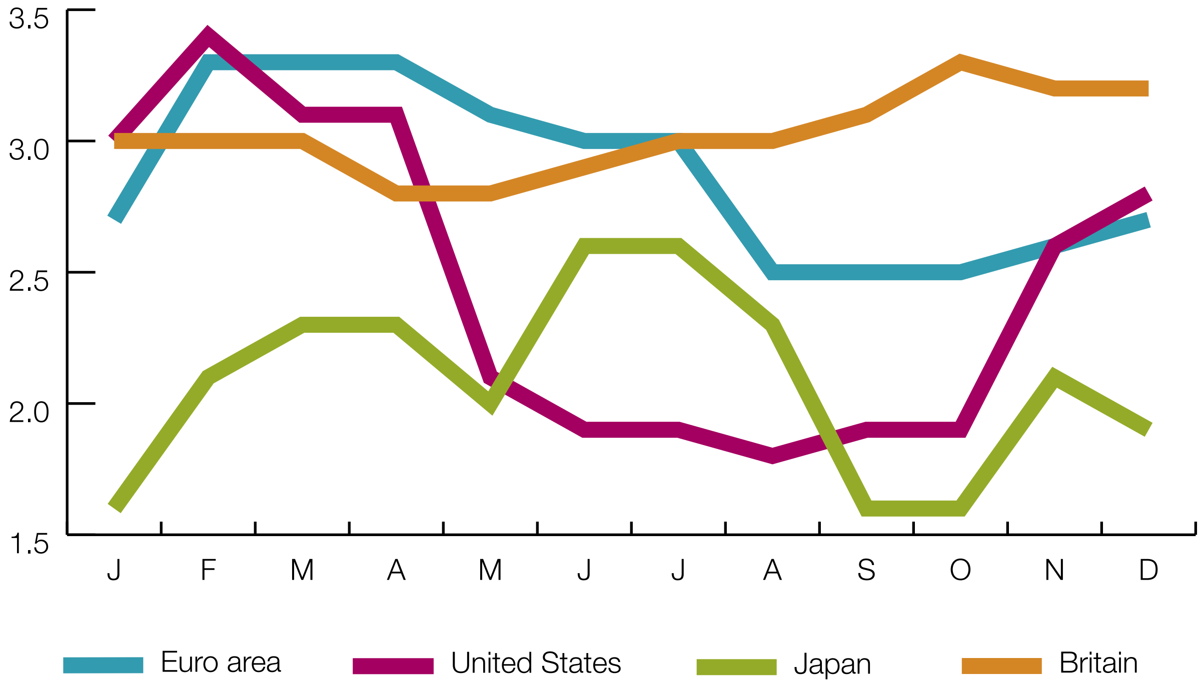
With the advance of globalisation, the economy of the United Kingdom, including that of Northern Ireland, is becoming increasingly intertwined with the world economy. The world economy grew at a rate of 5.4 per cent in 2006, is expected to grow at 5.2 per cent in 2007 and 4.8 per cent in 2008. The key drivers of this growth are the emerging economies of Asia - and in particular China's rapid expansion.

The economy of the USA is still dominant in global terms, producing more than one-fifth of world Gross Domestic Product (GDP). Developments in the USA are therefore critical to the well being of other industrial nations. Figure 1(a) shows that the economy of the USA was continuing to grow throughout 2007, although at a lower rate than in recent years, industrial production increased by less than 2 per cent for most of the year (Figure 1b) and the rate of unemployment has been rising (Figure 1c). The most recent figures for the US economy show a sharp downturn in Q4, 2007 with GDP growing at an annualised rate of only 0.6 per cent compared to 4.9 per cent in Q3, 2007. In addition, while industrial output is continuing to grow and productivity is rising, manufacturing growth has almost ground to a halt and consumer spending is fairly static. In December 2007 consumer spending actually fell and with only 18,000 additional non-farm jobs created, the unemployment rate rose to 5.0 per cent. Indeed in January 2008 the number on non-farm payrolls actually fell by 17,000 - the first drop since 2003. The state of the economy is reflected in the lowest level of car sales for 9 years, traditionally a bellwether of the American economy.

The most serious economic news, however, comes from the housing market in the USA. It is already in recession as a result of the crisis in sub-prime lending, which is now estimated

## Figure 1: International Economic Trends, 2007

Figure 1: (a) Growth in Gross Domestic Product, 2007




*Source: Economist*

to make up one-fifth of the total home loan market in the USA. This is reflected in key statistics from the housing market for 2007:

- US residential building suffered its biggest drop in nearly three decades: housing starts for 2007 fell by more than 25 per cent to 1,376,000 - the largest drop previously was in 1980 when America entered a deep recession. Permits to build new homes - which signal future trends - fell 8 per cent in December 2007.

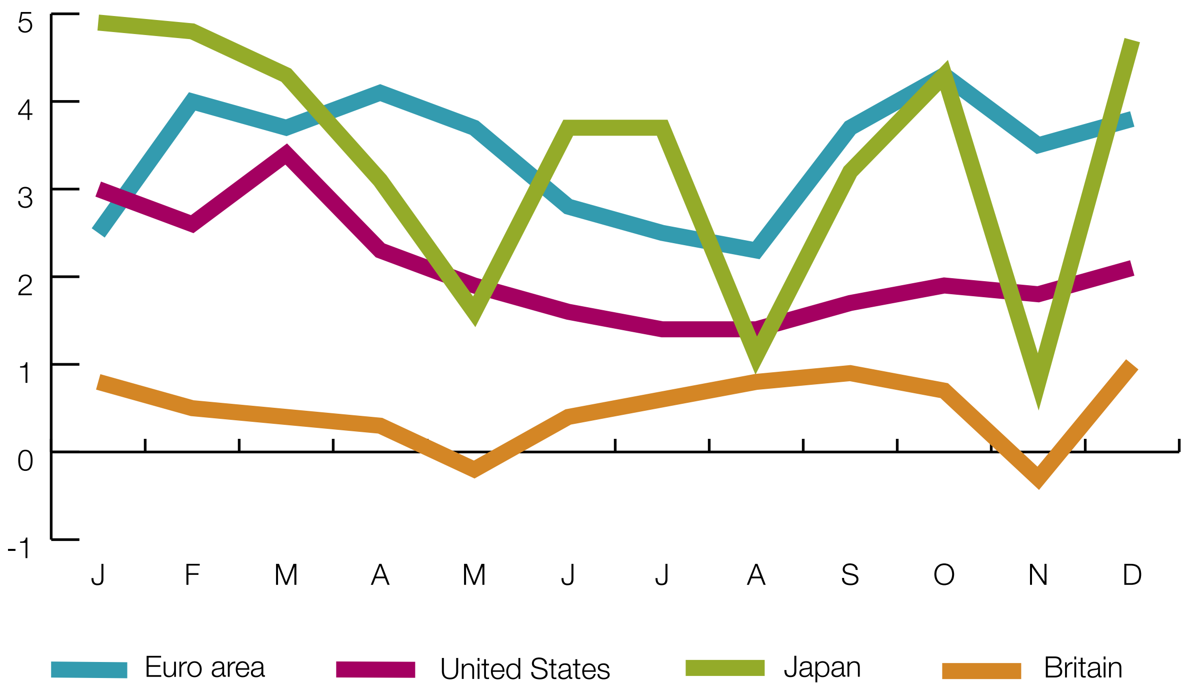
- The sale of new homes was down by 26 per cent during 2007 compared to 2006, and in Q4, 2007 fell by an annualised 35 per cent.

- The sale of existing homes fell by 13 per cent in 2007 and the national median house price fell by 1.4 per cent - the first annual decline since 1968.

- Finally there has been a huge rise in the number of foreclosures (a 100% increase in Q3, 2007 compared to Q3, 2006).

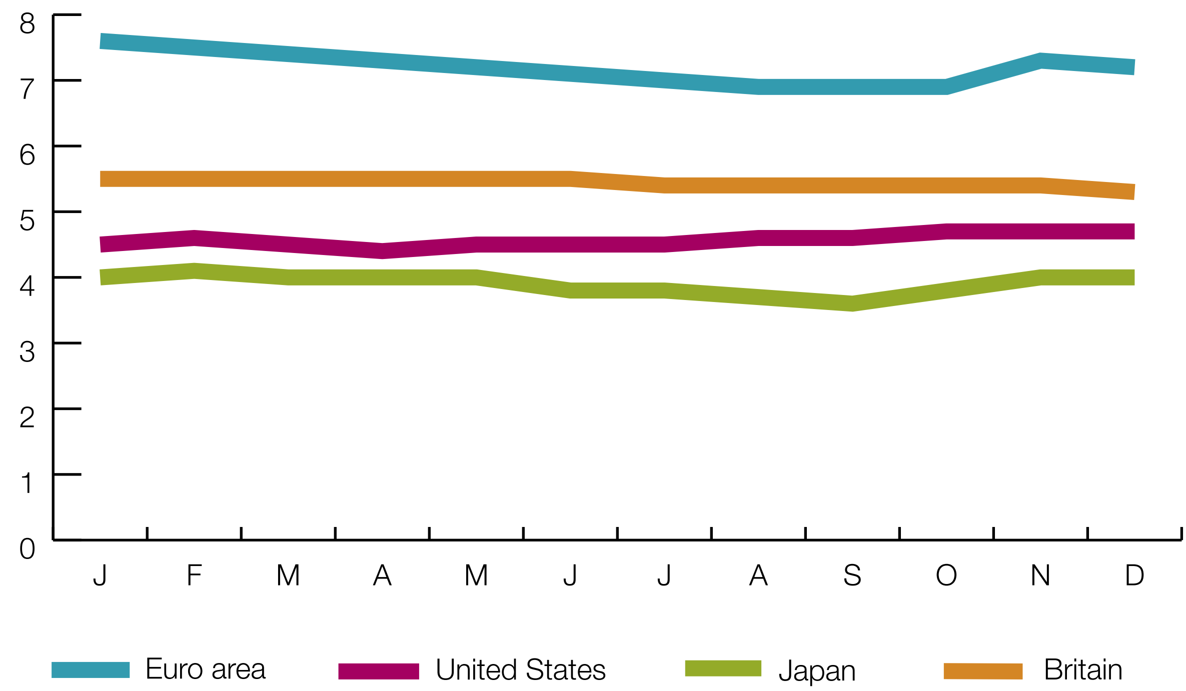
The severe problems which have emerged as a result of the sub-prime lending crisis are reflected in the "credit crunch" - the freezing of credit markets - as lenders become much more cautious about lending to not only those wanting to purchase a dwelling, but also among themselves. More and more of the large financial institutions are admitting to having suffered major losses as the market value of sub-prime mortgage backed securities has plummeted. In January it was estimated that the leading American and British financial institutions had already lost

Figure 1: (b) Growth in Industrial Production, 2007




*Source: Economist*

Figure 1: (c) Unemployment Rate, 2007




*Source: Economist*

$85 billion as a result of the crisis in the sub-prime lending market.

On 22nd January 2008 the US Federal Reserve made an emergency cut of 0.75 percentage points in interest rates in an attempt to arrest the deterioration in the US economy, but following a further sharp drop in the price of US stocks on Wall Street, interest rates were reduced by a further 0.5 percentage points only eight days later. Interest rates in the USA now stand at 3.0 per cent following five reductions (2.25 percentage points) since August 2007. However, despite this there is a growing consensus that America will slip into recession this year as consumer confidence declines; consumer spending which makes up two-thirds of American GDP, is curtailed and unemployment begins to rise. In addition the full impact of the sub-prime mortgage crisis and the credit squeeze has yet to be felt. By February 2008 the investment value of sub-prime backed securities had been written down by more than $100 billion and a report to the G7 finance ministers stated that this could rise as high as $400 billion.

While the economy of the USA dominates the world economy and therefore has the biggest influence on the UK, economic developments in the Eurozone and Japan also play an important role. The major French and German banks too have suffered as a result of the “credit crunch”, but active intervention by the European Community Bank (ECB) has minimised the ramifications. In January 2008, the ECB was sufficiently confident to keep interest rates at 4 per cent. However, in the final months of 2007, economic growth in the 15-country region expanded by 0.4 per cent, only half of the 0.8 per cent increase recorded in Q3, 2007.

In Japan, the three biggest banks have lost almost $5 billion as a result of exposure to US sub-prime mortgage products and in December 2007 wages fell at their fastest rate (1.9%) in three years, illustrating the fact that Japan continues to experience difficulties extricating itself from the deflationary situation, which has been the diagnostic characteristic of its economy since the 1990’s, when it’s housing market collapsed. Japan’s economy grew by 3.7 per cent in Q4, 2007 due to strong capital spending and exports to emerging markets. However, the prospect of a recession in the USA, a stronger Yen, rising energy prices and stagnant earnings indicate a difficult period for the world’s second largest economy.

## The Economies of the UK and RoI

### The UK Economy

In 2007 the UK economy continued to experience robust economic growth (3 per cent), rising employment (reaching a new record of over 29 million) and falling unemployment.

The Chancellor’s pre Budget Report in October 2007, envisaged growth slowing to between 2.0-2.5 per cent in 2008 as a result of disruption in global financial markets. This leading to tighter credit conditions and to lower household and company spending, but rising to its trend rate of 2.5-3.0 per cent in 2009 and 2010.

However, since November it has become clear that the impact of the sub-prime lending crisis, and the resultant "credit crunch" on the UK economy, has been more severe than that envisaged in the estimates of October 2007. In early 2008 there are growing signs of a sharper than expected downturn in the UK economy.

- Consumer debt has continued to mount and now stands at over £1.4 trillion, an increase of almost 10 per cent compared to 2006, and for the first time higher than annual GDP.

- Government debt (the National Debt) as a proportion of GDP has risen to nearly 38 per cent, and if the recent nationalisation of Northern Rock is included, to 44 per cent, breaking the Government's 40 per cent sustainable investment rule.

- The volume of retail sales in December 2007 fell by 0.4 per cent despite significant price reductions, as purchasing power was reduced by tighter credit conditions, higher interest rates, and higher energy and food costs.

- Lending institutions are becoming increasingly cautious and some 1.4 million householders on low fixed rate mortgages are due to come off these fixed rate deals. Banks and building societies have cut substantially the range of products for buy-to-let and sub-prime residential markets. In February 2008 a number of banks stopped providing 125 per cent mortgages.

- Interest rates have risen 5 times since August 2006 to reach 5.75 per cent. After growing pressure the Bank of England Monetary Policy Committee reduced the lending rate by 0.25 percentage points in December 2007 to 5.5 per cent. This is the first reduction in more than two years. A further reduction to 5.25 per cent took place in February 2008, but economists feel the scope for further significant reductions is limited.

- The number of loans approved for house purchase in December 2007 was 35 per cent lower than in December 2006.

### The Economy of RoI

The Economy of the RoI performed strongly in the first six months of 2007 with Gross Domestic Product rising by 6.7 per cent (compared to 5.7% in 2006) reflecting growth in both domestic spending and exports. However, the RoI economy slowed significantly in the final six months of 2007 and growth is expected to be only 4.8 per cent for the year as a whole, and 3.3 per cent in 2008, in response to the knock on effects of the sub-prime lending and concomitant liquidity crisis in the USA. However, a more recent assessment by the Ulster Bank (February 2008) estimates that growth for 2008 may be as low as 2 per cent, in consequence of the downturn in the housing market and slowing employment. Property prices in the RoI fell 7.3 per cent in 2007 and are predicted to fall by a further 5 per cent in 2008 according to the Permanent TSB and the Economic and Social Research Institute, but with prices starting to rise again in the second half of 2008, in response to rising rental levels (currently rising at 12.3 per cent per annum).

## The Northern Ireland Economy

The most recent comprehensive report on Northern Ireland's economy (First Trust Bank, Economic Outlook and Business Review, November/December 2007) confirms that it will face serious challenges over the next three years. In October 2007 the Comprehensive Spending Review established that the Northern Ireland Departmental Expenditure Limit would increase by just over 1.2 per cent in real terms per annum over the next three years (less than one-third of the average annual real increase in public expenditure in Northern Ireland over the last decade). In a region where one third of employees are in the public sector and two thirds of GDP is dependent on the public sector, this signals a more difficult economic environment in the short term. However, the new Investment Strategy for Northern Ireland commits the Government to investing £18 billion on improved infrastructure over a 10 year period, an important commitment for the construction industry which produces almost 15 per cent of Northern Ireland's GDP and provides some 80,000 jobs.

Manufacturing output in Northern Ireland rose by 0.7 per cent in Q2, 2007, but was still 2.0 per cent below the level in Q2, 2006 and growth in service sector output also weakened, falling by 0.1 per cent in Q2, 2007 on the previous quarter, although still 2.7 per cent higher than in Q2, 2006.

However, consumer demand in Q2, 2007 still remained buoyant with new car registrations 4.6 per cent higher than in the same quarter of 2006. At that time the report envisaged that the turbulence in the financial sector was unlikely to adversely affect consumer demand in 2008, but by early 2008 this estimate looked rather optimistic against a background of sharp reductions in the growth of the economies of the UK and RoI.

### Employment and Unemployment

Employment and unemployment are two important indicators of economic well-being and therefore of the future health of the housing market. Increasing levels of employment and a decline in the number of unemployed have been seen as key factors in the buoyancy of Northern Ireland's housing market since 1996.

Table 1 sets out the most recent labour market statistics.

- International Labour Organisation (ILO) employment (including employees, self employed and government programmes) has increased over the last twelve month period by 9,000 to 779,000.

- The level of ILO unemployment increased marginally (+1,000) to 35,000 compared to the same quarter in 2006.

## Table 1: Key Labour Market Statistics for Northern Ireland, 2006/07

| | Sept - Nov 2006 | | Sept - Nov 2007 | | YoY Change |
|---|---|---|---|---|---|
| ILO Employment | 770,000 | | 779,000 | | +9,000 |
| ILO Unemployment | 34,000 | (4.2%) | 35,000 | (4.3%) | +1,000 |
| Worklessness (18-59/64) | 329,000 | (30.7%) | 329,000 | (30.4%) | - |

*Source: DETNI, January 2008 (Seasonally adjusted)*

- The Northern Ireland unemployment rate (4.3%) is the lowest unemployment rate among the UK regions and was lower than the equivalent rate for the UK as a whole (5.4%). However, this represents a sharp increase from the 3.6 per cent recorded for Northern Ireland in the previous quarter (June - Aug 2007).

- The number of working age people who are workless (the economically inactive plus the unemployed) has remained unchanged at 329,000. However, although the rate of worklessness has fallen by 0.3 percentage points year-on-year, it showed a significant increase from 27.8 per cent in the previous quarter to 30.4 per cent in the September to November 2007 quarter.

- Overall the figures indicate that the rapid expansion in employment which has taken place over the last five years came to an end in Q4, 2007 and Northern Ireland continues to have the lowest ILO employment rate of all regions of the UK (69.7 per cent - compared to 74.7 per cent for the UK as a whole).

## Earnings and Benefits

Northern Ireland continues to show a lower level of earnings and a higher level of benefit dependency than for the UK as a whole:

- Average gross weekly household income in Northern Ireland (2003/06) was £502, the third lowest of any region of the UK. The average for the UK as a whole was £596[1].

- In Northern Ireland, Social Security benefits (excluding Housing Benefit and pensions) form 19 per cent of average gross weekly household income[2]. This is the highest figure for any region in the UK. The comparable figure for the UK as a whole is 12 per cent. In Scotland, the figure is 14 per cent and in Wales it is 17 per cent.

- In Northern Ireland 24 per cent of households are in receipt of incapacity or disability benefits compared to 16 per cent for the UK as a whole.

## Economic outlook for Northern Ireland

Economic growth in 2008 is set to continue at close to the long term average. However, there is no doubt that developments in Northern Ireland's economy will be determined to a large extent by developments in the world economy, and in particular, the economies of the USA and UK as a whole, and the RoI. Slower growth in these economies, growing signs of a recession in the USA, tightening credit conditions, much higher energy prices, significant increases in food prices, as well as lower growth in public spending and rising worklessness, all indicate a much more difficult economic context for Northern Ireland's housing market, in which marginally lower interest rates will have a limited impact.

*1. DSD, Housing Statistics, 2006/07*
*2. ONS, Regional Trends, 39, Tables 8.1 and 8.8*

## Demographic Profile

The Northern Ireland Census 2001 provided a comprehensive picture of Northern Ireland's demography. Its key findings were as follows:

- There were 1,685, 627 people living in Northern Ireland (2.87 per cent of the total UK population)

- The age structure of the population is the youngest of all regions of the UK with 398,000 children (23.6%) under the age of 16 compared to 20.1 per cent in the UK as a whole. In 1991 the proportion of the population less than 16 in Northern Ireland was 26.0 per cent.

- Conversely Northern Ireland had a smaller percentage of people of pensionable age (65+ for male/60+ for female) than the rest of the UK. Some 261,500 people (15.5%) of pensionable age live in Northern Ireland compared to around 18 per cent in the UK as a whole. Since 1991 the number of people of pensionable age has grown by around 25,000 (an increase of 11%).

- In Northern Ireland there were over 100,000 people aged 75 or more (a total of 6%). This compares with 7.5 per cent for the UK as a whole. Since 1991 the number of people aged 75 and over has increased by 18,000 (22%).

Research commissioned by the Housing Executive from the University of Ulster in 2003, identified a number of other significant demographic changes between 1991 and 2001.

- Northern Ireland's population grew by 6.8 per cent between 1991 and 2001, but the number of households grew by 18.2 per cent (96,000 households) to 626,700. This rate of growth is almost three times as fast as the overall population.

- This household growth was a function of population growth and a changing pattern of living arrangements. Population growth accounted for about 37 per cent of the growth in household numbers and changing living arrangements (especially more single person households, including the elderly) accounted for about 63 per cent of household growth.

- Average household size fell from 2.93 in 1991 to 2.65 in 2001.

- Other trends which had already become apparent during the previous decade (1981-91) continued between 1991 and 2001, although some at a different rate:

    - the continued growth in the number and proportion of single person households: from 120,000 (22.8%) in 1991 to 172,000 (27.3%) in 2001;

    - a large fall in the proportion of married couples with at least one dependent child from 31.7 per cent, in 1991 to 24.3 per cent in 2001;

    - the overall proportion of lone parent households with dependent children rose a little from 6.1 per cent to 8.7 per cent, but these lone parent households represented a greater proportion of all households with dependent children (15% in 1991 to 22% in 2001);

    - a substantial fall in the proportion of all households with dependent children; from 41.5 per cent in 1991 to 36.5 per cent in 2001;

    - the birth rate per 1,000 population continued to fall from 16.2 per 1,000 in 1991 to 13.0 in 2001;

- the death rate also fell from 9.5 per 1,000 (1991) to 8.6 (2001);
- the rate of natural increase therefore fell significantly from 7.7 per 1000 in 1991 to 4.4 in 2001.

## 2006 Based Population Projections

The Office for National Statistics published its 2006 based population projections for Northern Ireland in October 2007.

The projections indicate a number of important changes in Northern Ireland's demography over the 15 year period to 2021:

- The population is projected to increase from 1,742,000 in 2006 to 1,922,000 in 2021. This is equivalent to an average annual rate of growth of almost 0.7 per cent, significantly higher than the 0.42 per cent projected in 2004.
- The net projected increase of 180,000 people between 2006 and 2021 is attributable to a natural increase (the difference between the numbers of births and deaths) of 157,000 and a net inward migration of 23,000. The most recent estimates of net inward migration indicate that it will decline rapidly from 10,000 (2006/07) to 1,000 by 2021.
- The number of children aged under 16, which had been projected to decline by 9 per cent between 2004 and 2019, is now projected to increase from 380,000 in 2006 to 393,000 in 2021 as a result of an increase in the birth rate, this too is partly attributable to the influx of migrant workers.
- The number of working age adults is projected to increase from 1,077,000 in 2006 to 1,190,000 by 2021, an increase of about 113,000 (10%), a much bigger increase than previously projected, largely as a result of the rising pension age.
- Conversely, the number of people of pension age is projected to increase from 284,000 in 2006 to 339,000 by 2021, an increase of only 19 per cent, a much lower percentage than in the 2004 projection.
- The number of people aged 75 and over is projected to increase by 54,000 (49%) by 2021.

Table 2 summarises key information from the 2006 population projections.

## Table 2: Population Projections by Age-Band 2006-2021

| Age Band | 2006 | 2011 | 2016 | 2021 |
|---|---|---|---|---|
| | 000's | 000's | 000's | 000's |
| Children (0-15) | 380 | 377 | 381 | 393 |
| Working Age | 1,077 | 1,124 | 1,166 | 1,190 |
| Pension Age | 284 | 310 | 320 | 339 |
| Adults (75+) | 110 | 121 | 137 | 164 |
| All Persons | 1,742 | 1,812 | 1,868 | 1,922 |

*Source: ONS Household Projections, October 2007*

From the point of view of understanding the housing market, the rate of household formation is of more significance than population growth. In March 2008, NISRA will be publishing new household projections for the period 2006-2021, which are to be used as the starting point for a review of the Housing Growth Indicators currently contained in the Regional Development Strategy. Figures for the fifteen year period 2004-2019 (Table 3), however, reveal large increases in the number and proportion of one and two person households and, conversely a significant fall in the number and proportion of households with four and five or more persons.

For housing, the key implications of the demographic trends are as follows:

- The increasing number and proportion of one and two person households may have some impact on the size and design of dwellings. However, market intelligence indicates that there is no direct relationship between demographic trends and the size of dwellings required, as younger children increasingly like to occupy a bedroom on their own, or adults use an extra bedroom as a place of work or recreation.

- The steady rise in the number and proportion of pensioners, and in particular the rapid growth in the number of people aged 75 or more, undoubtedly has important implications for not only the design of dwellings, but also the support funding and care packages required to enable these pensioners to live independently and comfortably in their own homes.

## Table 3: Household Projections by Size of Household 2004-2019

| | 2004 No + % of Total | | 2019 No + % of Total | | Percentage increase/ decrease in number +/-% |
|---|---|---|---|---|---|
| 1 Person | 186,700 | (29%) | 264,500 | (34%) | +42% |
| 2 Person | 188,300 | (29%) | 249,300 | (32%) | +32% |
| 3 Person | 107,100 | (16%) | 118,400 | (16%) | +11% |
| 4 Person | 95,300 | (15%) | 89,000 | (11%) | -7% |
| 5+ Person | 75,700 | (12%) | 55,000 | (7%) | -27% |
| TOTAL | 653,000 | 100% | 776,100 | 100% | +19% |

*Source: NISRA*

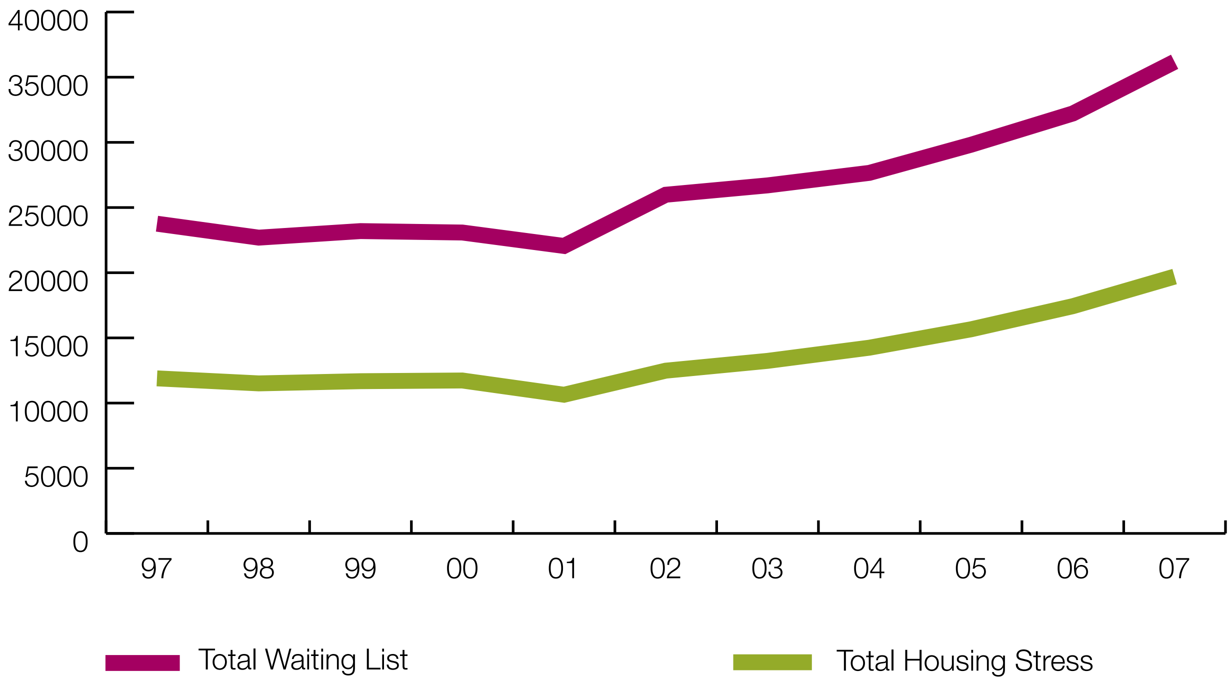
## The Waiting List for Social Housing

The Common Waiting List for social housing remains a key source of information for understanding the dynamics of Northern Ireland's housing market.

Figure 2 illustrates trends in the waiting list between 1997 and 2007. The actual figures are set out in Appendix 1, Table A2. An analysis of these figures shows that:

- Between March 1997 and March 2000 the overall number of applicants remained fairly stable at a little over 23,000. The re-assessment exercise associated with the implementation of the new Common Selection Scheme (November 2000) resulted in a temporary reduction in the number on the waiting list in March 2001.
- However, by March 2002 the waiting list had jumped significantly to nearly 26,000, and since then it has continued to rise steadily. In March 2007 it reached 36,182 a 13 per cent increase on March 2006.
- Between March 1996 and March 2000 the number of applicants in housing stress (referred to as urgent need until March 2001) rose gradually from around 11,150 to 11,700. The number fell in March 2001 (following the re-assessment exercise), but subsequently the number in housing stress rose rapidly to reach 17,223 in March 2006. In the twelve months to March 2007 the rate of increase has accelerated compared to the previous year: in March 2007, a total of 19,703 households were in housing stress, an increase of 2,480 (14%) over the March 2006 figure.

### Figure 2: Trends in the Waiting List, 1997-2007




*Source: NIHE*

- The proportion of those on the waiting list in housing stress has also continued to rise over the past year. In March 2002 48.1 per cent of the total number of applicants were in housing stress. This proportion rose steadily over the next few years to reach 54.5 per cent in March 2007.

In the six month period from the end of March to the end of September 2007 the demand for social housing has continued to rise. At the end of September 2007 there were over 38,000 applicants on the Common Waiting List; nearly 21,000 (55%) of these were in housing stress.

### Geography of the Demand for Social Housing

Analysis of the geographic distribution of the increases in the waiting list shows that the pattern of growth is by no means uniform. Table 4 shows the 9 housing management districts with the highest percentage increases (at least 110%) in housing stress over the five year period from September 2002 to September 2007. It is interesting to note that these districts also tend to be those which have recorded the widest affordability gap (See Appendix 2).

- It is difficult to identify the relative importance of the contributory factors, resulting in this differential pattern of growing housing stress: the growth of second homes is no doubt a factor in Coleraine and Ballycastle, but proximity to the main M1 or A1 corridors also appears important, and although difficult to prove statistically, there is undoubtedly a knock-on effect. As house prices have risen rapidly in Belfast and its immediate surrounding areas more households have located along the arterial routes, where land prices (and therefore house prices) have been lower, but from which Belfast, the location of most of the new jobs in the service sector, is still accessible.

## Table 4: Housing Stress: Change 2002-2007

| Housing Management District | Housing Stress Sept 2002 | Housing Stress Sept 2007 | Change 9/02 - 9/07 | % Change 9/02 - 9/07 |
|---|---|---|---|---|
| Banbridge | 141 | 370 | 229 | 162 |
| Coleraine | 278 | 701 | 423 | 152 |
| Ballymoney | 88 | 217 | 129 | 147 |
| Omagh | 94 | 230 | 136 | 145 |
| Portadown | 113 | 276 | 163 | 144 |
| Ballycastle | 81 | 194 | 113 | 140 |
| Newry | 480 | 1115 | 635 | 132 |
| Limavady | 92 | 209 | 117 | 127 |
| Cookstown | 76 | 160 | 84 | 111 |
| Northern Ireland | 13,230 | 20,883 | 7,653 | 58 |

*Source: NIHE*

## Table 5: The Common Waiting List: Household Composition 2003-2007

| Household Type | March 2003 (%) | March 2004 (%) | March 2005 (%) | March 2006 (%) | September 2007 (%) |
|---|---|---|---|---|---|
| Singles | 44 | 46 | 46 | 46 | 44 |
| Small Adult | 5 | 6 | 6 | 6 | 6 |
| Small Families | 26 | 23 | 23 | 23 | 25 |
| Large Families | 5 | 5 | 5 | 5 | 5 |
| Large Adult | 1 | 1 | 1 | 1 | 1 |
| Elderly | 19 | 19 | 19 | 18 | 18 |

*Source: NIHE*

Analysis of the waiting list by household composition over the period 2002 to 2007 confirms the continuing dominance of singles, although the proportion has fallen from 46 per cent to 44 per cent. (See Table 5). Small families also continued to be the next largest component of the waiting list (having risen to 25 per cent in September 2007)) followed by the elderly (18%).

This analysis of the waiting list trends by District Council and household type provides a useful indication of future concentrations in the demand for social housing, for co-ownership and for low cost affordable homes in the private sector:

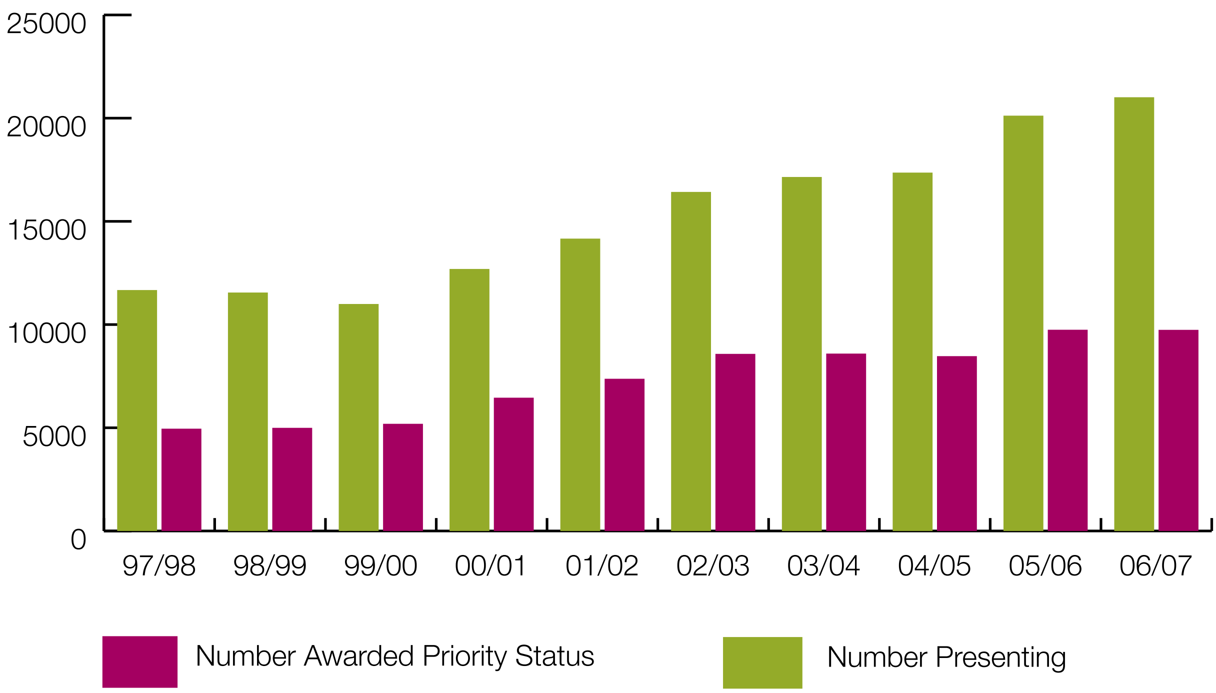
- it will be concentrated in parts of Belfast and in areas within easy commuting distance from the city;
- it will come from singles, small families and the elderly.

## Homelessness

The three year period from April 2000 to March 2003 saw a steady and rapid increase in both the number presenting as homeless and the number accepted (see Figure 3). Between 2003 and 2005 the rate of growth appeared to have stabilised, but since then the number of households presenting as homeless has risen considerably, although the number awarded priority status remained almost unchanged between 2005/06 and 2006/07.

- In 2005/06 a total of 20,121 households presented as homeless. In 2006/07, however the comparable figure was 21,013, an increase of 4 per cent (much lower than the 20 per cent increase recorded over the previous twelve months).
- Indeed the number of presenters accepted as being statutorily homeless reduced marginally from 9,749 in 2005/06 to 9,744 in 2006/07 and the proportion of presenters accepted as homeless, continued to fall: from 53 per cent in 2002/03 to 46 per cent in 2006/07.

## Figure 3: Trends in Homelessness 1997-2007




*Source: NIHE*

- The relative importance of the causal factors has changed little. The dominant factor in relation to those presenting as homeless remains sharing breakdown/ family dispute: 5,037 (24%) of those presenting did so for this reason.

- The other key factors remain marital/ relationship breakdown (2901; 14%), accommodation not reasonable (3,104; 15%) and loss of rented accommodation 3,057 (15%). It is worth noting that there has been a 13 per cent increase in the number of presenters stating loss of rented accommodation as the cause of their homelessness.

- Two thirds (67%) of homelessness presenters are accounted for by these four reasons.

In the case of those households who have been accepted as statutorily homeless a somewhat different picture emerges:

- The biggest single cause remains sharing breakdown/family dispute: 2,004 in 2006/07 (21% of the total).

- However, in the case of those accepted as homeless, marital/relationship breakdown is not the second most important cause. In 2006/07 only 971 (10%) households were accepted on this basis.

- “Accommodation not reasonable” accounted for 2,355 households (24% of the total accepted in 2006/07). In recent years this category has increased substantially as the population ages and many elderly people find it increasingly difficult to live independently in their current home. However in 2006/07 the increase levelled off.

- Over the five year period 2001/02 - 2006/07 there have been steady increases in the number awarded homeless status due to loss of (private) rented accommodation (1,419 in 2006/07 compared to 775 in 2001/02). However, of most significance is the increase over the period of a year (2005/06-2006/07), when the number of households awarded priority status for this reason increased by 189 (15%) indicating that the private rented sector does not provide suitable housing circumstances for a significant proportion of low income households.

Almost one-half (49%) of all households who presented in 2006/07 were single people of whom 6,840 (33% of the total) were single males aged 16-59 years of age. Families with children accounted for a little over one third (7,100; 34 per cent) of those presenting.

Figures for the first six months of the financial year 2007/08 indicate a further increase in homelessness. Between April and September 2007, a total of 10,462 households presented as homeless and of these 4,907 were awarded priority status, 3 per cent higher than the number accepted in the comparable six months in 2006.

## The Need for New Social Housing

Social housing is in a constant state of flux. Approximately one-tenth of all social dwellings experience a change of tenancy every year. It is these relets which meet most of the ongoing demand for social housing. However, there is an ongoing and increasing need for new social dwellings. Since 1994 the Housing Executive has used a Net Stock Model as the basis to estimate the need for new social housing at the Northern Ireland level. Using demographic information from the Census, population projections (and more recently household projections), as well as a number of housing stock indicators, (e.g. demolitions and second homes), it has estimated the total extra number of new social dwellings required over a 10 year period. The model has assumed that over this period, the private sector will continue to build dwellings at a rate which equates to the average number of dwellings built by it in the most recent five years (more recently 10 years) with the residual requirement being met by social housing.

Following the publication of the 2001 Census data in 2003, the Housing Executive commissioned the University of Ulster and University of Cambridge to revisit the Net Stock Model and in the light of the new census data develop an updated and more sophisticated approach to assessing future housing need in Northern Ireland. The most important outputs of this research, published in January 2004, were two housing need models:

- an updated Net Stock Model which took into account the most recent 2001 Census data and information from the 2001 House Condition Survey.

- a new model (referred to as the Cambridge Model) based on demographic and housing projections, including estimates of future household formation, household headship, age profile and tenure split.

Both models allowed for vacancies, second homes, demolitions and replacement dwellings. Both models estimated the need for new social housing for the period 2001 to 2011.

The Net Stock Model indicated the need for an average annual social housing programme of 1,400 over the period 2001-2011. The Cambridge Model indicated the need for an average annual programme of 1,500.

The research noted that dwellings already in existence, whether refurbished or not, which are drawn into the social housing stock through, for example the acquisition of "existing satisfactory" dwellings do not help meet these targets as they reduce the number of private sector dwellings which are assumed to exist in both these models.

The researchers recommended strongly that both models are used in conjunction with more detailed local information (waiting list data in particular) as the two models are designed to meet demand generated by underlying demographic forces and do not take into account:

- the growing backlog between the original target (1,500) and what actual was delivered 2001-2004.
- local imbalances in supply and demand: oversupply in some areas cannot simply be transferred into areas of high demand.

## Table 6: Net Stock Model 2001-2011, 2006 Update

| | | Projected Households (000) |
|---|---|---|
| Extra Demand 2001-2011 | New Households | 82.5 |
| | Concealed Households | 5.0 |
| | Temporary Accommodation | 1.0 |
| | Total Extra Demand | 88.5 |
| Extra Supply 2001-2011 | New Private Output | 109.8 |
| | Less Net Demolitions, Conversions and Closures | (25.0) |
| | Less 5% Second Homes | (5.5) |
| | Less 11% Vacancy in New Private Housing | (12.0) |
| | Total Extra Supply | 67.3 |
| Social Housing Needed | Deficit | 21.2 |
| | Plus 2% Vacancy in New Social | 0.4 |
| | Total Needed | 21.6 |
| | Total Rounded and Allowance for Other Factors | 22.0 |
| | Total Per Annum | 2.2 |

*Source: University of Ulster, December 2006*

In November 2004 the Housing Executive asked the Universities of Ulster and Cambridge to revisit their models in the light of new population and household projections and newer housing supply data.

The revised Net Stock Model (2004) indicated there was an underlying demographically driven need for 1,600 new social dwellings. The Cambridge Model (2004) estimated an annual need for 1,700 dwellings. However, taking into account the backlog which has developed 2001-2004 and ongoing supply/ demand imbalances, the Housing Executive estimated an annual average need for 2,000 dwellings 2004-2011.

In November 2006 the Housing Executive once again asked the University of Ulster to update it's Net Stock Model in the light of the most recent demographic projections and housing figures, as well as some changed assumptions about the dynamics of Northern Ireland's housing market, in particular, evidence of a higher rate of demolition, a higher number of households in temporary accommodation and higher proportions of vacancies and second homes in the private sector (see Table 6).

The Net Stock Model (2006) therefore estimates that a total of 2,200 new social dwellings is required per annum in order that the Waiting List for social housing does not continue to rise. However, given the need to address the growing shortfall (see Chapter 4), the Housing Executive considers that 2,500 new social dwellings should be constructed each year. The Net Stock Model will be reviewed and updated during 2008 when new 2006 based household projections become available and the final figures emerge from the 2006 House Condition Survey.

## The Characteristics and Condition of the Stock

The headline results from the 2006 House Condition Survey have been emerging since May 2007 and provide the most recent picture of the characteristics and condition of Northern Ireland's housing stock. In 2006 there were 705,000 dwellings in Northern Ireland - an increase of 57,500 (9%) over the period since 2001.

### Dwelling Tenure

Table 7 provides the key tenure related information:

- Significant growth in the owner-occupied sector with an additional 36,500 dwellings. However, as a proportion of the total stock the figure has remained much the same.

- The continued rapid increase in the number and proportion of private rented sector dwellings. In 2001 there were 49,400 (7.6%) privately rented dwellings in Northern Ireland. By 2006 this had risen to 80,800 (11.5% of the total stock), an increase of 31,400 (6,300 per annum). Indeed if vacant properties, whose tenure when last occupied was private rented, are included, the figure rises to 94,600 (13.4%).

- The number of tenanted social dwellings has fallen from 133,900 (21%) in 2001 to 114,900 (16%) as the Social Housing Development Programme has only replaced approximately one third of the houses sold or demolished.

- The total number of vacant properties increased by approximately 8,500 and the vacancy rate has risen a little from

## Table 7 Northern Ireland's Dwelling Stock by Tenure, 2006

| | 2001 (%) | | 2006 (%) | |
|---|---|---|---|---|
| Owner Occupied | 432,300 | 66.8 | 468,900 | 66.5 |
| Private Rented & Other | 49,400 | 7.6 | 80,900 | 11.5 |
| Housing Executive | 116,000 | 17.9 | 93,400 | 13.3 |
| Housing Association | 17,900 | 2.8 | 21,500 | 3.1 |
| Vacant Dwellings | 31,900 | 4.9 | 40,300 | 5.7 |
| TOTAL | 647,500 | 100 | 705,000 | 100 |

4.9 per cent to 5.7 per cent. A high vacancy rate is particularly evident in the private rented sector, where 13,800 properties (nearly 15%) are vacant.

*Dwelling Age*
The 2006 House Condition Survey indicated that the age profile of the housing stock has continued to change as a result of the declining number and proportion of dwellings in the oldest age category (mainly as a result of demolition) and a substantial increase in the proportion of newer dwellings (mainly as a result of the accelerated rate of construction of new dwellings over the past five years).

- Only 16 per cent of all dwellings were built prior to 1919, compared to 18 per cent in 2001.

- In 2006, nearly one third (30%) of all dwellings were constructed since 1980 compared to 27 per cent in 2001 and indeed, 18 per cent of the total stock has been built since 1990.

*Dwelling Type*
Northern Ireland's dwelling stock has traditionally been dominated by houses and bungalows. The 2006 House Condition Survey confirmed that despite the greater number of flats/apartments built in recent years, this picture has not really changed, except that a slightly smaller proportion of the stock is bungalows.

- Almost a quarter of all dwellings (23%) were bungalows.

- Terraced houses accounted for almost one-third (32%) of the stock.

- Semi-detached houses accounted for one-fifth (20%) of the stock and detached houses for 17 per cent.

- Flats/apartments accounted for eight per cent of the total stock (56,000 dwellings).

*Distribution of Dwellings*
The overall pattern of settlement has remained broadly unchanged since 2001. Dwellings in Northern Ireland are located primarily in urban areas (70% of all dwellings) with the remainder (30%) in rural areas. Within rural areas however, the proportion of dwellings in isolated rural areas fell from 18 per cent in 2001 to 15 per cent in 2006, reflecting both the depopulation of remoter areas and the absorbing of isolated dwellings into existing towns or villages.

*Unfitness*

In 2006 there were 24,200 unfit dwellings in Northern Ireland. This represents a headline rate of 3.4 per cent. This compares to an unfitness rate of 4.9 per cent (31,600) in 2001.

- Unfitness remained higher in rural than urban areas, although there was a reduction in both. In 2001 urban unfitness had been 3.1 per cent, but by 2006 this had reduced to 2.5 per cent. In rural areas the proportion of unfit dwellings in 2006 was 5.4 per cent, compared to 8.5 per cent in 2001. The highest rate of unfitness in 2006 occurred in isolated rural areas where 9,300 (8.9%) of all dwellings were unfit; indeed this accounts for 38 per cent of all unfit dwellings.

- There continues to be a clear link between unfitness and tenure, with the highest rates of unfitness being found in vacant dwellings: almost two thirds (13,900; 58%) of all unfit properties were vacant and one-third (34%) of all vacant properties were unfit. The rate of unfitness for occupied properties was only 1.5 per cent.

- Within the occupied stock in 2001, the highest rate of unfitness continues to be found in the private rented sector where 2,100 dwellings (2.6 per cent of the sector) were unfit, compared to 9 per cent in 2001. In the owner occupied sector some 7,500 dwellings (1.6% of this sector) were unfit compared to 2.8 per cent in 2001. In the social sector unfitness continues to be minimal (less than one per cent).

- There was also clear correlation between unfitness and dwelling age. Almost two-thirds of all unfit dwellings (15,000; 62%) had been built prior to 1919.

*The Decent Home Standard*

In 2006, 23 per cent (162,100) of all dwellings failed the Decent Home Standard. This represents a marked improvement from the 32% (206,000) which failed in 2001 and mainly reflects the large numbers of dwellings receiving more efficient oil or gas central heating. More than four fifths (85%) of dwellings which failed the Decent Home Standard did so on the basis of the thermal comfort criterion, 20 per cent on the basis of disrepair and 15 per cent on the basis of lacking modern facilities and services.

In Northern Ireland the rate of non-decency varied considerably by tenure:

- it was highest for vacant dwellings (50%; 71% in 2001);

- one quarter (25%) of Housing Executive properties and more than one quarter of privately rented properties (27%) failed the Decent Home Standard (compared to 50% and 47% respectively in 2001);

- only 20 per cent of owner-occupied and 9 per cent of housing association properties failed the standard.

## Energy Conservation and Fuel Poverty

The Housing Executive was designated as Northern Ireland's Home Energy Conservation Authority under the Home Energy Conservation Act (1995). In this capacity, it is responsible for identifying practicable, cost-effective measures that will result in a 'significant improvement' in the energy efficiency of Northern Ireland's residential accommodation. The Housing Executive's key objective in this respect has been to increase energy efficiency through a 34 per cent reduction in the energy consumption of the dwelling stock that was in existence at 1st April 1996; building regulations are deemed to ensure that new housing built after that date meets energy efficiency standards. While no deadline was set for achievement of the target, substantial progress was expected to be made by 2006.

The preliminary results from the 2006 Northern Ireland House Condition Survey confirm that significant progress has been made.

- The average SAP (energy efficiency) rating[4] for dwellings has increased from 45 in 2001 to 52 in 2006.
- Between 1996 and 2006 the proportion of dwellings across all tenures with full central heating increased from 87 per cent to 98 per cent.
- The popularity of oil fired central heating has continued to increase. Seventy per cent of all dwellings had oil fired central heating in 2006, compared to 58 per cent in 2001 and 36 per cent in 1996. In 2006, a further 5.5 per cent of dwellings relied on dual systems, the vast majority of which included oil as one of the fuel sources.
- Solid fuel's share of the domestic heating market has declined substantially during the last decade, from 40 per cent in 1996 to only six per cent in 2006 and during the same period the use of mains gas increased from a zero base to around 12 per cent of the market - almost 84,000 homes.
- The percentage of the housing stock with no wall insulation has declined from 53 per cent in 1996 to 22 per cent in 2006. Almost two thirds (62%) of dwellings had full cavity wall insulation in 2006, compared with just over one third (36%) in 1996. Many of the 156,350 dwellings with no wall insulation are of solid wall construction and are therefore incapable of availing of the traditional and cost effective remedy, cavity wall insulation.
- The vast majority (95%) of Northern Ireland's dwellings which have lofts now have loft insulation, a significant increase from 87 per cent in 1996.
- The proportion of properties with full double glazing has increased from almost one quarter (24%) in 1996 to around two thirds (68%) in 2006.

*4. These figures are based on a revised SAP05 mode*

## The Housing Executive's Energy Strategy

*Heating Policy*

Now in its eighth year of implementation, the Housing Executive's heating policy for its own stock aims to convert existing coal or electric heating systems to natural gas where available, and to oil elsewhere.

The Housing Executive has undertaken a review of its heating policy following a recommendation from the Northern Ireland Audit Office, and also in light of the substantial fuel price rises over the last two years. The economic appraisal upon which the Housing Executive's heating policy was based has been re-examined, and a report has been passed to the Department for Social Development for consideration.

During 2006/07, the Housing Executive commenced heating conversions to natural gas or oil in 4,550 of its own dwellings. The 2006 House Condition Survey shows that 99 per cent of Housing Executive properties have full central heating; approximately 25,000 properties are currently using natural gas and some 40,000 using oil. The Housing Executive has funded over 80,000 natural gas or oil installations over the years, but some 15,000 of these houses have since been sold to sitting tenants.

The development of the natural gas network along the route of the North-West and South-North gas pipelines means that natural gas is now available in Ballymena, Antrim, Ballymoney, Coleraine, Limavady, Derry/Londonderry, Newry, Banbridge, Portadown and Lurgan; the Housing Executive's heating policy of installing natural gas heating, where available, will apply in these areas.

The Housing Executive has been involved in demonstration projects on new and innovative technologies for a number of years. The projects serve two purposes, proving that the technology works and providing case studies to promote the systems within other tenures. Examples to date have included:

- solar water heating (3 dwellings in Bangor);
- solar photovoltaic (PV) panels (30 flats in Castlereagh);
- energy efficient window system (Tandragee);
- micro-CHP (Combined Heat and Power) field trial (10 dwellings);
- Hard to Heat Homes project (aimed at rural solid wall dwellings where conventional measures are impractical); and
- CLEVER Homes (55 solar air heating and ventilation systems in Housing Executive dwellings).

During the past year, there have been a number of new developments in terms of new and innovative technologies:

- Wood Pellet Boilers have been installed at four Housing Executive properties in Fermanagh and Ballymena.
- Air Source Heat Pumps will be tested in a small number of dwellings where it is not technically possible to install oil systems.
- Solar Water Heating has been successfully rolled out to Housing Executive dwellings across Northern Ireland, using funding from the Environment and Renewable Energy Fund which was established by the Secretary of State in 2005. The work programme will continue during 2007/08.

*Warm Homes Grants*
The Warm Homes Scheme, which was introduced in July 2001, provides the main source of grants for low income households in the private sector. Funded by the Department for Social Development and managed by Eaga Partnership, the Scheme grant aids a range of energy efficiency measures for eligible households (those in receipt of qualifying benefits), including:

- loft insulation;
- cavity wall insulation;
- draught-proofing; and
- central heating for people aged 60 or more.

Where additional funds, above the maximum grant level, are needed to complete the package of measures, it is topped up from the Energy Efficiency Fund managed by NIE Supply.

More than 9,300 owner occupiers and around 850 private rented properties received Warm Homes grants for loft or cavity wall insulation in 2006/07, and heating installations were carried out in around 3,550 owner occupied and 260 private rented dwellings under the Scheme. The figures represent an increased level of activity in the owner occupied sector for the second year in a row.

## Fuel Poverty

The 2001 House Condition Survey provided the first reliable assessment of Fuel Poverty in Northern Ireland, and allowed comparisons to be drawn with the rest of the United Kingdom. A household is considered to be in Fuel Poverty if, in order to maintain an acceptable temperature throughout the home (21°C in the living room and 18°C in other occupied rooms), it would have to spend more than 10 per cent of its income on all household fuel. The Fuel Poverty model therefore includes the costs for lighting, cooking and household appliances.

Fuel Poverty has three main causes:

- Poor thermal efficiency in dwellings
- Low household income, and
- High fuel prices

The Building Research Establishment (BRE) produced its first Fuel Poverty model for Northern Ireland on the basis of 2001 House Condition Survey figures. The baseline figure for Fuel Poverty at that time was found to be 203,250 households, or 33 per cent of all households.

Between 2001 and 2006 BRE made a number of adjustments to the model for measuring Fuel Poverty, including the inclusion of rates and rates benefit, a bigger allowance for hot water consumption and more accurate income information. The 2006 House Condition Survey showed that on the basis of this revised model 225,000 households (34.2 per cent of all households in Northern Ireland) were in Fuel Poverty. This represented an increase of 7 percentage points on the revised figure for 2001 (27.3%).

Further analysis indicated that the primary cause of this substantial increase was the high rise in fuel prices:

1. If only the increase in the price of fuel had taken place, but there had been no changes in the other two factors, (i.e. no increase in incomes and no improvements in energy efficiency) then 66 per cent of households would have been in Fuel Poverty in 2006.

2. If then the effects of rising incomes are taken into effect as well as the fuel price increase (but not the effects of energy efficiency improvements) this would have reduced the figure to 55 per cent.

3. Finally, if in addition the effects of improved energy efficiency (i.e. reduced consumption) is taken into account, this reduces the proportion back down to the actual 34 per cent for 2006.

It is important to note therefore the very important contribution made by energy efficiency gains in reducing the level of Fuel Poverty between 2001 and 2006: it reduced the proportion of households in Fuel Poverty by almost 20 percentage points, effectively bringing 130,000 households out of Fuel Poverty.

## Key Issues and Strategic Perspective

- A significant downturn in the American economy, associated primarily with the recent slump in the US housing market, does not augur well for the economies of western Europe. In Northern Ireland a combination of lower increases in public expenditure, increasing levels of debt, rising unemployment, a tightening credit environment and falling house prices will reduce purchasing power in the economy and the housing market.

- Northern Ireland's demography is continuing to change. New households are forming at a steady rate, driven by population growth (including a substantial influx of migrant workers) and single living associated with marriage/relationship break up. The continuing trend towards more single person and older households, will result in a sustained demand for accommodation and in particular for smaller units of accommodation and supported housing.

- The continuing rapid growth in the number of applicants on the waiting list and those in "housing stress", indicates that despite sustained economic growth in Northern Ireland over the past five years, and the construction of record numbers of new private dwellings, there is an ongoing shortfall in the supply of social housing. The latest analysis indicates that there is an annual requirement for 2,500 additional new social dwellings for the period 2008-11. It is unlikely that this can be achieved given the final budget settlement for 2008-11. This means that other sources of funding for social and affordable housing, such as developer contributions and the sale of assets are likely to be required.

- The housing stock has grown at an accelerated rate over the past five years and its condition has also improved markedly. The 2006 House Condition Survey shows that between 2001 and 2006 the rate of unfitness fell significantly from 4.9 per cent to 3.4 per cent, and the proportion of homes meeting the Decent Homes Standard rose from 62 per cent in 2001 to 77 per cent in 2006. However, in order to ensure that current levels of fitness are maintained and improved, adequate public funding is required.

- Good progress has been made over the last five years in relation to increasing the energy efficiency of the housing stock. However, the most recent Fuel Poverty figures (34% in 2006), and the background of much higher energy prices for the foreseeable future, indicates that any significant reduction in the level of Fuel Poverty poses a huge challenge.

Housing Executive

# Chapter 2

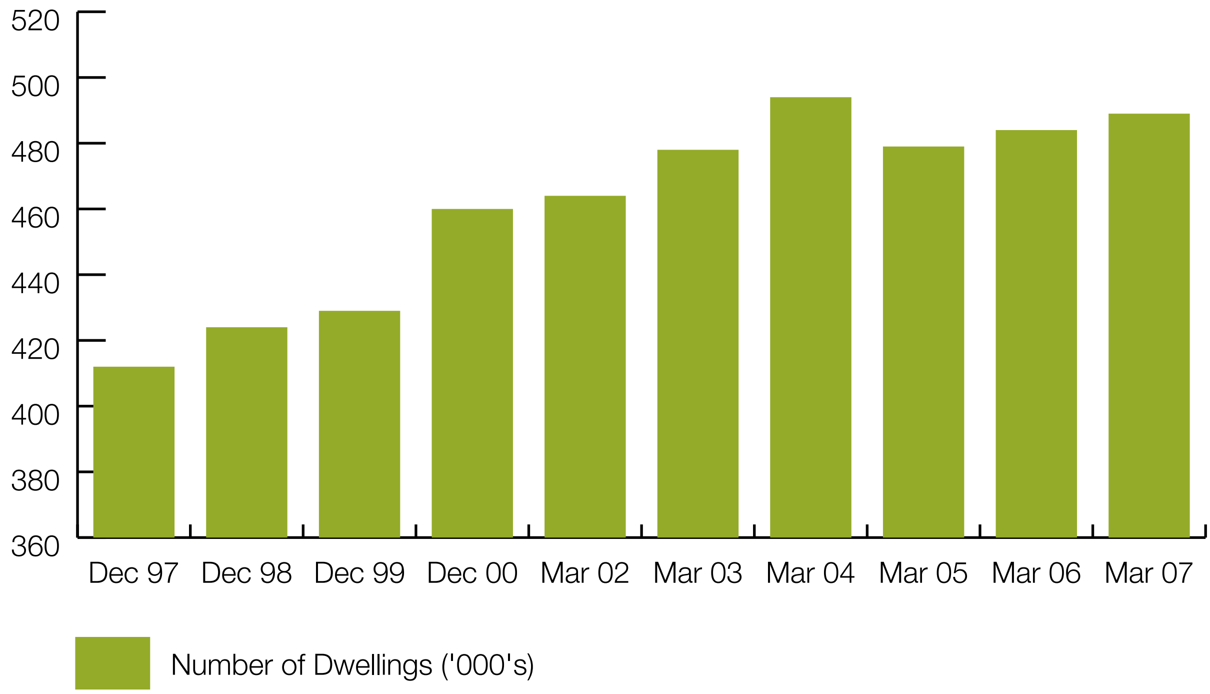
# The Owner Occupied Sector

## The Growth of Owner Occupation

The rapid growth of owner occupation was the dominant trend of the United Kingdom's housing market in the twentieth century. This growth was encouraged by government policy, including tax relief on mortgage interest, reductions in "bricks and mortar" subsidies for the construction of new social housing, ongoing rent increases for social sector dwellings and generous discounts to tenants in the social sector wishing to purchase their home. In Northern Ireland, the owner occupied sector has continued to grow since the start of the new millennium and there is no doubt that the current housing finance regime, including the low interest rates compared to the 1980s and 1990s, will continue to make owner occupation the most attractive longer term housing option for households who can afford it.

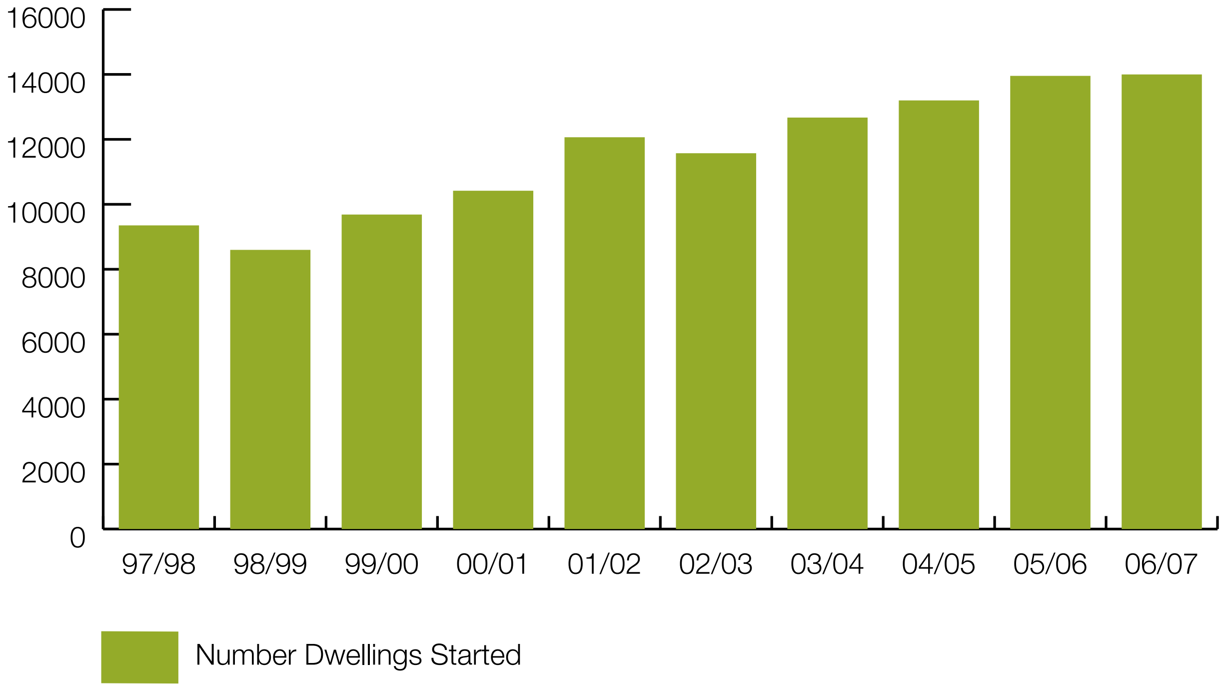
Figure 4 shows that in December 1997 there were some 412,000 dwellings (67.1% of the total stock) in owner occupation. Ten years later in March 2007 this had increased substantially to 488,700 (68.5% of the total stock). In the twelve months April 2006 to March 2007 the owner occupied stock grew by an estimated 10,000, largely as a result of the construction of new dwellings and the sale of Housing Executive properties. However, it is also important to note that a growing proportion of newly constructed private sector dwellings are entering the private rented sector, a trend, which has seen the proportion of owner occupied dwellings remaining fairly static over the last few years.

### Figure 4: The Growth of Owner Occupancy 1997-2007




*Source: DSD Housing Statistics 2006/7*

## Figure 5: New Housing Construction in the Private Sector 1997-2007




*Source: DSD Housing Statistics 2006/7*

### New Housing

Between April 2006 and March 2007 a total of almost 14,000 new private sector dwellings were started, almost exactly the same number as in the previous year.

Figure 5 shows that this figure of nearly 14,000 equals the record output for the last 10 years (and indeed is an all time record for private sector construction in Northern Ireland), and was well above the average rate of approximately 13,100 for the last five years. However, the most recent figures indicate a sharp downturn in output levels, reflecting evidence in early 2007 of over supply in some areas and a lack of available land in areas of highest demand. In the first six months of 2007/08, 5,944 private dwellings were started, a 20 per cent decline compared to the first six months of 2006/07[5].

There are additional signs that the number of new dwellings constructed will continue to fall. Table 8 shows the number of residential planning decisions granted in Northern Ireland. In 2006/07 there were 13,897 residential planning applications granted, a decrease of 1,738 (11%) on the previous year. Planning applications for new rural developments account for 88 per cent of all residential planning applications granted.

The location of the new properties is concentrated in Belfast and its commuting hinterland: in particular along the M1 corridor. Four district council areas recorded

*5. DSD, NI Housing Bulletin 1 July - 30 September 2007*

## Table 8: Residential Planning Decisions, 2002-2007

| | Rural (New) | Rural (Rep) | Urban (New) | Urban (rep) | Total |
|---|---|---|---|---|---|
| 2002/03 | 5,628 | 1,283 | 2,002 | 175 | 9,088 |
| 2003/04 | 6,256 | 1,370 | 1,762 | 114 | 9,502 |
| 2004/05 | 9,693 | 1,464 | 2,226 | 133 | 13,516 |
| 2005/06 | 11,503 | 1,521 | 2,457 | 154 | 15,635 |
| 2006/07 | 9,668 | 1,450 | 2,553 | 226 | 13,897 |

*Source: DSD, Housing Statistics 2006/07*

## Table 9: NHBC Registered Starts by House Type, 2002-2007

| | Detached Houses % | Detached Bungalows % | Semi Det Properties % | Terraced Properties % | Flats and Maisonettes % | Total Numbers |
|---|---|---|---|---|---|---|
| 2002/03 | 36 | 6 | 29 | 15 | 15 | 9,725 |
| 2003/04 | 34 | 5 | 31 | 19 | 13 | 10,178 |
| 2004/05 | 35 | 4 | 30 | 18 | 14 | 10,191 |
| 2005/06 | 28 | 3 | 29 | 21 | 18 | 10.409 |
| 2006/07 | 27 | 3 | 22 | 19 | 20 | 7,800 |

*Source: DSD, NI Housing Bulletin, 1 April - 30 June 2007*

the construction of more than 800 new private sector properties in 2006/07: Belfast (1,428), Craigavon (1,197), Lisburn (980) and Fermanagh (876). Together these four districts accounted for one-third of all new properties.

Table 9 indicates the trends in the types of new dwellings being constructed over the past five years. The proportion of detached houses has fallen markedly from 36 to 27 per cent and detached bungalows to only 3 per cent. The proportion of semi-detached properties has declined sharply to 22 per cent. The proportion of terraced dwellings has remained fairly constant at around one-fifth, while the proportion of flats/maisonettes (including apartments) has increased to 20 per cent.

## House Prices

### House Prices in the UK

The most recent house price figures from Nationwide confirm that in the latter months of 2007 the housing market experienced a significant downturn. The overall average house price for the UK fell marginally from £184,131 in Q3, 2007 to £183,959 in Q4, 2007. Table 10 shows the differential effect of this overall reduction by region. Most regions experienced a reduction in average prices between Q3 and Q4, including Northern Ireland where there was a 1.4 per cent reduction. However, in the North-West and Outer Metropolitan regions, and in London and Wales, there were still small increases.

## Table 10: UK Regional House Price Change Q4, 2006-Q4, 2007

| Region | Annual % change Q3 (2007) | Annual % change Q4 (2007) | Difference p.pts | Average house price Q3 2007 | Average house price Q4 2007 |
|---|---|---|---|---|---|
| North | 7.2 | 3.7 | -3.5 | 134,534 | 133,202 |
| Yorks/Humberside | 5.3 | 2.6 | -2.7 | 156,429 | 154,695 |
| North West | 5.2 | 3.5 | -1.7 | 159,052 | 159,062 |
| East Midlands | 4.8 | 2.8 | -2.0 | 156,924 | 155,141 |
| West Midlands | 4.6 | 4.4 | -0.2 | 165,094 | 164,855 |
| East Anglia | 6.9 | 5.7 | -1.2 | 183,815 | 183,598 |
| Outer South East | 10.1 | 7.2 | -2.9 | 215,375 | 214,634 |
| Outer Metropolitan | 11.0 | 8.5 | -2.5 | 258,620 | 259,160 |
| London | 16.5 | 12.8 | -3.7 | 302,486 | 303,739 |
| South West | 9.4 | 6.4 | -3.0 | 204,447 | 203,049 |
| Wales | 5.5 | 4.2 | -1.3 | 153,655 | 154,947 |
| Scotland | 12.2 | 10.1 | -2.1 | 152,479 | 151,178 |
| Northern Ireland | 42.6 | 24.2 | -18.4 | 227,970 | 224,816 |
| UK | 9.3 | 6.9 | -2.4 | 184,131 | 183,959 |

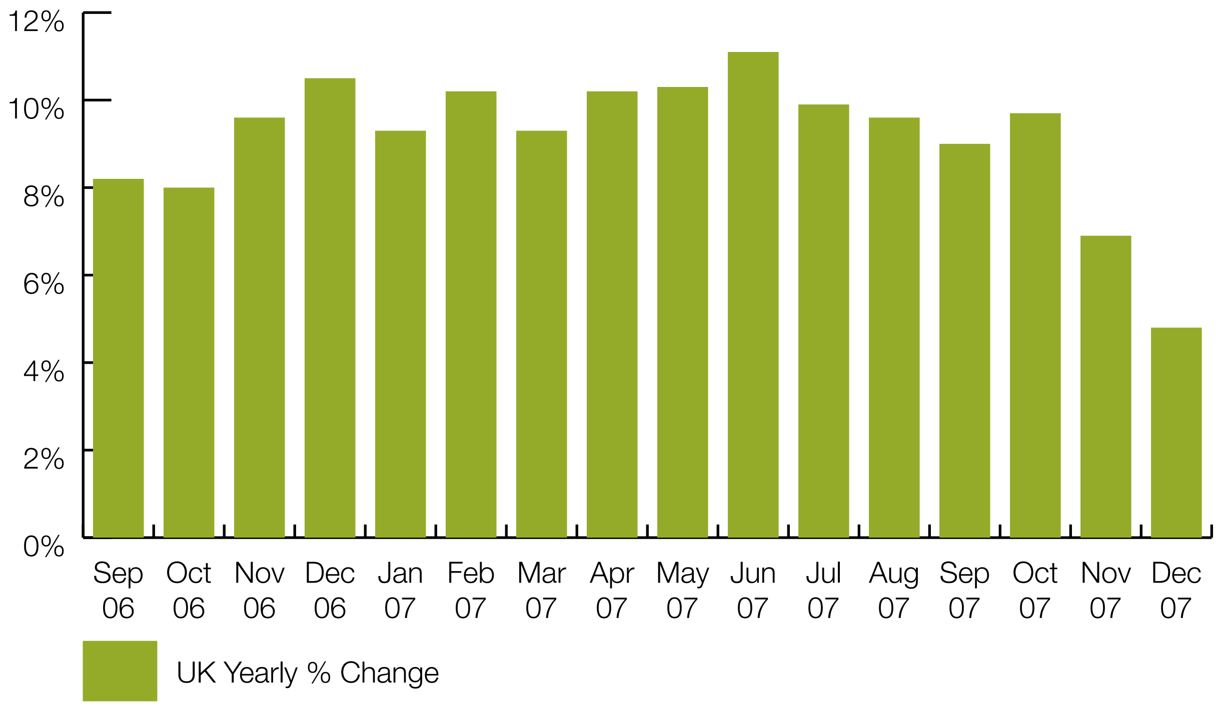
*Source: Nationwide*

More significantly, however, in all regions the rate of annual growth in house prices declined. This fall was particularly dramatic in Northern Ireland, where the annual quarterly change fell by 18.4 percentage points from 42.6 per cent (Q3, 2007 compared to Q3, 2006) to 24.2 per cent (Q4, 2007 compared to Q4, 2006). Other regions recorded much less dramatic falls, ranging from -3.7 percentage points in London to -0.2 percentage points in West Midlands.

The marked change in the UK housing market in Q4, 2007 is also illustrated by Figures 6 and 7. Figure 6 shows that for the most of 2007 the average house prices for each month showed a consistent year-on-year increase of around 10 per cent, until the sudden drop in November and December, when an absolute reduction in average prices brought the annual increases down to 6.9 per cent and 4.8 per cent respectively.

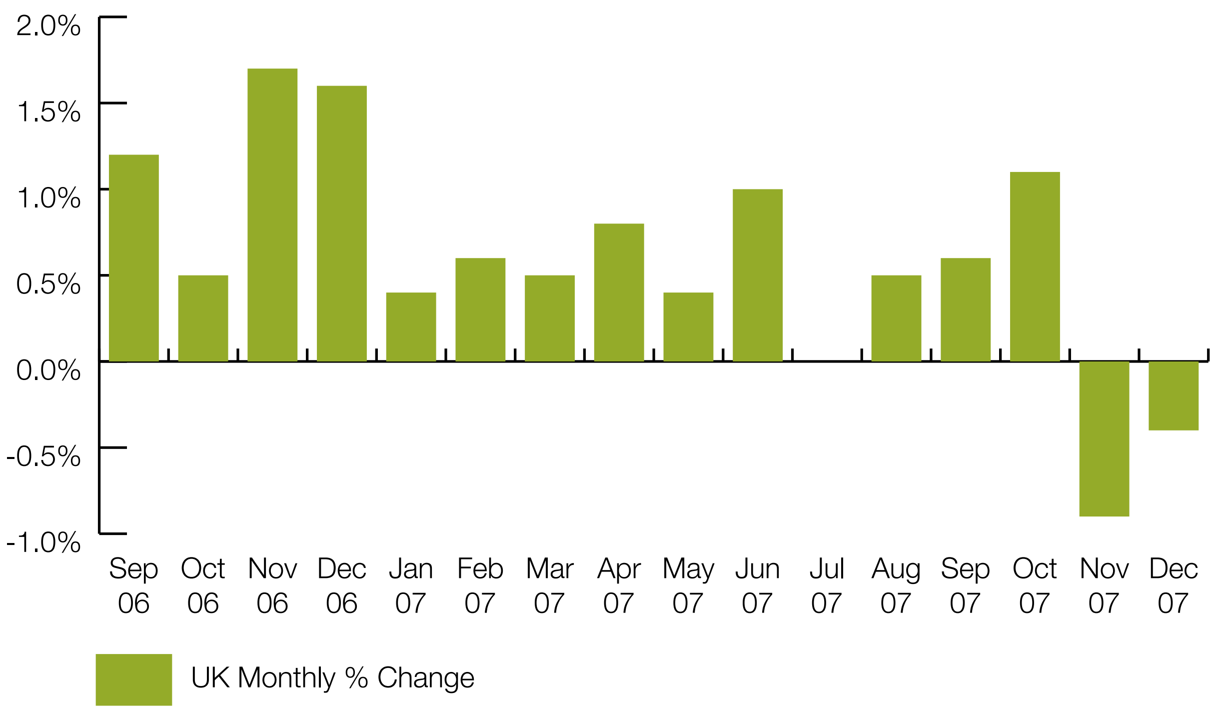
Figure 7 shows house price figures for the period since September 2006 and indicates a somewhat erratic picture, characteristic of diminishing of confidence in the housing market. The last month-on-month increase in house prices for the UK was recorded in October 2007 (1.0%). In November 2007, however, average house prices were 0.8% lower than in the previous month, recording the first downturn since February 2006. A further monthly decrease was recorded in December 2007 (-0.4%). The figure for January 2008 indicates a further reduction of -0.1 per cent.

Figure 6: UK Annual House Price Change: Monthly 2006/07



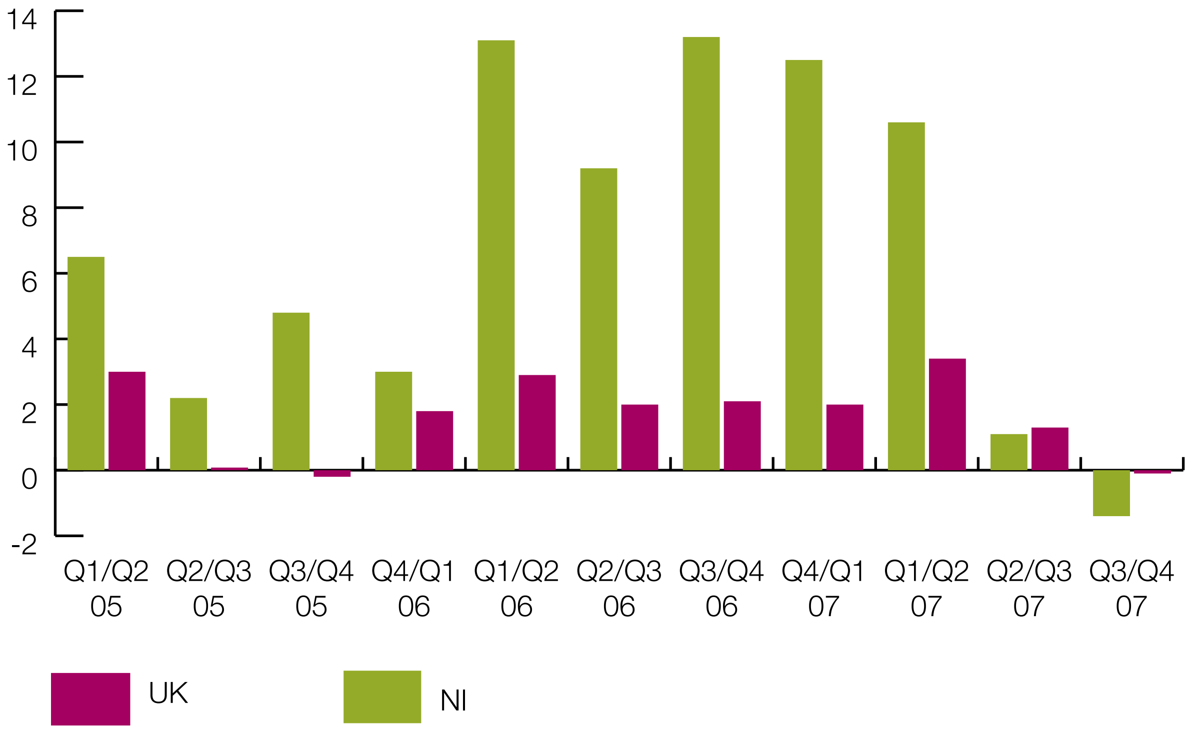

*Source: Nationwide*

Figure 7: UK House Price Change: Month-on-Month 2006/07




*Source: Nationwide*

## Figure 8: UK and NI House Price Changes: Quarter-on-Quarter 2005-07




*Source: Nationwide*

Figure 8 provides a clear indication of the exceptional rapidity of the increase in house prices in Northern Ireland since the spring of 2006 and also the rapid downturn in the Northern Ireland housing market since the summer of 2007.

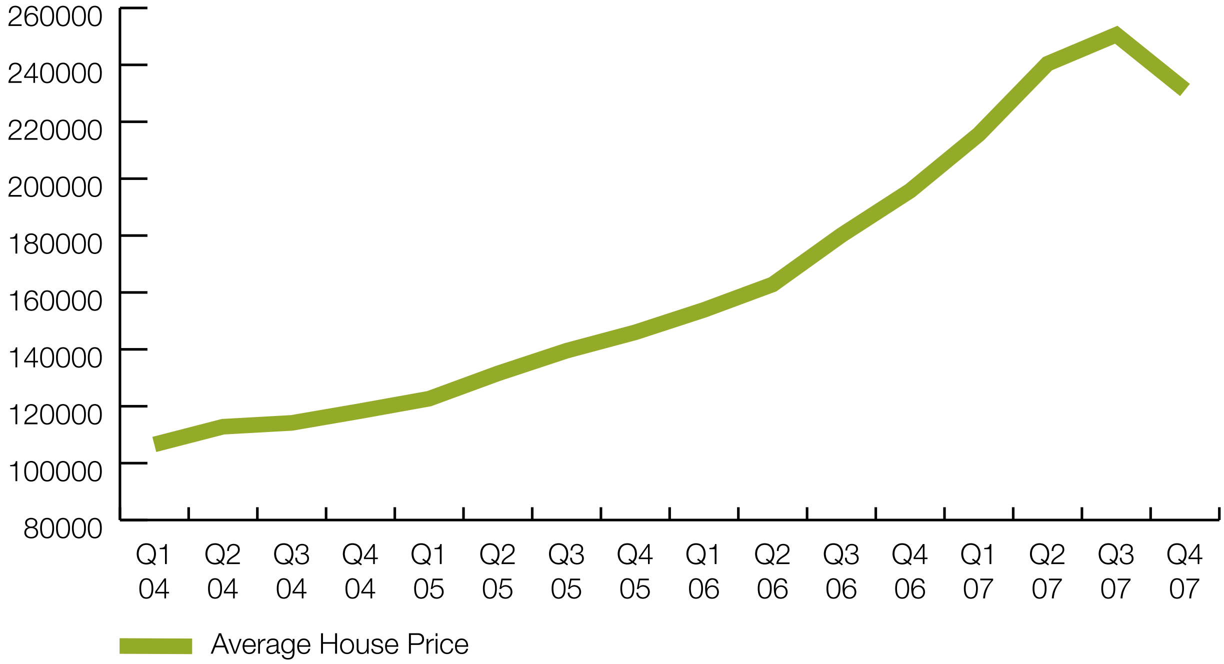
Q1/Q2 of 2006 marked the beginning of five quarterly increases in house prices of on average more than 10 per cent, compared to a figure of less than 4 per cent for the UK as a whole. However, this pattern was not to last. Between Q2 and Q3, 2007 house prices in Northern Ireland only grew by 1.1 per cent and indeed in the final quarter of 2007 house prices fell in both Northern Ireland and the UK with declines of -1.4 per cent and -0.1 per cent respectively.

### House Prices in Northern Ireland

The most comprehensive picture of house price trends in Northern Ireland is provided by the University of Ulster's analysis of open market transactions gathered from a network of estate agents throughout Northern Ireland. During 2007 this was based on fewer than 8,000 transactions compared to nearly 10,000 in 2006, already a clear indication of the downturn in the market which took place in 2007.

House prices in Northern Ireland increased by a weighted average of 26.4 per cent between Q4, 2006 and Q4, 2007. However, this headline figure disguises the rapid increase in average house prices between mid 2006 and mid 2007 and the downturn in the market in the second half of 2007 (see Figure 9).

## Figure 9: NI Average House Price (£s): Quarterly 2004-2007




*Source: University of Ulster, House Price Index*

Two other figures illustrate the point:

- Average house prices for the year 2007 as a whole increased by 34 per cent compared to 2006.

- However, the average price of dwellings in Q4, 2007 was 1.2 per cent lower than in Q3, 2007.

Other key findings include:

- The average price of a dwelling in Q4, 2007 was £231,168, compared to £195,751 in Q4, 2006, an unweighted increase of 18 per cent (approximately £35,000). The unusually big discrepancy between the weighted and unweighted percentage change is indicative of an unbalanced market with an abnormally high proportion of apartments being sold in Q4, 2007.

- Analysis by house type shows that all property types recorded increases of more than 15 per cent (see Table 11) with detached bungalows (34%) and apartments (38%) recording the highest rates of increase.

Analysis by geographic region shows that between Q4, 2006 and Q4, 2007 average house prices increased substantially in most regions. The highest rates of increase were recorded in Coleraine/Limavady/North Coast (41%) and East Antrim (32%). However, in two regions average prices actually fell: In Mid Ulster (-0.6%) and in Enniskillen/Fermanagh/ South Tyrone (-5.3%). The highest average regional house price continues to be in Lisburn (£285,153). However, the lowest is now Antrim/Ballymena (£209,014) rather than East Antrim (£216,897), which has traditionally occupied the lowest position.

## Table 11: Average House Prices in Northern Ireland by Property Type Q4, 2006-Q4, 2007

| Property Type | Average Price Q4, 2006 (£) | Average Price Q4, 2007 (£) | % Change (YoY) |
|---|---|---|---|
| All Properties | 195,751 | 231,168 | 18.1 |
| Terraced Houses | 160,782 | 187,350 | 16.5 |
| SD Houses | 188,143 | 225,543 | 19.9 |
| Detached Houses | 298,155 | 339,646 | 13.9 |
| SD Bungalows | 166,325 | 211,829 | 27.4 |
| Detached Bungalows | 249,574 | 335,339 | 34.4 |
| Apartments | 158,244 | 218,729 | 38.2 |

*Source: University of Ulster, Quarterly House Price Index Report 93: Q4, 2007*

## Table 12: Regional House Prices in Northern Ireland Q4, 2006-Q4, 2007

| | Average Price Q4 2006 (£) | Average Price Q4 2007 (£) | % Change (YoY) |
|---|---|---|---|
| Belfast | 191,819 | 225,424 | 17.5 |
| North Down | 202,300 | 243,191 | 20.2 |
| Lisburn | 231,168 | 285,153 | 23.4 |
| Mid and South Down | 221,367 | 256,259 | 15.8 |
| Craigavon/Armagh | 180,848 | 227,706 | 25.9 |
| Mid Ulster | 219,489 | 218,120 | -0.6 |
| Enniskillen/Fermanagh/S Tyrone | 222,522 | 210,810 | -5.3 |
| Londonderry/Strabane | 173,462 | 209,273 | 20.6 |
| Coleraine/Limavady/North Coast | 198,711 | 279,918 | 40.9 |
| Antrim/Ballymena | 194,189 | 209,014 | 7.6 |
| East Antrim | 164,171 | 216,897 | 32.1 |
| Northern Ireland | 195,751 | 231,168 | 18.0 |

*Source: University of Ulster, Quarterly House Price Index Report 93: Q4, 2007*

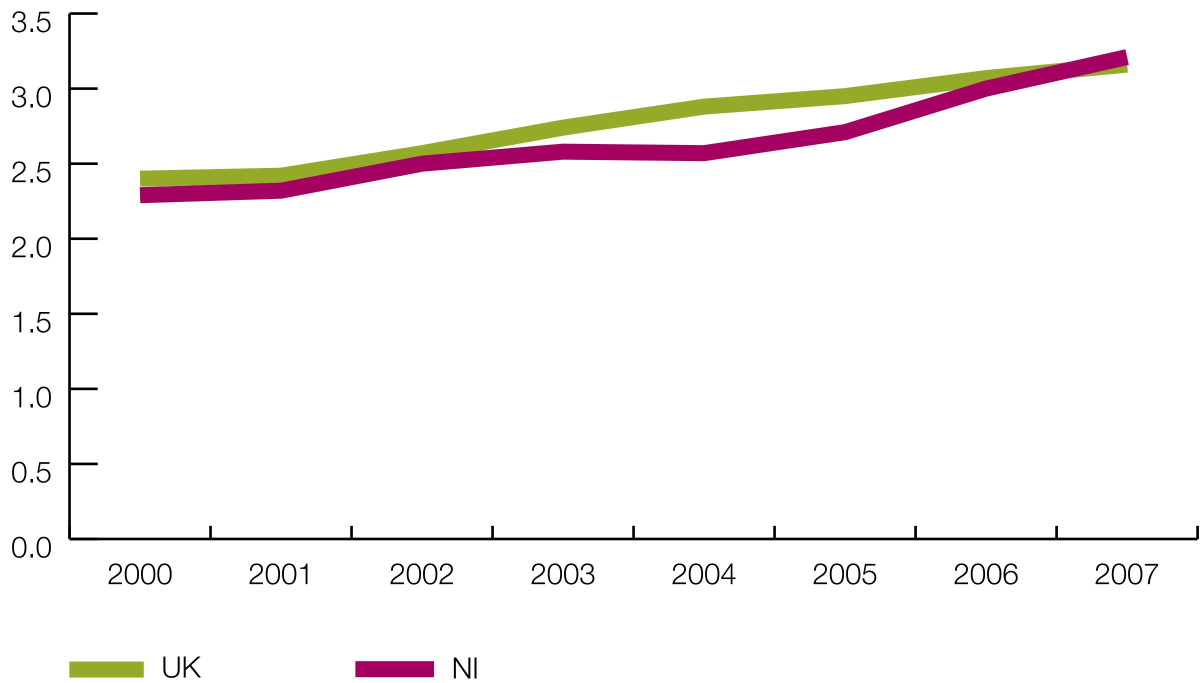
## Affordability in Northern Ireland

Between 1995 and 2000 economic growth and greater political stability combined to cause a substantial rise (74%) in house prices in Northern Ireland. Earnings on the other hand rose only 20 per cent over this five year period. Research published by the Housing Executive against this background in 2001 showed that affordability at that time was not an immediate or widespread problem, due primarily to the low interest rate environment and the availability of a more flexible range of mortgage products, which meant debt servicing costs generally remained at manageable levels. However, the research indicated that already in 2001 affordability was an emerging problem for first time buyers, particularly in Belfast and its commuter belt.

Since 2001 indications of a growing affordability problem can be found in the statistics published by the Council of Mortgage Lenders relating to households who actually purchased a house:

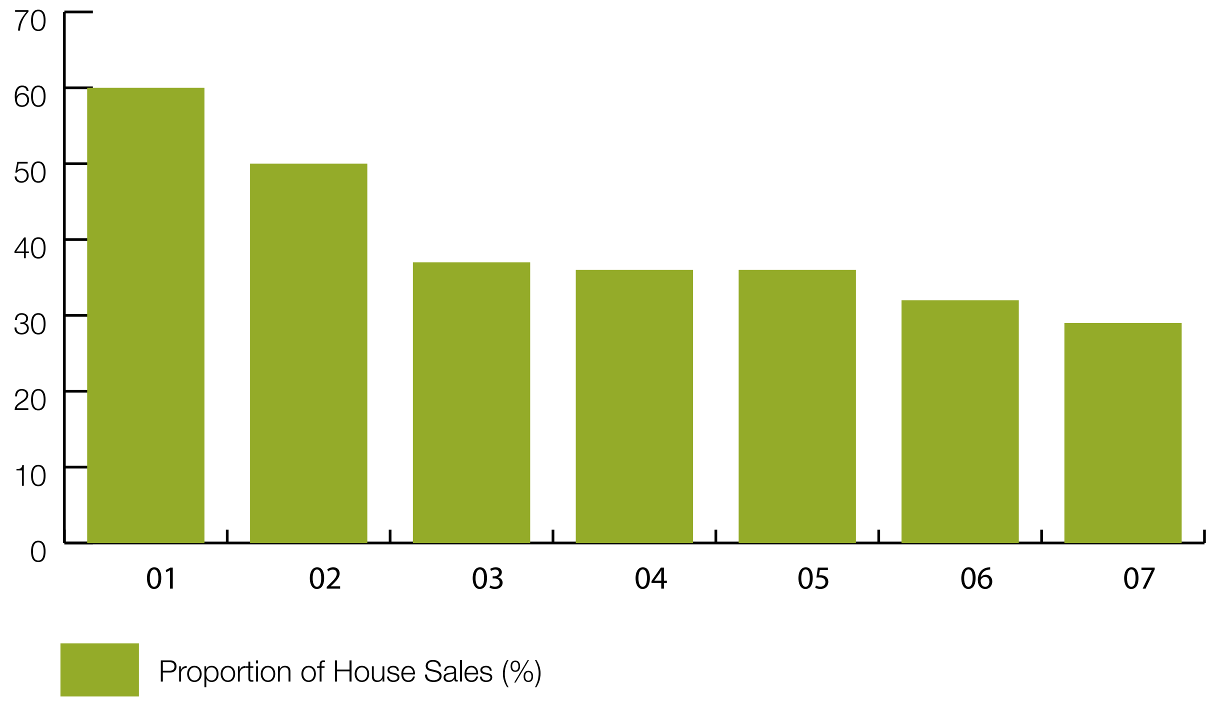
- The rising ratio of median income to median advance (See Figure 10). In 2000 Northern Ireland's ratio of median income to median advance for all buyers was 2.29, whereas in 2007 the figure was significantly higher at 3.21, and indeed for the first time was higher than for the UK as a whole. For the UK as a whole the advance to income ratio remained almost static throughout 2007, whereas in Northern Ireland it continued to rise from 3.11 in January 2007 to 3.27 in December, based on all loans. For loans to first time buyers in Northern Ireland the ratio stood at 3.46 in

### Figure 10: UK and NI: Advance to Income Ratio 2000-07




*Source: Council of Mortgage Lenders*

## Figure 11: NI Proportion of House Sales to First-Time Buyers, 2001-06




*Source: Council for Mortgage Lenders*

December 2007 although this had already declined from 3.62 in June 2007 when the housing market was at its peak.

- The declining number and proportion of first-time buyers (see Figure 11). In 2001 there were 18,200 first time buyers in Northern Ireland, and 60 per cent of house sales were purchased by them. By 2006 this had fallen to 8,700 (32% of total sales) and in 2007 only 5,200 (29% of total sales) went to first time buyers. For the UK as a whole the proportion of first time buyers has declined to a lesser extent in recent years from (36 in 2005 to 35 in 2007) as house price increases have not risen to the same extent as in Northern Ireland.

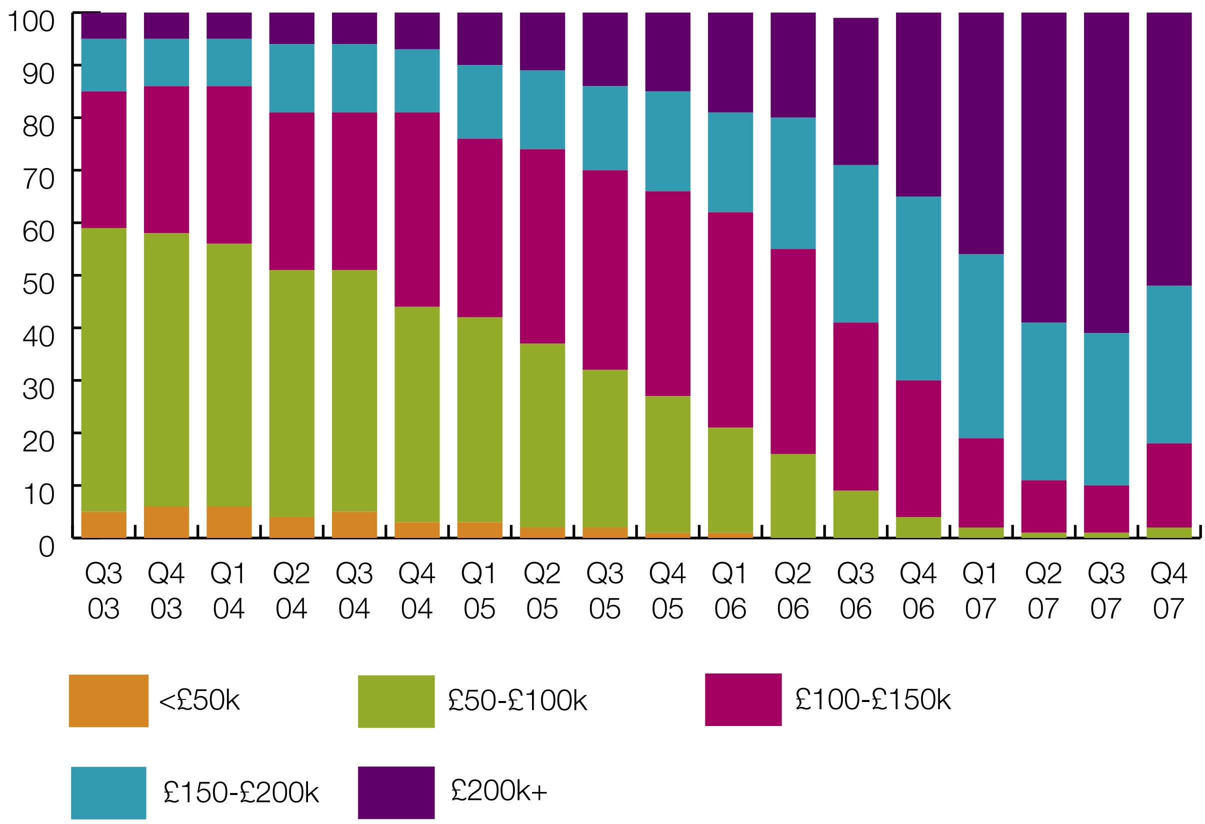
- The declining number and proportion of lower priced homes. Figure 12 shows the declining number and proportion of properties sold on the open market for less than £100,000. In mid 2004 around 50 per cent were selling for less than £100,000 but in Q4, 2006 this proportion fell to 5 per cent. The proportion fell further, reaching a low point of 1 per cent in Q3, 2007, before rising again in Q4, 2007 to 2 per cent as average house prices fell.

### Modelling Affordability

In response to the recommendations of the research on affordability the Housing Executive asked the Universities of Ulster and Birmingham to develop a simple model for monitoring and maintaining an awareness of affordability issues in Northern Ireland.

The research confirmed that there is no single “correct” measure of affordability

## Figure 12: NI Proportion of Transactions by Price Band, 2003-07



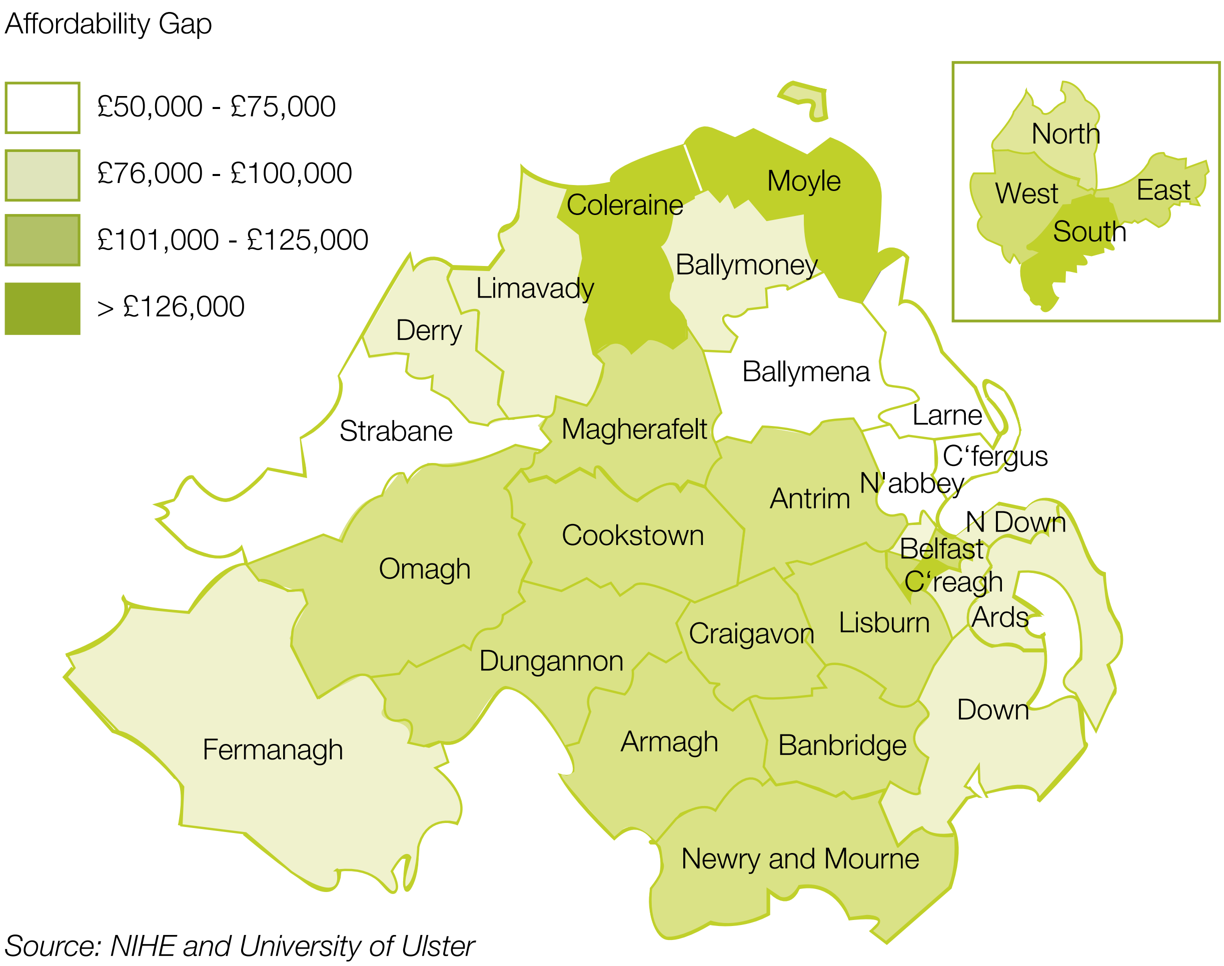

*Source: University of Ulster, Quarterly House Price Index*

and the model developed was designed to establish a baseline of affordability indicators based on three key variables: house prices, incomes and interest rates, which monitor changes over time and geographical differences between district council areas. The outcome was an affordability index which uses a typical Bank/Building Society annuity formula to calculate the maximum price a household with a median household income can afford to pay, assuming a typical interest rate, a 95% mortgage (loan to value ratio) and a 25 year repayment period. At that time 30 per cent of household income was considered the maximum reasonable proportion of income which could be used to service mortgage payments. This figure was compared with what was considered to be a typical affordable house: a house priced at the upper boundary of the first quartile of house prices (25th percentile) in that district council area. The resultant model provided a useful indicator of the degree of difficulty experienced by first time buyers purchasing a property with a five per cent deposit.

### The Outcome of the Modelling Exercise

The original modelling exercise was carried out for 2001, when median household income was £12,500 and a “typical” affordable house cost £59,950. At that time a first time buyer with a median household income could only afford a dwelling costing £52,288 giving an “affordability gap” at the Northern Ireland level of -£7,662.

## Figure 13: Affordability Index: District Councils, 2007




*Source: NIHE and University of Ulster*

The most recent figures based on the 2006 House Condition Survey, the Family Resources Survey and the latest house prices for 2007, indicate that the position has deteriorated significantly. In 2007 the median household income for Northern Ireland had risen to a little over £17,000. However, the price of a "typical affordable house" had risen much faster (by 182%) to £169,125. The result was that as interest rates rose households on a median income could only afford a dwelling costing £70,150, giving an affordability gap for Northern Ireland as a whole of -£98,975.

Figure 13 shows the model applied for 2007 for each District Council in Northern Ireland and for each of the four sectors of Belfast. (Detailed figures are contained in Appendix 2). It shows that for all districts, in 2007, there was an affordability gap of at least -£50,000. In Coleraine and Moyle the gap was at its widest: more than -£125,000. The most affordable areas continue to be in Mid and East Antrim: Larne, Ballymena, Newtownabbey and Carrickfergus which have the lowest affordability gaps ranging from -£50,000 to -£75,000. Strabane, however, is also relatively affordable: in 2007 it had the lowest priced "typical" affordable home. Appendix 2 shows that with the exception of Larne (1%) there were no District Councils in Northern Ireland where any dwellings were sold at below the affordable price for that district in 2007.

## Housing Market Affordability in Northern Ireland 2006/07

Annual research commissioned jointly by the Housing Executive and the Chartered Institute of Housing from Professor Steve Wilcox, University of York, provides further important insights into affordability in Northern Ireland.

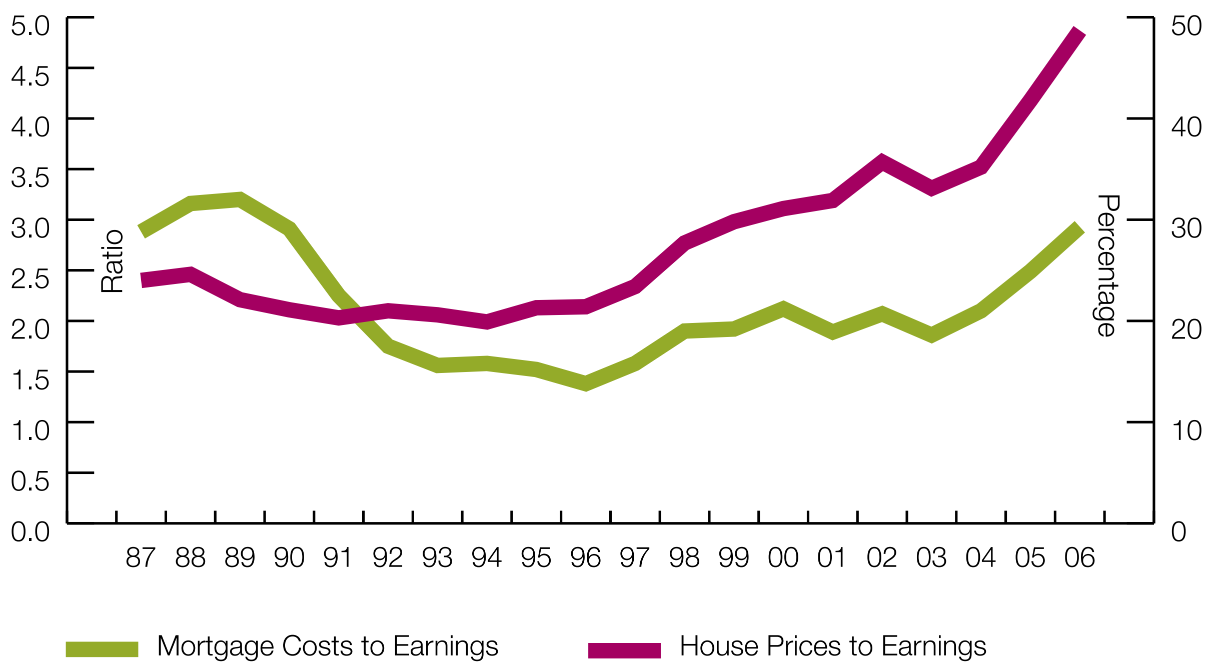
## Key Findings

### Trends in housing market affordability

Housing market affordability continued to worsen during 2006/07, and first time buyer house prices rose to £119,603 in 2006, to represent almost 4.9 times the average annual earnings in Northern Ireland (for all full time earners). This is a historic peak in house price to earnings ratios, and by far transcends the level in Northern Ireland just two decades ago, when the equivalent average house price to earnings ratio was just under 2.5 to one.

However, as a result of lower interest rates, mortgage costs as a proportion of earnings, have not risen at anything like the rate of the house price to earnings ratios. Both the house price to earnings ratios, and mortgage costs as a proportion of earnings are shown in Figure 14. While mortgage costs have risen over the last decade, nonetheless, in 2006 average mortgage costs for first time buyers represented just over 29 per cent of average earnings, compared to almost 32 per cent in 1989 when interest rates peaked at 14.4 per cent. Thus on this measure affordability in Northern Ireland in 2006 (as a whole) was rather less acute than at the peak of the last housing market boom.

Figure 14: Housing Market Affordability in Northern Ireland 2006/07




*Source: Wilcox (2007). All full time earnings and first time buyer prices*

The data in Figure 14 does not, however, fully capture the sharp deterioration in housing market affordability in Northern Ireland over the last two years. This is because it is based on annual average house prices for years when house prices have been increasing very rapidly during the course of the year.

Thus while average first time buyer house prices for 2006 were £119,061 for the year as a whole, they increased from £100,709 in the first quarter of the year to £140,279 in the last quarter of the year, and rose again to £162,440 in the second quarter of 2007. In other words house prices in Northern Ireland rose by 60 per cent in just 15 months.

Mortgage interest rates continued to rise in 2007 in response to the series of increases in the base rate made by the Bank of England in the second half of 2006, and again in the first half of 2007. While average building society mortgage rates were 5.32 per cent at the end of 2006, they had increased to 5.51 per cent by the end of June 2007.

As a consequence, by the first half of 2007, affordability in Northern Ireland was markedly more severe than in 1989, at the peak of the last housing market boom, both in terms of house prices and mortgage cost to income ratios. Average house price to income ratios (based on the individual earnings measure used in Figure 14) rose to 6.05 to 1 in the first half of 2007, (compared to 4.87 to 1 in 2006 and 2.21 to 1 in 1989) and mortgage costs as a percentage of individual earnings rose to 37.1 per cent, (compared to 29.3% in 2006 and 32.0% in 1989).

Similarly mortgage costs as a percentage of household earned income also rose sharply in the first half of 2007, to 24.5 per cent (compared to 19.3% in 2006). On this measure affordability in Northern Ireland has become more acute than any other region in the UK outside of London.

## Local affordability

The least affordable District Council area was Moyle, where local earnings are very low and house prices high. As a result house prices in Moyle in 2006 were almost six times the level of household incomes (5.95 to 1).

The area with the next highest house price to household earnings ratio in 2006 was Limavady, with a ratio of 4.91 to 1. There were five other districts where the house price to household earnings ratio was greater than 4.5 to 1 - Cookstown (4.82), North Down (4.69), Dungannon (4.61), Castlereagh (4.58) and Fermanagh (4.58). At the other end of the scale the most affordable areas in Northern Ireland were Magherafelt (2.54 to 1), Newtownabbey (3.34 to 1) and Carrickfergus (3.47 to 1).

## The Intermediate Housing Market

Across Northern Ireland as a whole, some 42 per cent of all younger working households could not afford to buy at lower quartile house prices for two and three bedroom dwellings. This compares with 34 per cent unable to buy at lower quartile prices in 2005.

However, the incomes of some 5 per cent of all working households in 2006 was so low that they would qualify for housing benefit in order to pay a sub market rent in dwellings rented from the Northern Ireland Housing Executive.

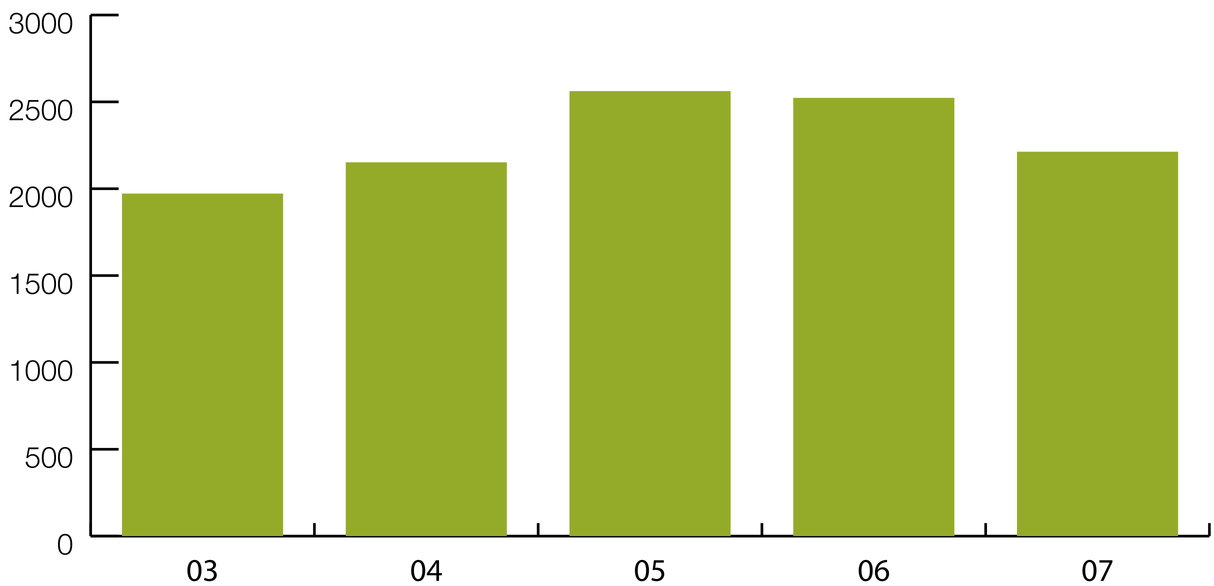
Almost 16 per cent could afford to buy at lowest decile house prices; albeit that they could not afford to buy at lower quartile prices. Consequently just 21 per cent of all younger working households fell within the 'narrow' Intermediate Housing Market (IHM); that is they could afford to pay more than a Housing Executive rent, but still could not  afford to buy at the very bottom of the housing market (ie at lowest decile house prices). This compares with 18 per cent of all younger working households in 2005.

These results have important implications for housing policy in Northern Ireland, and particularly for the need to ensure an adequate and targeted supply of affordable housing for those working households unable to buy their own home, even at the lower end of local housing markets. In particular the results indicate those areas where it would be most appropriate to focus the supply of shared ownership and other forms of intermediate housing market housing.

### Repossessions

Statistics on repossession also provide a useful indicator of affordability. The number of actions for repossession of owner-occupied dwellings jumped significantly between 2003 and 2005 to 2,562. By 2007 the number had declined again to 2,213 (See Figure 15). It is important to stress, however, that this is against a background of abnormal market conditions with an exceptionally low number of first time buyers. In addition it is important to remember that only a proportion of homes are actually repossessed. In Q4, 2007 542 writs and summons for repossession were issued, but only 213 homes were repossessed.

## Figure 15: Actions for Repossession in Northern Ireland  2003-07




*Source: Northern Ireland Court Service*

# The Sale of Housing Executive Dwellings

Since 1979 the Housing Executive has sold more than 116,000 dwellings to sitting tenants. They now account for almost a quarter (24%) of the owner occupied sector and 16 per cent of the housing market as a whole. The 2001 House Condition Survey provided the first reliable estimate of what proportion of these had been resold on the open market. In March 2001, some 94,000 dwellings had been sold and approximately 18,000 (19%) of these had been resold on the open market: two thirds to new owner occupiers and the remaining one-third to private landlords, reflecting the fact that they generally provide a good source of high quality affordable homes, particularly for first time buyers and landlords who see them as a sound investment.

Annual research carried out by the University of Ulster in relation to sold Housing Executive dwellings confirms that they continue to perform well on the open market.

## Resale of Former Housing Executive Property on the Open Market (2006)

### Key Findings

- Resold former Housing Executive dwellings made up approximately 12 per cent of all existing dwellings sold in 2006, the same proportion as in 2005.

- The spatial pattern of sales across the province was consistent with previous surveys, with a high representation occurring in Carrickfergus, Lisburn and Newtownabbey. There were also significant clusters of sales in Bangor, Newtownards, Antrim, Derry/ Londonderry, Strabane and Larne.

- In Belfast the highest concentrations of resales were in the west and southwest of the city notably in postal districts BT11 to BT13. There was also evidence of growing activity in the north of the city BT14 and BT15. In East Belfast only BT5 experienced a significant number of sales. As in previous years, there was a low volume of resales in South Belfast.

- The resold properties were typically terraced houses and dwellings constructed between 1960 and 1980; however, the market share taken by terraced houses has reduced. The growth in the number of apartments/flats in the resold stock observed in 2005 has been maintained. There is also evidence of an increasing number of newer Housing Executive properties being resold.

- Between 2005 and 2006 the average price of former Housing Executive properties increased from £74,504 to £108,396, representing an annual rate of increase of 45.5 per cent, much higher than the 30 per cent recorded for the market as a whole between 2005 and 2006.

- The average price of resold terraced properties increased to £108,093 (44.7%) over the year. The average resale price for former Housing Executive flats (£97,162) continued to lag behind the price for terraced houses, but nevertheless is up by 54 per cent for the year.

- Longer term trends indicate a nominal price increase of 367% (or 22.9% per annum) for former Housing Executive property over the period 1990-2006, compared to an increase of 413% (or 25.8% per annum) in the overall housing market. Clearly there continues to be a significant capital appreciation in the resold stock, but at a rate of increase below that of the wider private market.

- The highest priced locations for former Housing Executive properties were no longer confined to the Belfast Metropolitan Area, but were found in Mid and South Down (£119,377), Enniskillen/Fermanagh/South Tyrone (£120,036) and Mid Ulster (£122,659).

- The lowest priced location for former Housing Executive property continues to be East Antrim, although during 2006 property prices in this area increased by 46 per cent.

Figure 16 shows that in the late 1990s the number of Housing Executive dwellings sold annually has been consistently around 4,500. Between 2000 and 2004 the figure remained at over 5,000. A peak was reached in 2002/3 when 6,054 dwellings were sold. In 2003/04 the number fell to 5,652, but in 2004/05 there was a large reduction in the number of dwellings sold (24%) to 3135. These reductions reflected the introduction of major revisions to the House Sales Scheme.

In 2004, in particular, against a background of growing waiting lists and homelessness, and an increasing awareness that such a generous house sales scheme had militated against the capability of housing organisations to meet urgent housing need, there was a major tightening of the rules: In particular:

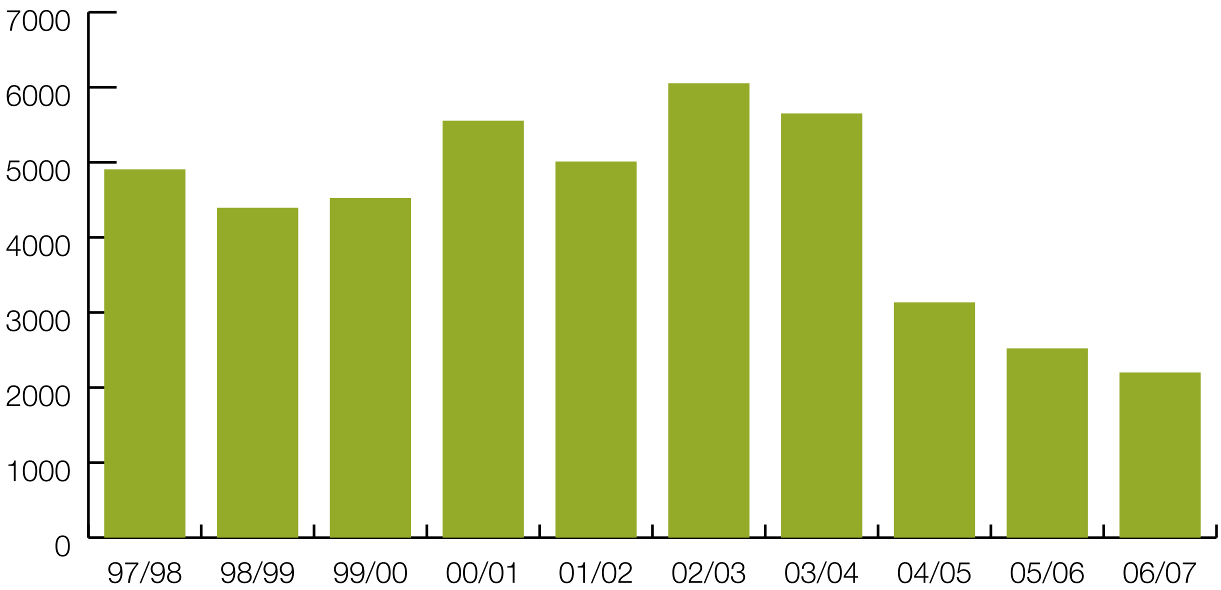
- the eligibility period was be extended to 5 years.

- the maximum discount cap was reduced to £24,000.

- the repayment of discount period, in the event of a resale, was extended from 3 years to 5 years.

The effects of these new regulations, combined with the substantial increase in house prices since 2004, have continued to be felt. In 2005/06 only 2522 dwellings were sold, and only 2201 in 2006/07. In 2007/08 fewer than 1,000 will be sold.

## Figure 16: Housing Executive Sales Completed 1997-2007




*Source: NIHE*

# Owner Occupied Stock - Characteristics and Condition

The 2006 House Condition Survey provides a comprehensive insight into the characteristics and condition of the owner-occupied stock.

## Dwelling Age

In 2006, almost one third (31%) of the owner-occupied stock had been built since 1980. Indeed 20 per cent of all owner occupied dwellings had been built since 1990. The number and proportion of properties built before 1919 has declined from 18 per cent in 2001 to 15 per cent in 2006.

## Dwelling Type

There has been little change in dwelling types in the owner occupied sector since 2001. More than one-quarter (27%) of the stock was terraced houses, 25 per cent bungalows, 23 per cent semi-detached and 23 per cent detached. Flats/apartments again constituted only a very small proportion of this sector (2%).

## Unfitness

In 2006 there were approximately 7,500 unfit properties that were owner occupied, representing an unfitness rate of 1.6 per cent. This is lower than the rate for the stock as a whole (3.4%). However, it must be emphasised that nearly 31 per cent of all unfit properties are owner occupied. Indeed if vacant properties are classified according to their tenure when last occupied, 73 per cent of all unfit properties would have been owner occupied, giving an unfitness rate of 3.6 per cent.

## Disrepair and the Decent Home Standard

The 2006 House Condition Survey found that 48 per cent (56% in 2001) of owner occupied dwellings had some element of fabric disrepair. This was below the average for the whole of the stock (52%). As in 2001, the main type of disrepair was to the external fabric (40% of the total owner occupied stock). The average basic repair cost was £940 (£1,107 in 2001), which was well below the £1,476 for the stock as a whole.

One fifth (20%; 95,700) of all owner occupied homes failed the Decent Home standard (compared to 23 per cent for the stock as a whole) and these made up almost three-fifths (59%) of all homes failing this standard in Northern Ireland in 2006.

## Grant Aid for the Owner Occupied Sector

The 2001 House Condition Survey confirmed the positive role that home improvement grants have played in improving the condition of Northern Ireland's owner occupied stock - particularly in rural areas.

It showed that

- more than 24,000 dwellings that were unfit in 1996 were made fit by 2001. Almost one-fifth (18%) of these received a home improvement grant - approximately four times the rate for the stock as a whole.

- more than 60,000 dwellings that were unfit or defective on the grounds of disrepair in 1996 were categorised as acceptable or satisfactory by 2001. Again almost one-fifth (18%) of these dwellings received grant aid - a rate which was almost four times the rate for the stock as a whole.

The 2001 House Condition Survey, however, also showed that there was no room for complacency. Approximately 3,300 dwellings were becoming unfit each year and almost 5,000 undergo a marked deterioration in their state of repair, underlining the need for ongoing grant-aided investment in the owner occupied stock. This investment continues to be underpinned by the Housing Executive's grants strategy which targets grants towards properties most in need of improvement and repair, thus ensuring that the "deterioration flow" into unfitness or disrepair is more than outweighed by the number of dwellings being brought up to modern standards. The 2006 House Condition Survey will provide a more up to date picture of the impact of home improvement grants between 2001 and 2006 and in particular will provide a first insight into the impact of the new discretionary scheme implemented in December 2003.

Table 13 shows the level of grants activity and associated expenditure over the past five years.

The following key points emerge:

- Between April 2002 and March 2007 grants expenditure has remained at over £40 million. Over the past three years more than 7,000 grants have been approved each year.

- The number of renovation grants approved in 2006/07 (1,143) fell marginally compared to the previous year's figure, as did the number of replacement grants. The 2001 House Condition Survey demonstrated the important role that these grants have, in reducing unfitness, particularly in rural areas such as Fermanagh.

- Nearly 1,000 Repairs Grants were approved in 2006/07. However, this is a much lower figure compared to the years up to 2004/05 because they are no longer available to owner occupiers under the new discretionary grants schemes.

- The number of Disabled Facilities Grants approved increased in 2007 to 1,710 reflecting the ongoing importance of this investment in the housing stock.

## Table 13: Grants Activity 2002-2007: Number of Grants Approved and Approved Expenditure

| Year | Renovation | Replacement | Disabled Facilities | Repairs | Minor Works | HRA | HMO | Total Grants | Approved Expenditure (£) |
|---|---|---|---|---|---|---|---|---|---|
| 2002/3 | 1,497 | 277 | 1,564 | 3,758 | 2,973 | - | 178 | 10,247 | 43.0M |
| 2003/4 | 1,420 | 209 | 1,579 | 3,337 | 2,763 | 78 | 214 | 9,600 | 41.6M |
| 2004/5 | 1,206 | 185 | 1,416 | 2,809 | 37 | 1,847 | 229 | 7,009 | 41.7M |
| 2005/6 | 1,143 | 170 | 1,667 | 854 | - | 3,151 | 209 | 7,194 | 45.7M |
| 2006/7 | 1,125 | 136 | 1,710 | 981 | - | 2,927 | 146 | 7,025 | 43.4M |

*Source: NIHE*

- The amount of investment in Houses in Multiple Occupation (HMOs) has continued in line with the Housing Executive's HMO Strategy. In 2006/07 146 grants were approved.

- Almost 3,000 Home Repairs Assistance (HRA) Grants were approved in 2006/07, a similar figure to the previous year, at a cost of over £8 million.

For the current financial year (2007/08) a total of £43 million has been allocated to the Housing Executive's grants budget. This will finance 1,100 renovation grants, up to 200 Replacement Grants, 1,000 Home Repairs Assistance Grants and 1,800 Disabled Facilities Grants. On 26th February 2008 the Minister for Social Development gave a commitment to provide £40 million for private sector grants during 2008/09.

## Key Issues and Strategic Perspective

- The existing housing finance framework will ensure that owner occupation will continue to be financially the most attractive option for households who can afford it. However, there are strong indications the owner occupied sector will grow at a slower rate as a result of the downturn in the housing market and as the private rented sector continues to expand. In the next three year period it is expected that owner occupation will grow by around 5,000 dwellings annually.

- Between 2001 and 2004, Northern Ireland's house prices rose at a more sustainable rate than in many parts of the UK. During the three year period 2004/07 this relative position was reversed primarily due to an unprecedented investor driven boom. This rate of increase (51%) became totally unsustainable by mid 2007 and in Q4, 2007 the average price of a house in Northern Ireland fell sharply by nearly £20,000. Prices are expected to fall by at least 10-15 per cent during 2008.

- The affordability issue in Northern Ireland has become markedly more serious during the last two years. Throughout Northern Ireland first time buyers are experiencing severe difficulties in gaining a foothold on the ladder of owner occupancy. In 2007 only 29 per cent of house sales were being taken up by first time buyers and in all District Council areas there was an "affordability gap" of at least £50,000. It is expected that this situation will continue over the next three years, as it is unlikely that prices will fall back so much to make a significant difference to first time buyers faced with a more difficult, more expensive credit environment.

- Sold Housing Executive dwellings have generally provided a good source of high quality affordable homes, particularly for first time buyers, but modified rules in terms of eligibility and discount, together with rapid house price inflation, have resulted in a significant reduction in the rate of house sales. The annual number of Housing Executive dwellings sold to sitting tenants in 2007/08 will be less than 1,000 and will continue to decline.

- The condition of the owner-occupied stock has improved markedly since 2001 and home improvement grants have played an important role in this. It is important that sufficient resources are made available to support the discretionary grants scheme.

Housing Executive

# Chapter 3

# The Private Rented Sector

# The Private Rented Sector

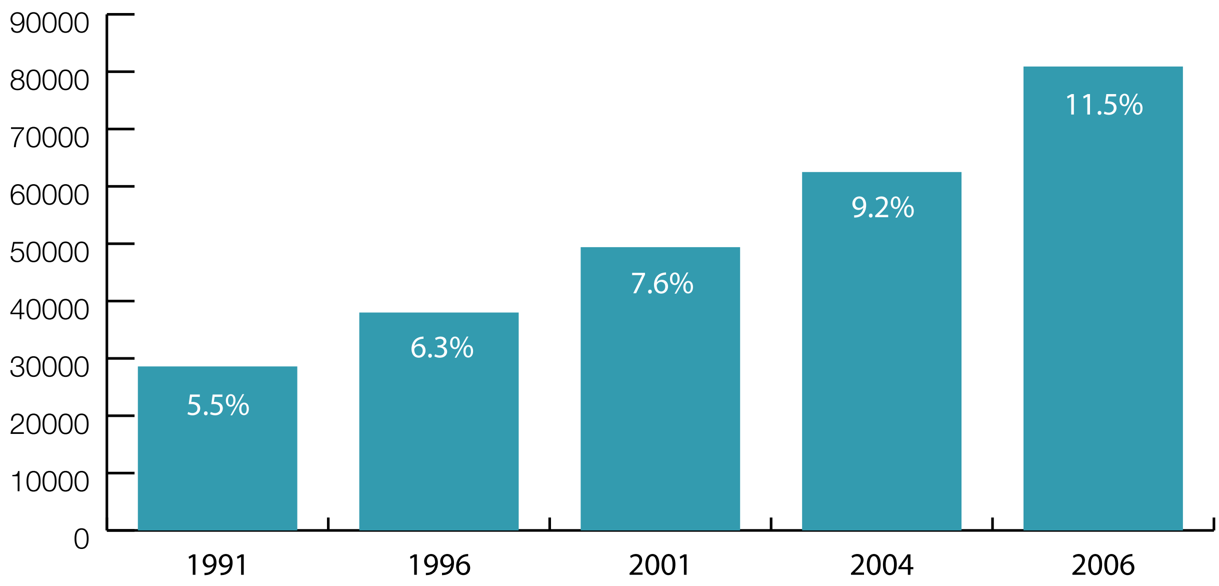
## Background

For most of the twentieth century the private rented sector in Northern Ireland has been characterised by decline due to a combination of rent control, the growth of owner occupation and large scale redevelopment, and by 1991 less than 30,000 dwellings were privately rented. However, since then successive House Condition Surveys confirmed that there has been rapid growth in this sector (see Figure 17), and by 2006 there were more than 80,000 dwellings in the private rented sector in Northern Ireland, representing 11.5 per cent of the total stock. If dwellings which were privately rented when last occupied are taken into account, the figure rises to 94,600 (13.4%) private rented dwellings in 2006.

The rate of growth in the private rented sector in Northern Ireland has accelerated. Between 1996 and 2001 the number of private rented dwellings in Northern Ireland increased at an average annual rate of 2,300 dwellings. Between 2001 and 2004 this had grown to almost 4,400 dwellings per annum, and between 2004 and 2006 rapidly increased to 9,200 dwellings per annum, reflecting the growing investor interest in the sector at a time of rapidly increasing house prices.

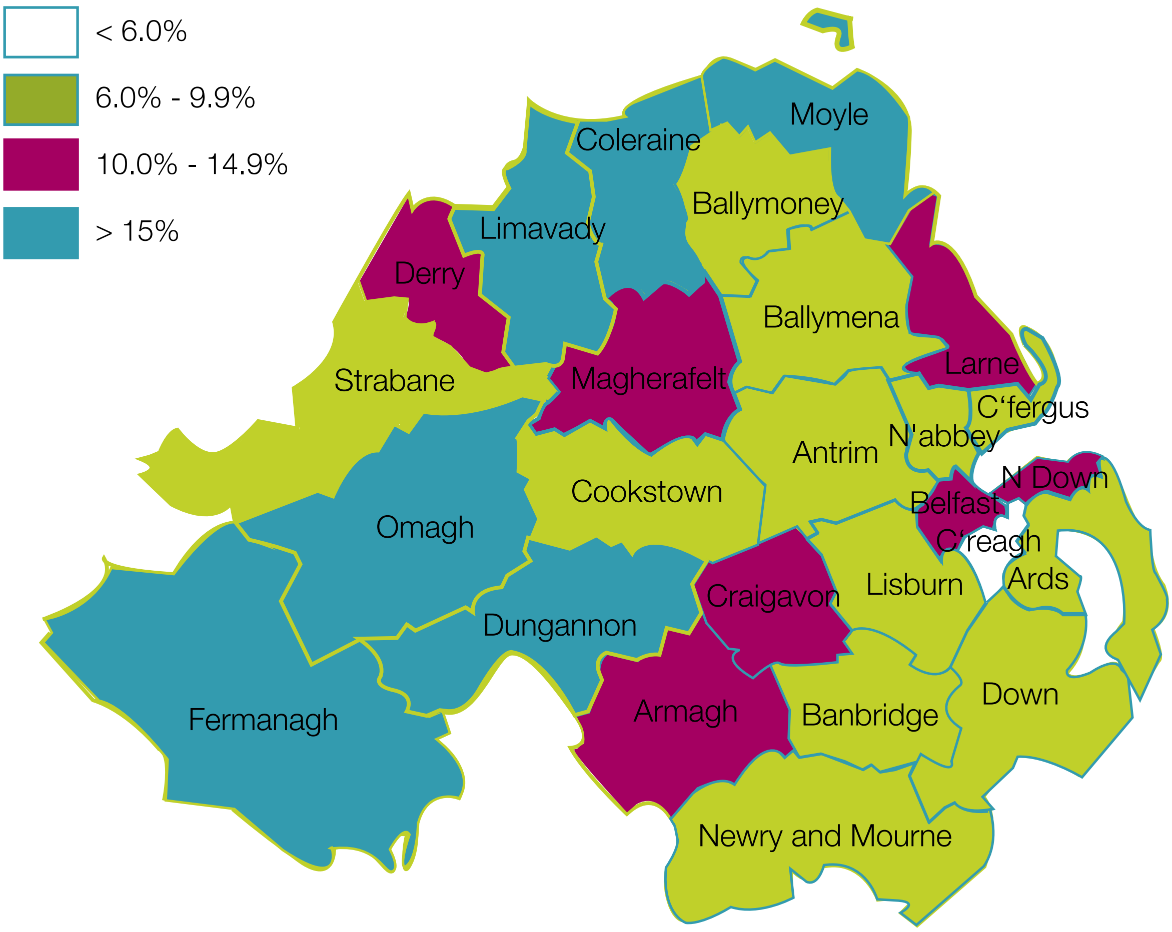
Figure 18 shows the proportion of properties which were privately rented in each of the District Council areas in 2006. Although the private rented sector accounted for 11.5 per cent of the total housing stock in Northern Ireland, in a number of District Council areas more than 15 per cent of dwellings were

Figure 17: The Growth of the Private Rented Sector, 1991-2006




*Source: House Condition Surveys, NIHE, 1991-2006*

Figure 18: Proportion of Dwellings in the Private Rented Sector by District Council Area, 2006




*Source: House Condition Surveys, NIHE, 1991-2006*

privately rented. These were predominantly remoter rural council areas: Coleraine, Dungannon, Fermanagh, Limavady, Moyle and Omagh, and are associated with concentrations of migrant workers.

*The Role of Housing Benefit*

Housing Benefit plays a vital role in supporting the private rented sector and enabling its expansion. Approximately 40,000 tenants in the private rented sector are on Housing Benefit and the annual budget for this is approximately £150 million.

# The Private Rented Sector

## The Characteristics and Condition of the Private Rented Sector

The most up to date picture of the characteristics and conditions of the private rented sector is provided by the 2006 House Condition Survey:

*Dwelling Age*
The 2001 House Condition Survey revealed that 38 per cent of the private rented stock was built before 1919. By 2006 this had decreased to 28 per cent (compared to 16 % for the stock as a whole). Conversely, the proportion of dwellings in the private rented sector which were built after 1980 increased from 15 per cent in 2001 to 25 per cent in 2006, reflecting heavy investment in new build apartments and townhouses by buy-to-let investors.

*Vacant Dwellings*
The rate of vacancy in the private rented sector continues to be significantly higher than in any other tenure. In 2006 the vacancy rate in the private rented sector was 14.6 per cent, compared to 5.7 per cent for the stock as a whole, although this rate has remained similar to the 2001 level of 14.2 per cent.

*Dwelling Type*
In 2001 terraced properties were the most prevalent dwelling type in the private rented sector, accounting for 40 per cent of the sector. By 2006 the proportion of terraced properties had increased to 46 per cent, higher than the overall stock average of 32 per cent. The number of semi-detached dwellings had doubled, from 7,900 in 2001 to 16,300 in 2006, representing 20 per cent of the private rented stock in 2006.

*Unfitness*
The unfitness rate in the private rented sector decreased substantially from 8.7 per cent in 2001 to 2.7 per cent in 2006, again reflecting to a considerable extent the expansion of buy-to-let into modern properties, but also the amount of (often grant aided) investment by private landlords. However, whilst this decrease in unfitness in the Private Rented Sector has been substantial, this sector still had a higher rate of unfitness than the other occupied tenures in 2006 (2.7% compared to 1.6 % in the owner occupied sector, and less than 1 % in the social sector).

*Disrepair and the Decent Homes Standard*
In 2006, 64 per cent of dwellings in the private rented sector had at least one fault, a reduction from the comparable figure in 2001 (71%), but above the 2006 figure of 52 per cent for the stock as a whole.

In 2006 the average repair cost for the private rented sector was also much higher (£1,017 for urgent repairs and £1,360 for basic repairs) than for the occupied stock as a whole (£638 and £880).

In 2006, 27 per cent of privately rented dwellings failed the Decent Homes Standard, a significant reduction from 2001 when nearly half (47%) of private rented dwellings failed the Decent Homes Standard, although this was still more than for the stock as a whole in 2006 (23%).

*Fuel Poverty*
In 2006, 44 per cent of households in the private rented sector were in Fuel Poverty. This was significantly higher than the comparable figure for the stock as a whole (34 per cent), reflecting both the characteristics of the stock and the concentrations of low-income households in the sector.

# A Comprehensive Profile of the Private Rented Sector

## The Private Rented Sector in Northern Ireland: Phase 1

In 1999, against a background of a rapidly growing private rented sector, the Housing Executive commissioned the University of Ulster to undertake a major piece of research into this increasingly important component of the housing market. The report on the first phase of the research project was published in February 2002 and provided a useful insight into the sector and some of its main segments on the basis of the 1996 House Condition Survey, NISRA's Continuous Household Survey and a number of small scale household surveys. Its key findings included: increasing proportions of single person households and lone-parent households, decreasing proportions of lone pensioner households, a decrease in the age of the head of household, higher turnover of tenants and increasing proportions of tenants in receipt of Housing Benefit.

Case studies in Armagh, Derry/Londonderry and North Belfast provided information on distinct segments of the private rented market:

- an influx of new landlords into the sector;
- four out of ten landlords surveyed had entered the sector in the last five years;
- a significant proportion of privately rented properties were formerly Housing Executive dwellings which had been purchased through the House Sales Scheme;
- the absence of a housing selection scheme allowed prospective tenants to access an area of choice with relative ease;
- the availability of Housing Benefit enabled tenants to move between sectors.

## The Private Rented Sector: Phase 2

In 2003, the Housing Executive asked the University of Ulster to undertake a further phase of research in order to examine in particular the changing tenant and landlord profile and the relationship between landlords and tenants. New data will emerge in the Spring of 2008 from the 2006 House Condition Survey, but this is still the most up to date tenant profile.

## Key Findings

Profile of the Occupants of the Private Rented Sector (PRS)

- The PRS generally caters for a much younger population, reflecting the traditional transitional role that the sector has played. In 2001 more than 4 times as many dwellings in the PRS were headed by young people aged 18-24 (13%) compared to the proportion found in the stock as a whole (3%). There was also an over-representation of those aged between 25-39 in the PRS (35%) compared to that found in the stock as whole (24%).
- Older heads of household in the private rented sector were more likely to live in older stock; around 70 per cent of those aged 60 or more lived in dwellings built before 1945.
- In 2001 nearly half of heads of households in the PRS were employed (47%), less than in the owner occupied sector (56%), but considerably more than the proportion of employed heads of households in Housing Executive (17%) and housing association (7%) dwellings.
- In 2001 sixteen per cent of heads of households in the PRS were unemployed, more than double that found in the stock as a whole (7%). By 2004 this proportion had increased to 22 per cent.

- More than one third (37%) of heads of household in the PRS were in receipt of Housing Benefit in 2001, and by 2004 this had increased slightly to 41 per cent.
- Low-income tenants were disproportionately represented in the PRS. The proportion of households in the PRS with annual incomes of less than £5,000 in 2001 was twice the proportion found in the stock as a whole (19% compared to 10%).
- 19 per cent of households in the PRS had incomes over £20,000 per year, although this is less than the 29 per cent found in the stock as a whole.

Landlords

- Most landlords operated on a small scale; 71 per cent had five properties or less.
- Just under half (48%) of landlords had entered the sector within the last five years.
- For most landlords (80%) renting out property was not their main job.
- Capital appreciation was the most common reason (44%) for becoming a landlord.
- The vast majority of landlords (94%) borrowed money to fund the purchase of a property.
- Landlords who used loans/mortgages had relatively high loan-to-value ratios. Half (51%) of these landlords had loan-to-value ratios of 76 per cent or more.
- For one quarter of landlords (26%) the rental income did not cover all costs and for a further third (35%), the rental income just covered the costs.
- The majority of landlords (71%) stated that if a property was making a loss, they would rely on the capital appreciation of a property rather than sell it.
- Half of landlords (49%) had problems with rent arrears in the previous 12 months.
- One third (35%) of landlords stated that they usually or frequently withheld a tenant's deposit.
- Nearly one-third (30%) of landlords stated that their rental income did not cover routine maintenance.
- Nearly half (46%) of landlords had not received any information on their rights and responsibilities as a landlord.
- Nearly two-thirds (61%) of landlords felt that they did not have enough information on their rights and responsibilities as a landlord. The most common issue which landlords felt they needed more information on was how to deal with problem tenants (80%).
- Most landlords (86%) felt that the Housing Executive should provide more information for landlords.
- Nearly two-thirds of landlords (60%) stated that they have had experience of anti-social behaviour from their tenants in the past five years.
- Nearly half (45%) of landlords believed that a multi-agency approach should be taken to tackle anti-social behaviour, this would include: landlords, the police, District Councils and the Housing Executive. However, one third of landlords believed that the police should be solely responsible for tenants who behave in an anti-social manner.

- The majority (68%) of landlords were in favour of an arbitration body to deal with landlord/tenant disputes.

- Half (48%) of landlords intended to keep their portfolio size the same over the next two years, whilst 31 per cent intended to increase their portfolio and 14 per cent plan to decrease their portfolio.

### The Private Rented Sector: Phase 3

In 2006, the Housing Executive launched a further phase of research into the private rented sector which builds on phases one and two of the research. Phase 3 will provide an analysis of data from the 2006 House Condition Survey, including a profile of the private rented stock, condition of the stock as well as examining issues such as Fuel Poverty and decent homes. The key findings which have emerged have been included above. Primary research involving a survey of 300 households in the Private Rented Sector has been undertaken which examined housing conditions and housing intentions. An analysis of the Private Sector Housing Benefit database will also be undertaken to provide information on the origins and characteristics of households in the private rented sector, who are receiving Housing Benefit, as well as differences in market rents and Local Reference Rents. Given the recent market developments and the new Assembly in Northern Ireland, Phase 3 will also revisit some of the issues discussed as part of Phase 2.

The specific objectives of Phase 3 are:

*Objective 1*
To provide a profile of the private rented sector stock.

*Objective 2*
To assess the housing conditions of those living in the private rented sector in terms of unfitness, disrepair, decent homes, the Housing Health and Safety Rating and energy efficiency.

*Objective 3*
To carry out an analysis of the socio-economic and demographic profile of households in the sector, including the most recent assessment of fuel poverty.

*Objective 4*
To ascertain the attitudes of tenants in relation to various aspects of the private rented sector, including: their housing history and future intentions; landlord-tenant relationships; accreditation; arbitration of landlord-tenant disputes; the standard of accommodation and the desirability of living in the private rented sector.

*Objective 5*
To assess the role of Housing Benefit in underpinning the growth of the private rented sector.

*Objective 6*
To assess tenants' ability to pay the rent (or the shortfall between housing benefit and contractual rent).

*Objective 7*
To revisit landlord's views of investing in the private rented sector in the light of recent housing market developments, for example, interest rate increases.

*Objective 8*
To examine landlords attitudes to working with the Housing Executive on leasing issues.

*Objective 9*
To examine the relationship between the private rented sector and the emerging sub-prime market in Northern Ireland.

Preliminary findings from the Tenant Survey revealed that:

- One third (35%) of respondents stated that an inability to access other tenures was the main reason for living in the private rented sector, and for a further third (32%) the location of the accommodation was the main reason for choosing to live in the sector.
- One third (34%) of respondents paid rent in advance for their current home, paying on average £348 per month. Two-fifths (42%) of respondents paid a deposit for their current accommodation, paying on average £294. The average total amount that tenants had to pay upfront to secure accommodation was £439.
- Sixty per cent of respondents were in receipt of Housing Benefit. Of these the majority (68%) had to pay a shortfall between the amount of Housing Benefit received and the total rent payable. The mean amount that tenants had to pay for a shortfall was £20 per week.
- Only one quarter (27%) of tenants were provided with a rent book. Nearly two-thirds of tenants (67%) had a written tenancy agreement with their landlord.
- The vast majority of tenants had a good relationship with their landlord. Two-thirds of tenants were very or fairly satisfied with their repairs and maintenance service offered by their landlord, although nearly one quarter were dissatisfied.
- Overall, tenants were very much in favour of the various schemes that regulate the Private Rented Sector in some way.

Findings from the overall project are scheduled to become available in December 2008.

## A Strategy for the Private Rented Sector in Northern Ireland

The joint DSD/NIHE Strategy for the Private Rented Sector in Northern Ireland “ Renting Privately - A Strategic Framework" was launched in May 2004, with the following aim: ‘To promote and sustain a healthy private rented sector, which offers choice and flexibility by influencing supply and securing a better quality, better managed sector’.

Further substantial progress has been made on a number of the most important tasks associated with achieving this overall objective.

### The Private Tenancies (Northern Ireland) Order 2006

One of the most important achievements has been the introduction of new legislation to address inequities in the private rented sector, target unfitness and encourage landlords to improve unfit properties with the prospect of a more viable return on their investment.

The new legislation was introduced on 1 April 2007 and provides a new structure for the private rented sector in Northern Ireland. Some of the main features of this are:

- As well as having rent books, new tenants have to be supplied with a written statement of the terms of their tenancy. Where a tenancy agreement fails to clarify repairing obligations, the law provides default terms.
- New tenancies are defined on the basis of their fitness for human habitation - an unfit tenancy will be subject to rent control until it is made fit.

- District Councils are responsible for inspecting tenancies for fitness and have been given new powers to ensure that unfitness and serious disrepair are addressed.

- Controlled rents are now based on a number of factors including the state of repair, the equivalent Housing Executive rent for a similar dwelling and the general level of rents in the area.

- Restricted and regulated tenancies will retain their protection. Existing tenants will have a tenancy for life but there will only be one further succession possible rather than two as at present.

- There are to be no more protected tenancies. On vacancy, all currently protected tenancies will be decontrolled. If the property is rented out subsequently, the rent is not subject to control, as long as the property is fit.

Significant progress has also been made on standards of management in the private rented sector, including:

- the development of best practice documentation such as a model tenancy agreement; a period of consultation has just finished for a Best Practice Guide for Landlords and a Best Practice Guide for Tenants will follow.

- the development and improvement of relations and communication with landlords;

- expanded management standards for HMOs;

- the development and improvement of communication with Universities in areas of high concentration of HMOs;

- the assessment of the benefits of extending Licensing of Landlords beyond HMOs.

### The Review into Affordable Housing

The Review into Affordable Housing in Northern Ireland was launched in September 2006 under the direction of Sir John Semple, and the final report was published in April 2007. The Review's remit was wide ranging, but the overall objective was to consider Government interventions in the housing market that increase the supply of social housing for rent, support the private rented sector and assist intermediate households into home ownership. The Review made several recommendations for the private rented sector, including:

- Addressing issues such as security, control and quality within the sector, if the private rented sector is to play a greater role in meeting housing need.

- Registration of all landlords by the new local authorities post-Review of Public Administration. However, in the interim, the Northern Ireland Housing Executive should extend the registration of Houses in Multiple Occupation and develop a system of wider landlord registration.

- Registration should incorporate a mediation and arbitration service for landlords and tenants.

- The guidance being produced by the Department for Social Development and the Rent Officer for Northern Ireland should be widely disseminated.

- The Department for Social Development and District Councils should ensure that all landlords comply with the Private Tenancies (NI) Order 2006.

- Consideration should be given to providing for longer periods of notice and tenancies as is the case in the Republic of Ireland's system.

- A Voluntary Rental Support Scheme should be introduced by the Northern Ireland Housing Executive to assist landlords and potential tenants.

- A Deposit Guarantee Scheme should be considered to assist those on low incomes who are seeking homes in the private rented sector.

This agenda is being taken forward by the Department of Social Development and the Housing Executive as part of the ongoing response to the Semple Review.

## Houses in Multiple Occupation (HMOs)

Houses in Multiple Occupation are an important element of the private rented sector. The Housing Order (NI) 2003 defines them as a dwelling "occupied by more than two qualifying persons, being persons who are not all members of the same family". The most recent figures suggest that there are more than 14,000 HMOs in Northern Ireland. HMOs have an important role to play in meeting the housing needs of people who are single, who have temporary employment, students and those on low incomes. Increasingly too, HMOs in the private rented sector have become home to a large number of the migrant workers who have come to Northern Ireland since 2004.

The Housing Executive uses a combination of methods - inspection, grant aid and enforcement orders - to raise standards in HMOs. Since the introduction of the Housing (NI) Order 1992 and the Housing Management of Houses in Multiple Occupation (NI) Regulations, 1993, the Housing Executive has completed the following:

- 3,663 full inspections of HMO properties, an increase of 345 during the year 2006/07;

- 2,853 statutory notices served as a result of these inspections, an increase of 268 during the year 2006/07;

- 1,846 approvals for grant aid for works to bring HMOs up to the necessary standards, an increase of 146 in the year 2006/07.

By the end of March 2007 a total of £38.4 million had been spent on HMOs.

### Statutory Registration Scheme for HMOs

The Housing (NI) Order 2003 required the Housing Executive to introduce a registration scheme for HMOs. Following a period of consultation the Housing Executive implemented its statutory registration scheme in May 2004 (amended in 2006 to take into account landlord concerns over their responsibility for anti-social behaviour). The scheme is designed to target properties deemed to represent the greatest risk to occupants.

An area based approach is being taken in order to make best use of scarce resources. The five areas initially chosen were the Fitzroy and Eglantine areas of South Belfast, the Waterworks area in North Belfast, Portstewart and the Magee College area in Derry City. Within these 5 action areas specific landlords were required to register HMOs. Once an area has been declared, all HMO properties within it have to be brought up to modern standards. Outside these areas properties capable of occupation by more than 10 people are specified for registration. Properties where an HMO grants scheme has been completed, and where grant approval was issued after 1st May 2004, are also required to register as a condition of the grants scheme.

In September 2007 the Statutory Registration Scheme was amended to extend the registration scheme to the following areas: Dungannon and South Tyrone; Cookstown District Council Area; The Diamond and The Fountain/Waterside areas of Derry/Londonderry; Coleraine Town; Portstewart; Ulsterville, Stranmillis, Cromwell Road, Kansas/Marsden areas of Belfast and Bangor Harbour.

The fees that landlords pay for registering their property in the HMO Registration Scheme have contributed to various initiatives, including:

*Neighbourhood Wardens*
Neighbourhood Wardens are in place in the Holylands in Belfast and Derry/Londonderry which aim to reduce levels of crime and anti-social behaviour, and are funded by several organisations.

*Website for student occupied HMOs - Studentpad*
The Housing Executive and the Universities jointly produced a province-wide web-site where students can access lists of HMOs which are available for letting. It is hoped that this web-site will provide a marketing advantage to landlords of HMOs which comply with the required standards, while offering important information to prospective tenants and parents of prospective tenants, to enable them to choose good quality accommodation.

### Study into HMO registration scheme
A study of the HMO registration scheme in Northern Ireland is currently being carried out by the Housing Executive in partnership with the Building Research Establishment. This project aims to undertake a review of the current HMO registration scheme in Northern Ireland. The specific objectives are:

- To help determine how landlords, housing advice providers and the Housing Executive can achieve better communication with tenants of HMOs.
- To evaluate the training and support provided for landlords to date and produce suggestions for improvements.
- To identify what incentives or benefits would make the registration scheme more meaningful and attractive to landlords.
- To define issues related to migrant worker housing in HMOs. To explore differences in the need for and implementation of registration schemes in different situations as defined by population density, housing market characteristics, typical tenant groups and overall deprivation.
- To assess the workability of the different definitions of “HMO” as applied in Northern Ireland, Scotland and England and to advise the Housing Executive of the most appropriate model in light of Northern Ireland's circumstances.
- To explore the need to work with 6th form students on their perception of obtaining and maintaining PRS housing in conjunction with University representatives/landlords.

### Draft HMO Subject Plan for Belfast

The Planning Service issued a Draft HMO Subject Plan for Belfast City Council Area 2015 in June 2006. The Plan aims to: protect the amenity of areas where there are concentrations of HMOs or are likely to be concentrations of HMOs; accommodate the need and demand for multiple occupation, focus HMO development in areas where it can contribute to regeneration and promote appropriate development of purpose built student accommodation. Some of the Plan's proposals include:

- Restricting the proportion of HMOs in each of the HMO Policy Areas to 30 per cent of all dwellings.
- The establishment of HMO Development Nodes, which are principally arterial routes, with the aim of dispersing HMOs and contributing to regeneration.
- Restricting the proportion of HMOs outside HMO Policy Action Areas and HMO Development Nodes where the number of HMOs exceeds 10 per cent of dwellings.
- Restricting new HMOs to four occupants.

## Key Issues and Strategic Perspective

- The private rented sector will continue to be an increasingly important part of Northern Ireland's housing market. Rising waiting lists for social housing and severe affordability issues for first time buyers coupled with changing lifestyles and labour markets, will ensure that the private rented sector will continue to play a very important role in Northern Ireland's housing market, underpinned currently by Housing Benefit payments totalling £150million.
- There is, however, some qualitative evidence that interest in buy-to-let tailed off significantly in the second half of 2007 as the effects of unsustainable house price increases and the "credit crunch" combined to take their toll.
- There is a possibility that the introduction of a single 18 per cent Capital Gains Tax rate for private rented dwellings from April 2008, and the potential tax savings for recent investors, may encourage large numbers to sell their properties. However, given the expected continued demand for private renting from first-time buyers unable to afford their first house, migrant workers, and the continuing pressure on the social housing budget, the risk of large-scale disinvestment is seen as low.
- The age profile of the stock continues to be older than other tenures (although less pronounced than in 2001). There are still somewhat higher levels of unfitness, although the 2006 House Condition Survey indicated that these differences are reducing.
- Houses in Multiple Occupation (HMOs) will continue to play an important role in housing single person households including students, young professionals and those on low incomes. This form of tenure is of particular importance for migrant workers. The statutory licensing of HMOs will help ensure management standards improve.
- The strategy for the private rented sector is continuing to address housing conditions and a range of legal and management issues. The new legislation introduced in April 2007 targets unfitness in the sector and provides a framework which will give clarification on the roles and responsibilities of both landlords and tenants in the sector.

Housing Executive

# Chapter 4

# Social Housing

# Social Housing

## Introduction

In March 2007, the social housing sector in Northern Ireland consisted of approximately 113,300 dwellings - 16 per cent of the total stock. Around 91,000 social dwellings were owned and managed by the Northern Ireland Housing Executive, and 22,300 by the housing associations. Ongoing growth in the owner-occupied and private rented sectors has meant that, despite falling levels of house sales and demolitions, there has again been a reduction in both the proportion and the absolute number of social homes relative to the private sector. The changing balance between social and private housing in Northern Ireland during the last decade is illustrated in Figure 19.

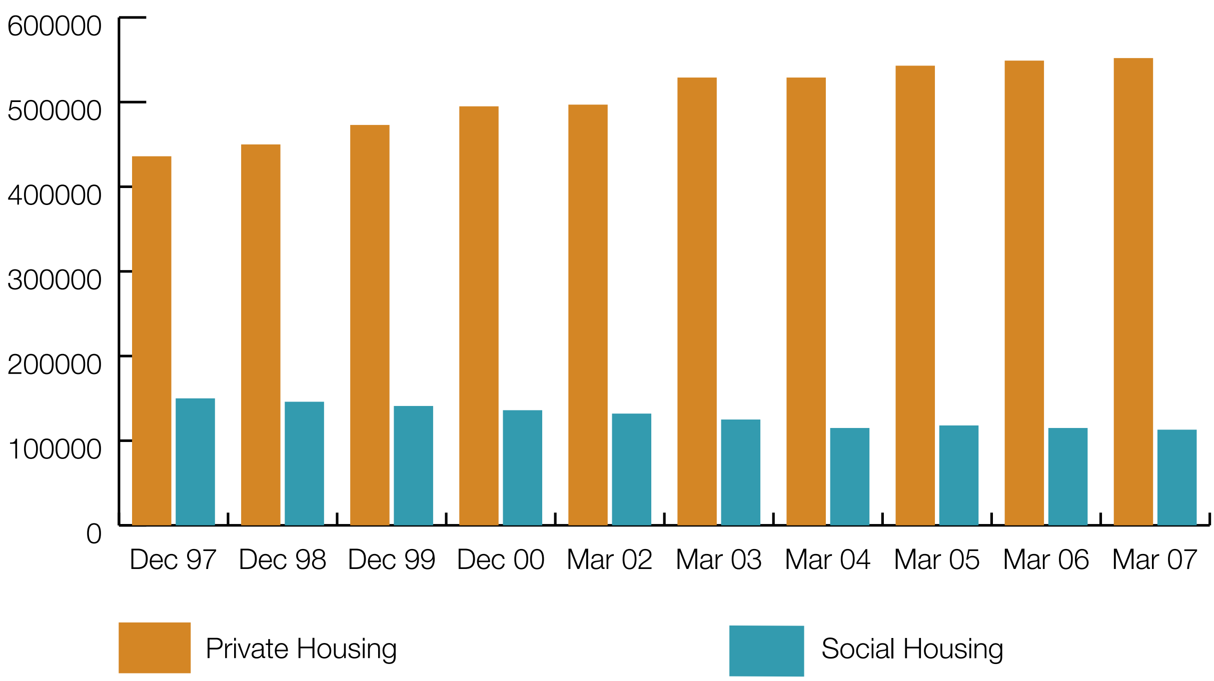
The composition of the social sector has also continued to change; in March 2007 around one fifth (20%) of social dwellings were owned by housing associations, compared with 14 per cent in March 2002. However, the annual new social housing programme over this five year period has only compensated for around one third of the annual reduction in Housing Executive stock as a result of house sales and demolitions.

## The Housing Executive

Northern Ireland's regional strategic housing authority, the Housing Executive, is a Non-Departmental Public Body which reports to the Department for Social Development. In 2006/07 its gross budget was £636 million, £209 million of which was invested in improvements and repairs to Housing Executive stock.

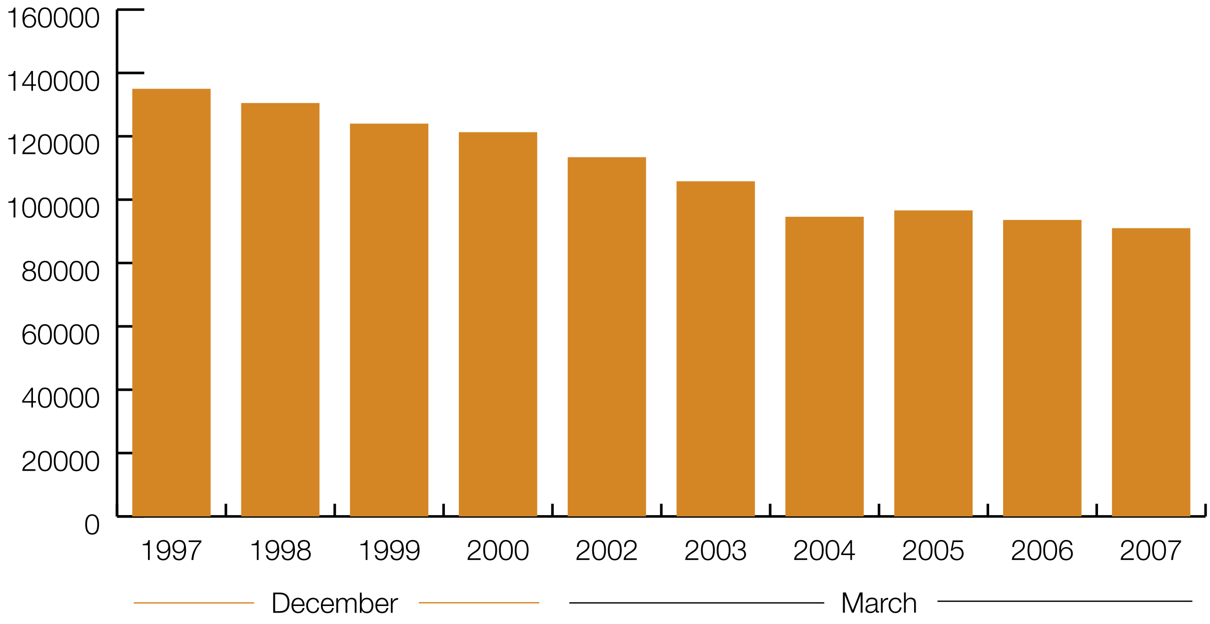
The Housing Executive constructed more than 90,000 new dwellings between 1971

### Figure 19: Changing Balance of Social and Private Housing, 1997-07




*Source: DSD Housing Statistics 2006-07*

Figure 20: Housing Executive Stock, 1997-2007




*Source: DSD Housing Statistics 2006-07*

and 2001, but the transfer of responsibility for provision of new social dwellings to the housing associations following the 1996 policy review meant that the last new Housing Executive homes were built in 2002.

The House Sales Scheme was established in 1979, and since then the Housing Executive has sold more than 116,000 of its dwellings. While the Scheme provided an important route into affordable owner occupation for many households, it has also had an obvious and considerable impact on the overall level of social housing stock. Sales peaked at over 6,000 during 2002/03, but have declined steadily since then, to around 2,200 in 2006/07. The falling level of sales can be at least partly accounted for by the recent buoyancy of the housing market; Housing Executive property values in many areas have risen beyond the purchasing power of most tenants. Changes in the House Sales Scheme's eligibility criteria and the profile of the remaining housing stock have also impacted on the level of sales, which is expected to continue to decline. It is estimated that fewer than 1,000 Housing Executive dwellings will be sold this financial year (2007/08).

Until 2004, a number of housing associations operated voluntary house sales schemes. Under the Housing (Northern Ireland) Order 2003, however, the provisions of the statutory House Sales Scheme were extended to housing association tenants. Sales of housing association properties to tenants stood at 188 during 2006/07 - the highest figure in recent years. Statistics collated by the Department for Social Development show that since 2000/01, around 130 housing association tenants have purchased their home from their landlord each year.

During 2006/07, just under 700 Housing Executive properties were demolished, the lowest figure in a number of years. Figure 20 illustrates the combined impact of house sales and demolitions on the (occupied) Housing Executive stock.

## The Characteristics and Condition of Housing Executive Stock

The Housing Executive's property database (March 2007) showed the following:

*Dwelling Age*
Slightly more than half of the current stock (51%; 47,300 dwellings) had been constructed after 1970, 25 per cent between 1961 and 1970, and 18 per cent between 1945 and 1960. Only six per cent of dwellings dated from before 1945, and the majority of these (67%) are located in the Belfast area.

*Dwelling Type*
The majority of Housing Executive stock (56%; 51,800 dwellings) were traditional terraced or semi-detached houses. Twenty per cent were bungalows, and a further 20 per cent were flats. The remaining four per cent of dwellings were cottages, maisonettes and split level dwellings. While the numbers have decreased, the proportions remain virtually identical to 2006 figures.

*Dwelling Size*
Forty-four per cent of the stock had three bedrooms and 38 per cent offered two-bedroom accommodation. Dwellings for larger families requiring four or more bedrooms accounted for five per cent of the stock.

*Heating*
The vast majority of Housing Executive stock at March 2007 (around 90,000 dwellings; 98%) had full central heating; fewer than 900 dwellings had non-central heating, and around 800 had part-central heating systems. During the year to March 2007, the number of homes that had solid fuel as their principal heat source reduced by almost 5,000, to 18,100. The number of dwellings with electricity as principal heat source also decreased, from 16,000 in March 2006 to around 13,800. Both solid fuel and electricity are considered inefficient heat sources.

More than one quarter of Housing Executive dwellings (27%; 25,200) are now heated by natural gas. The majority are in Belfast, where almost two thirds of properties (64%) have gas as their main heat source.

Initial findings from the 2006 Northern Ireland House Condition Survey provide the following information about the Housing Executive's stock:

*Unfitness*
Approximately 500 dwellings (0.5%) were estimated to be unfit, a decrease from the estimate of 900 dwellings in 2001. If vacant dwellings are included, the level of unfitness in Housing Executive stock is 0.9% (875 dwellings), compared with 2.4% (3,000) in 2001.

*Disrepair and the Decent Homes Standard*
The 2001 House Condition Survey indicated that 69,000 dwellings (59% of the stock) required some repair. By 2006, the absolute number had decreased to 56,400, although the ongoing reduction in stock meant that the proportion remained almost unchanged at 60 per cent.

The average estimated cost of repairs (£243 for urgent and £329 for basic repairs), has decreased since 2001 when the respective figures were £304 and £398. The cost remains substantially lower than the corresponding average figures for the Northern Ireland stock as a whole, £1,206 and £1,476 respectively, including vacant properties.

The survey also monitors compliance with the Decent Homes Standard, and shows a substantial improvement since 2001. The proportion of occupied Housing Executive dwellings which failed to meet the Standard fell from 50 per cent in 2001 to 25 per cent in 2006.

The vast majority (97%) of Housing Executive dwellings that did not meet the Standard failed on the thermal comfort criterion, essentially due to the presence of inefficient solid fuel or electrical heating. Only four per cent of Housing Executive properties failed to meet the Decent Homes Standard on the basis of disrepair – this was much lower than the overall average of 20 per cent of dwellings.

Fuel Poverty
Despite ongoing improvements in the energy efficiency of dwellings through upgraded heating systems and insulation measures, the findings of the most recent House Condition Survey showed that 41 per cent of Housing Executive tenants were estimated to be in Fuel Poverty in 2006. Rising fuel prices and relatively low household income levels have been the main factors contributing to the higher than average incidence of Fuel Poverty among Housing Executive tenants; overall in Northern Ireland, an estimated one third (34%) of households are experiencing Fuel Poverty problems, based on 2006 figures.

### Household Profile

The Housing Executive's Continuous Tenant Omnibus Survey, based on interviews with 3,700 tenants, provides an invaluable source of information on the socio-economic and demographic profiles of Housing Executive tenants and indicates there is a growing residualisation of the Housing Executive's stock.

## Continuous Tenant Omnibus Survey 2006

### Key Findings

- The average number of people per household decreased from 2.17 in 2005 to 2.10 in 2006, and remains significantly lower than the figure for Northern Ireland's housing stock as a whole (2.69). The figure also reflects the growing proportion of single person and elderly households in Housing Executive stock. Single persons accounted for 43 per cent of households in 2006, compared with 41 per cent in 2005, and 'Lone Older' remains the single most common household type (22%).

- Only 14 per cent of heads of household were working (full time, part time or self employed), with consequent high levels of benefit dependency in Housing Executive estates; 46 per cent of heads of household were in receipt of Income Support or Job Seekers Allowance. Approximately one quarter (26%) of heads of household were retired.

- Approximately two thirds of respondents (64%) indicated that their gross household income was £10,400 or less per annum, and more than one tenth of households (12%) had a gross annual income of £5,200 or less.

- More than one tenth (12%) of all household members required some form of mobility aid (including a wheelchair), and the proportion of heads of household in receipt of a disability benefit increased slightly from 29 per cent in 2005 to 31 per cent in 2006.

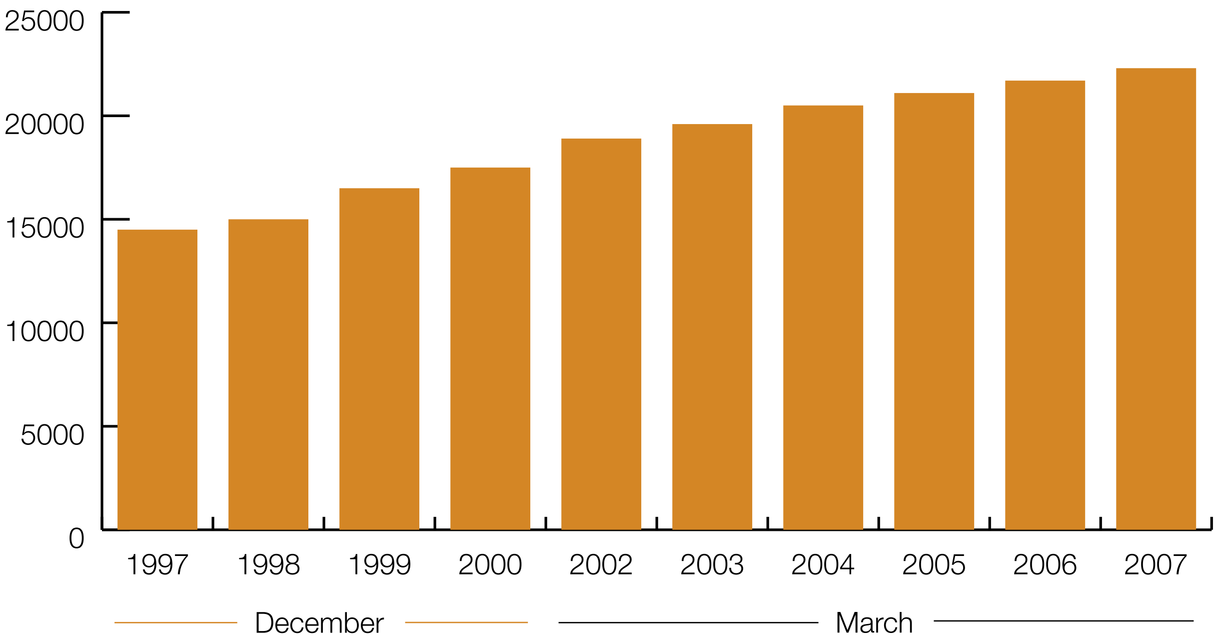
## The Housing Associations

Housing associations - independent social housing organisations - provide good quality, affordable dwellings to meet housing need on a not-for-profit basis. There are currently 36 registered housing associations, including the Northern Ireland Co-Ownership Housing Association (NICHA).

The Department for Social Development's Housing Statistics show that the occupied rented stock owned and managed by housing associations has increased steadily and comprised 22,300 self-contained rented dwellings at March 2007. In addition, rented stock in the housing association sector includes 4,300 bedspaces in non self-contained accommodation and NICHA's 3,240 dwellings in equity sharing tenure. Figure 21 shows the growing amount of self-contained rented stock owned and managed by housing associations during the last decade.

Housing association development was financed by grants and loans from Government until 1992. Since then, under the 'mixed funding' regime, the Government has required associations to obtain their loans from the private market. The private finance component represents about one third of the cost of general-purpose housing. Since 1991, housing associations have borrowed £343.7 million from private sources (mainly banks, building societies and their own reserves). This represents a major contribution to the funding of social housing.

### Figure 21: Registered Housing Associations, Occupied Rented Stock (Self-Contained) 1997-2007




*Source: DSD Housing Statistics 2006/07*

Until 2006, housing associations did not usually need to borrow for supported housing schemes because the grant was paid at 100 per cent of the cost estimate approved by the Department for Social Development. Since then, however, the rate of grant may be lower than 100 per cent. 'Supported housing' provides supportive services as well as suitable accommodation for people who, for example, have a learning disability or are recovering from mental illness.

### Housing Association Stock

Including vacant properties, registered housing associations had a rented stock of around 28,150 units of accommodation at March 2007. Some 23,850 (85%) of these were self-contained and the rest were bed spaces in shared accommodation. Three quarters (75%) of the total units were owned by the ten largest associations, which had more than 600 units each (Table 14).

Around 1,800 housing association dwellings (1,100 self-contained units and just less than 700 bedspaces in shared accommodation) were suitable for tenants who are wheelchair users, and slightly more than one third (35%; 9,920 units) of housing association accommodation was for elderly people. Housing association stock is found throughout Northern Ireland, but the highest concentrations are in Belfast (40% of all housing association stock), Derry (12%), Lisburn (6%) and Craigavon (5%) council areas.

## Table 14: Housing Associations with more than 600 Units of Rented Accommodation, March 2007

| | Self Contained Units | Bed Spaces | Total Units |
|---|---|---|---|
| Fold | 4,096 | 298 | 4,394 |
| BIH | 3,768 | 485 | 4,253 |
| Oaklee | 3,218 | 592 | 3,810 |
| North & West | 2,021 | 431 | 2,452 |
| Habinteg | 1,379 | 253 | 1,632 |
| Clanmil | 1,622 | 0 | 1,622 |
| SHAC | 165 | 818 | 983 |
| Ulidia | 483 | 269 | 752 |
| South Ulster | 696 | 0 | 696 |
| Presbyterian | 647 | 0 | 647 |
| Total | 18,095 | 3,146 | 21,241 |
| Total Housing Association Stock | 23,852 | 4,303 | 28,155 |

*Source: DSD, Housing Associations Branch*

## The Characteristics and Condition of Housing Association Stock

The 2006 House Condition Survey provided up-to-date information on the characteristics of housing association stock and the households in this sector:

*Dwelling Age*
The vast majority of housing association properties (81%) had been built since 1980, reflecting the relatively recent history of the movement and the housing associations' increased development role in the last decade.

*Dwelling Type*
Slightly less than half (48%) of dwellings were flats or apartments; a number of housing associations had, until recently, concentrated their efforts on building sheltered accommodation for older people. Just over one fifth of housing association stock (22%) is in the form of terraced properties, and around 18 per cent is semi-detached dwellings.

*Dwelling Location*
The largest concentration of housing association properties (54%) is in the Belfast Metropolitan Area. A further 38 per cent are located in district and other towns, with the remaining eight per cent found mainly in small rural settlements. Less than one per cent of housing association properties are located in isolated rural areas.

*Unfitness, Decent Homes and Fuel Poverty*
Vacant properties excluded, fewer than 100 housing association dwellings (0.4%) were considered unfit, reflecting the relatively young age profile of the stock. By comparison with 2001, the proportion of properties failing the Decent Homes Standard was found to have increased marginally, from 7 per cent to 9 per cent.

Based on the latest model, around one fifth (21%) of housing association tenants were estimated to be in Fuel Poverty in 2006.

### Profile of Housing Association Tenants 2006

- Around half (51%) of housing association tenants were elderly, and of these the vast majority (88%) were single person households. The overall proportion of elderly housing association tenants has fallen from 67 per cent in 2001, reflecting the associations' growing role in general needs and family housing provision.

- Almost one third (31%) of heads of household were aged 75 or more. Again, this represents a change in tenant structure since 2001, when 45 per cent of heads of households were aged at least 75. The comparable figure in 2006 for this age group in both the owner occupied and Housing Executive sectors was 13 per cent, confirming the ongoing important role that housing associations play in meeting the housing needs of older people.

- Single person households (of all ages) accounted for 59 per cent of housing association tenants, compared with 47 per cent of Housing Executive tenants, 36 per cent in the private rented sector and 23 per cent of owner occupiers.

- One fifth (20%) of heads of household were in either full time or part time employment. Slightly less than half (48%) were retired, and around ten per cent were permanently sick/disabled.

- More than half (57%) of housing association households had annual gross incomes of less than £10,000, and one fifth (20%) had less than £7,000 income each year.

## Co-Ownership Housing

Northern Ireland Co-Ownership Housing Association (NICHA) fulfils a key role in the local housing market by facilitating entry into the owner-occupied sector for households on lower incomes. It operates a Do-It-Yourself-Shared-Ownership scheme, through which eligible purchasers may bid to acquire a property on the open market through shared ownership with NICHA. Co-Ownership was established in 1978 as a form of equity sharing, and enables households, whose resources would otherwise not allow them to buy, to take the important first step on the ladder of owner occupancy.

Purchasers may buy between 40 and 75 per cent of the equity and pay rent on the remaining share. Monthly outgoings are tailored to purchasers' ability to pay, and almost all shared owners go on to achieve full ownership by purchasing the outstanding equity or selling and moving to another owner-occupied property.

In March 2007, the Co-Ownership association managed a total of 3,242 properties; the number acquired during the year decreased by just over one third (36%), from 504 in 2005/06 to 325 in 2006/07, reflecting the difficulties of operating within specified value limits in a rapidly rising market. £4 million in Housing Association Grant contributed towards a NICHA investment during 2006/07 of £17 million in properties which had a total value of £36.8 million.

Properties acquired through the scheme during 2006/07 had an average price of £113,116 - up by almost one third (31%) on the 2005/06 figure of £86,581, but still significantly lower than the average market price during 2006 (£174,178). More than half (55%) of properties purchased through the scheme were terrace/townhouses, and the proportion of purchases comprised by apartments also increased, from 16 per cent in 2005/06 to 23 per cent in 2006/07. The trends since 2004/05 are illustrated in Figure 22, and suggest a tendency for purchase of smaller properties to stay within the Co-Ownership property value limits.

Almost 19,300 households have been able to purchase their home with the help of Co-Ownership since the scheme began in 1978, and more than 16,000 have "staircased" out of the scheme to become full owners. A total of 804 households bought out the interest in their properties during 2006/07 and the average return for clients at staircasing increased substantially, from £19,208 in 2005/06 to the highest ever figure - £30,092 - in 2006/07. In the unusually buoyant housing market, £42.3 million was generated through sales (up from £27.7 million in 2005/06); of this, £13.1 million (31%) was returned to the Department for Social Development and the remaining receipts were used to purchase property for new leaseholders within the first quarter of 2007/08.

Data collected by Co-Ownership illustrates the profile of purchasers during 2006/07:

- Seventy-one per cent of households had only one earner, and at almost two-thirds (64%) of purchasers, single persons formed the most common household group. Lone parents accounted for 17 per cent of purchasing households, couples for six per cent, and the remaining 13 per cent were couples with children.

- The vast majority of purchasers were aged under 50; two thirds (66%) were in their 20s and one third (33%) were aged between 30 and 49.

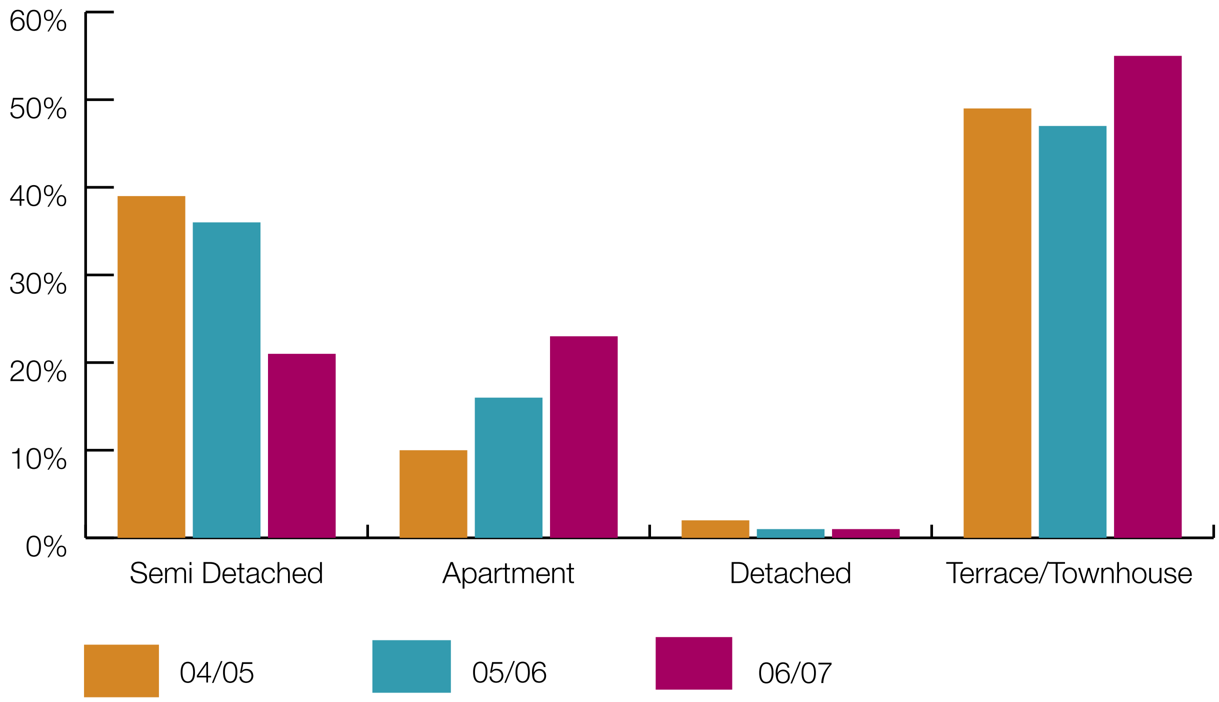
- The average single income of those purchasing through the Co-Ownership scheme was £17,705 (up from £14,349 in 2005/06), and average combined household income stood at £20,627. The average price to income ratio (5.92) had also increased by comparison with 2005/06 (5.0).

Ongoing increases in house prices continued to present challenges for the Co-Ownership scheme during 2006/07. The supply of 'affordable' properties has been in steady decline each year and the University of Ulster's quarterly house price index showed that by the end of 2006/07 only two per cent of properties were selling for less than £100,000. In an attempt to enable purchasers to keep pace with the rising property prices, Co-Ownership put in place a revised affordability assessment and also cut rental charges from 2.75 per cent to 2.5 per cent of outstanding capital values per annum. In practice, however, a very limited supply of properties was available to residential buyers within the Co-Ownership value limits of £130,000 or £150,000 depending on council area.

The option to purchase an initial share of 40 per cent of the property was officially introduced late in 2006/07; prior to this, purchasers were required to buy at least half of the value of the property through a conventional mortgage, and there were concerns that this was pricing some potential clients out of the market. Eleven 40 per cent shares were purchased in 2006/07, but there has been increased uptake of this option during 2007/08.

In addition, the property value limits were increased to £180,000 or £225,000 (depending on council area) during 2007/08,

Figure 22: Co-Ownership Purchases by Dwelling Type 2004/05-2006/07




*Source: DSD Housing Statistics 2006-07* and the association has been involved in work around proactive account management and lender risk assessment to encourage Co-Ownership-friendly mortgage products. The raised property value limits and lower starting share have combined to facilitate significantly higher uptake of the Co-Ownership product, and it is estimated that completions for the 2007/08 financial year will stand at around 1,000 - more than treble the 2006/07 figure. NICHA emphasises that its freedom to react to changes in the market is a key factor in the level of Co-Ownership activity and the association's ability to meet the needs of its client group.

The fact that the property market here appears to have peaked may help to improve the options available to potential Co-Ownership purchasers, who had previously found themselves competing for a very limited pool of properties against investors and other purchasers who were able to arrange finance more quickly. However, while much Co-Ownership activity is financed by the scheme's receipts, any funding shortfall for affordable housing will have some impact on the operation of the scheme during 2008/09 and beyond.

NICHA continues to work with a range of strategic partners to deliver a greater volume of affordable homes, primarily for Co-Ownership purchase, but also, in some cases, for rent within social housing developments. A number of strategic and policy issues, including market profiling, financing, the potential role of Co-Ownership in Article 40 agreements, property value limits, expansion of the product range and ways of minimising purchasers' rent payments, are being taken forward by the association to ensure flexibility and maximise the impact of the scheme in the changing housing market and policy context.

### Co-Ownership and the Semple Review

The Final Report of the Review into Affordable Housing made a number of recommendations in relation to the Co-Ownership scheme on issues including the abolition of property value limits, NICHA's continuing role as the only shared ownership scheme in Northern Ireland, its potential role in the provision of intermediate housing through Article 40 agreements, and the marketing of the Co-Ownership scheme.

The recommendations were subsequently examined in more detail by the Advisory Panel of Experts, which concluded that:

- Retaining a single agency with responsibility for Co-Ownership and shared equity housing schemes in Northern Ireland is appropriate and probably the most cost effective way to continue to purchase affordable housing other than the purchase of social housing by tenants.

- The existing model has the clear benefit of being able to deliver a significant affordable housing programme in the existing property market and in the new build market with social and private developers.

- Clarification on budget priorities in terms of how best to deliver the biggest programme quickly, and on budget amounts to enable effective strategic planning, will enhance the future development of Co-Ownership and maximise its contribution to meeting affordable housing need in Northern Ireland.

- The various equity share models that operate throughout Europe and further afield, in both the private and public sectors, should be investigated further in the long term.

## New Social Housing

Housing need in the social rented sector is primarily met through the re-let of existing dwellings to new applicants. The number of Housing Executive re-lets (excluding transfers) decreased from around 6,200 in 2005/06 to 5,450 during 2006/07, a reduction of approximately 12 per cent. Although housing association allocations and re-lets through the Common Selection Scheme increased slightly during the same period, from around 2,100 in 2005/06 to just over 2,300 in 2006/07, the combined figures represent an overall annual reduction in the number of allocations to applicants from the waiting list, and remains insufficient to meet the growing demand for social housing.

Chapter 1 describes the models of future housing need developed for the Housing Executive by the Universities of Ulster and Cambridge. The models showed an annual requirement between 2001 and 2011 for around 1,500 new social dwellings. Bearing in mind the backlog which had built up since 2001 and local imbalances in supply and demand, it was subsequently estimated that a minimum of 2,000 new social dwellings would be required each year between 2004 and 2011. The Net Stock Model was updated in December 2006 and now shows a requirement for 2,500 new social dwellings annually.

During 2006/07, work started on 732 new self contained social dwellings, a decrease of around 40 per cent on the previous year's figure of 1,229. Work also commenced on 58 bed spaces in hostels and other communal establishments. At 1,327, completions of self-contained units were around 70 per cent higher than the 782 in 2005/06, but completions of new bedspaces decreased from 191 in 2005/06 to 48 in 2006/07.

Contract starts for new dwellings in 2006/07 were recorded as 826, including 48 "off the shelf" and 174 "package deal" properties. A further 180 "existing satisfactory" properties were acquired during the year, and work started on the rehabilitation/re-improvement

## Table 15: New Social Housing Starts, Completions and Needs Based Estimates, 2002/03-2006/07

| | Starts (New Build) | Completions (New Build) | Needs Based Estimate[6] | Starts[7] | Completions |
|---|---|---|---|---|---|
| 2002/03 | 746 | 1,095 | 1,500 | 900 | 1,295 |
| 2003/04 | 1,333 | 687 | 1,500 | 1,526 | 854 |
| 2004/05 | 1,091 | 888 | 1,500 | 1,317 | 1,073 |
| 2005/06 | 1,274 | 973 | 2,000 | 1,519 | 1,208 |
| 2006/07 | 790 | 1,375 | 2,500 | 1,032 | 1,625 |
| **5-year Ave** | **1,047** | **1,004** | **1,800** | **1,259** | **1,211** |

*6. From Net Stock Model*
*7. Units are inclusive of new build, rehabilitations, existing satisfactory and off the shelf purchases*

of 26 properties. It is important to emphasise that neither these, nor the "existing satisfactory" acquisitions, contribute to addressing the overall social housing need estimated by the Net Stock or Cambridge Models.

Table 15 shows that production of new social housing in Northern Ireland has fallen well behind the needs based estimates - although in most cases financially based targets (including rehabilitations and the purchase of existing satisfactory dwellings) have been achieved. The shortfall in output in recent years has been the result of a combination of factors, many of which - such as land supply and price - were a direct result of the unprecedented upturn in the local housing market.

General needs schemes, including developments in North and West Belfast, Derry/Londonderry and rural areas accounted for the majority (86%) of the housing programme during 2006/07. The remaining 14 per cent consisted of schemes to meet more specialist needs such as those for people with a physical or learning disability, young people leaving care, or homeless people.

### The New Build Programme from 2007/08 Onwards

The Housing (Amendment) (Northern Ireland) Order 2006 transferred responsibility for, and associated functions relating to, the management of the Social Housing Development Programme from the Department for Social Development to the Housing Executive with effect from 1 April 2007.

In formulating the Social Housing Development Programme, the Housing Executive examines the housing need situation within 'Local Housing Areas'. The number of applicants in housing stress on the waiting list is balanced against stock turnover and schemes already committed in the programme, and recent and projected trends are also taken into account in determining which locations require further social housing over the programme period.

The 2007/08 programme included a requirement for housing associations to start work on 1,500 new units of accommodation, with an associated budget in excess of £145m. At December 2007 around 230 dwellings had been started, but experience from previous years suggests that the majority of starts are likely to be delivered in the final quarter of the financial year. A similar number of starts had been anticipated for subsequent years, although this would still represent a shortfall against the envisaged annual need for 2,500 new social dwellings and in the face of growing levels of housing stress throughout Northern Ireland.

The Semple Review into Affordable Housing recommended that a target for social housing completions should be set at 2,000 per annum, or 10,000 over the next five years. The draft budget for Northern Ireland which was published in October 2007 showed a significant shortfall in capital funding for social housing over the coming three year period. However, the statement by the Minister for Social Development in February 2008 (see Chapter 1) is set to provide an additional £205 million over a three year period enabling 1,500 social dwellings to be built in 2008/09, 1,750 in 2009/10 and 2,000 in 2010/11.

### Review of Public Administration and Social Housing

The Review of Public Administration announcement in March 2006 proposed that a number of 'non-core' housing functions should be transferred to the new Councils following their creation in 2009. The functions included:

- Supporting People;
- Urban Renewal;
- Grants;
- Unfitness;
- HMO Licensing;
- Travellers; and
- Home Energy Conservation.

In July 2007, however, the Northern Ireland Executive agreed to detailed proposals for a review of the local government aspects of the Review of Public Administration in the context of Devolved Government and wider decisions on the RPA implementation programme. The review has been overseen by a sub-committee of the Executive, chaired by the Minister for the Environment, Arlene Foster MLA.

Emerging findings from the latest review were published for discussion in October 2007, and noted that "… a case … has been made in support of retaining the functions within the remit of the Northern Ireland Housing Executive. This includes the importance of maintaining the Housing Executive's integrity as the strategic housing authority and that the transfer would weaken links with other key housing programmes and generate confusion amongst the public and other key interest groups about respective housing responsibilities".

On this basis, it has been proposed that the functions listed above should not be transferred to local government. Further discussion on these and other changes to the original RPA proposals took place in late 2007, with announcements expected in early 2008.

## Improving and Maintaining Social Housing

Preliminary findings from the 2006 House Condition Survey have shown that the quality of social housing in Northern Ireland continues to improve, and is significantly higher than in England, mainly due to the higher level of resources devoted to the maintenance and improvement of the social stock here over a period of more than thirty years.

The Survey showed that 22 per cent of social housing in Northern Ireland fails the Decent Homes Standard. This compares with the findings of the English House Condition Survey 2005, which were published in mid-2007 and showed that at April 2005 (the mid-point in a continuous survey period) 29 per cent of all social housing in England was non-decent. A significant level of work has been carried out with the aim of ensuring that all social sector properties meet the Decent Homes Standard by 2010. Although the target appears likely to slip in England, it nevertheless means that the proportion of non-decent social properties has declined considerably in both England and Northern Ireland.

### Improving the Housing Executive's Stock

The Housing Executive approaches the improvement of its dwellings in two ways:

- through policy-based schemes relating to health and safety, welfare or statutory requirements; and

- through upgrade schemes ranging from single element work, such as the installation of full central heating, to comprehensive improvements which bring dwellings up to modern standards.

## Policy-Based Schemes

Just over 1,430 major welfare adaptations got underway during the financial year 2006/07, a decrease of approximately 28 per cent on the previous year's figure of around 2,000. The overall reduction reflects an ongoing downward trend in demand for heating adaptations, which decreased from almost 1,600 in 2005/06 to just over 1,000 in 2006/07 and accounted for 70 per cent of all major adaptations in 2006/07, compared with 80 per cent in 2005/06. At 221 and 176 respectively, the number of extensions and lifts provided was virtually unchanged from 2005/06. The prevalence of heating adaptations helps to accelerate the move towards greater energy efficiency of the housing stock.

While demand for heating adaptations appears to have peaked, and the rate of expenditure on adaptations is expected to level off, it is estimated that during 2007/08, work will commence on up to 2,700 Housing Executive dwellings.

## Improvement Programmes

The Housing Executive's aim is to bring all its homes to the Decent Homes Standard by 2010. The majority of properties already meet the standards on fitness, structure, energy efficiency and facilities, and of those that do not, most fail in relation to the 'thermal comfort' element. The Housing Executive's programmes for maintenance and improvement are targeted towards the 2010 goal, and also aim to ensure that standards such as fire safety requirements are met.

During 2006/07 work commenced on just over 1,600 improvements, almost 1,200 of which were multi-element activities; the remainder were single element upgrades or special schemes. Heating replacement schemes are now also counted as improvement activity; during 2006/07 just over 3,000 heating replacements were started - a decrease on the 2005/06 total of around 4,300.

Heating installations to 2,300 dwellings are planned for 2007/08, as the Housing Executive continues to implement its preferred fuel policy through the removal of inefficient solid fuel and electric heating systems. The heating schemes are part of an overall target to commence improvement work on at least 3,880 dwellings during 2007/08.

As part of its commitment to meeting the Decent Homes Standards by March 2010, the Housing Executive estimated that 9,120 multi-element improvement starts would be required between April 2003 and the target date. According to the programme, work to 5,200 dwellings was due to be completed by March 2007. At just over 4,900 dwellings, the outturn was slightly below target, and between April 2007 and March 2010, around 1,400 starts annually will therefore be required to complete the work programme as planned.

The 2004 Interim House Condition Survey showed that around 35,000 Housing Executive dwellings failed the Decent Homes Standard on the basis of solid fuel and electric heating. The latest findings from the 2006 Survey show that this figure has reduced to around 22,300, and overall the programme for Housing Executive properties to meet the standard by 2010 is progressing well.

As part of its improvement strategy, the Housing Executive is committed to improving rural dwellings. The Housing Executive owns around 860 rural dwellings, the majority of which have been improved. Those remaining are included in an improvement scheme to be carried out over the next 3-5 years.

## Maintaining the Housing Executive's Stock

Housing Executive stock is maintained through programmed schemes, either as planned maintenance or in response to tenants' repair requests (response maintenance).

Planned maintenance comprises two main types of work:

- External Cyclical Maintenance (ECM) involves work to the external fabric of the dwelling and its immediate surroundings and is carried out on a five-year cycle.

- Revenue Replacement involves the replacement of any internal elements that have reached the end of their expected useful life, such as sanitary ware, room heaters and kitchen units.

*External Cyclical Maintenance*

The Housing Executive aims to ensure that each dwelling is included in an ECM scheme once every five years. Budgetary constraints have had an impact on the amount of ECM work carried out in recent years; in 2005/06 the number of completions stood at around 12,400, and while the number of completions during 2006/07 was similar (12,250), starts decreased to around 10,500. Target starts for 2007/08 have reduced further, to 9,500. It is important that sufficient funding is made available for this activity, to prevent deterioration to the external fabric of Housing Executive dwellings.

*Revenue Replacement Schemes*

Around 4,500 revenue replacement schemes (mainly kitchen replacements) commenced during 2006/07, significantly more than in 2005/06 (almost 2,000) and 2004/05 (1,600). The higher level of starts reflects the fact that the kitchen replacement programme had fallen behind schedule, with 4,862 completions at March 2007 against a target of 9,600. The programme level was increased to address this issue in 2006/07, and an ambitious target of 4,850 starts has again been programmed for 2007/08. This year's 'Review and Perspectives' confirms ongoing need for revenue replacement work to be carried out to address the need for kitchen and bathroom modernisation schemes and meet the target for ensuring that all Housing Executive dwellings achieve the Decent Homes Standard by 2010.

## Response Maintenance

Almost 403,750 works orders were raised during 2006/07, a decrease on the previous year's total of 415,700. This decline reflects both the falling level of Housing Executive stock and the more streamlined repairs system that is being rolled out across Northern Ireland under the 'Egan' partnering arrangements.

The Continuous Tenant Omnibus Survey monitors tenants' satisfaction with the repairs service, and revealed that in 2006, 71 per cent of tenants who had reported a repair within the previous 12 months were either 'satisfied' or 'very satisfied' with the repair service. The comparable figure in 2005 - 69 per cent - indicates that there has been an ongoing rise in tenant satisfaction with the service, for which the Egan-based emphasis on quality, partnership and customer satisfaction has been at least partly responsible.

## Maintenance Investment Strategy

The Housing Executive's Fundamental Review of Maintenance (2002) recommended the formulation of a maintenance investment strategy set against proposed standards. Approved by the Housing Executive's Board in 2004, the Strategy, which used 2003-2010 as the time frame to achieve alignment with the target for meeting the Decent Homes

Standard in England and Wales, identified several immediate priorities:

- To review the work content and programme cycles of external cyclical maintenance programmes.
- To redirect resources to component replacement (initially towards kitchens).
- To operate cost controls over response maintenance, particularly change of tenancy (COT) expenditure.

Within the context of the draft strategy, a short term programme of work was set:

- to redefine work in ECM schemes on the basis of repair rather than replacement of low priority items and limiting ‘environmental works’;
- to review the economic appraisal of ECMs on the basis of various programme cycles (5, 6 and 7 years) and work content;
- to review the work content and appraisal methods for multi-element improvements and component replacement schemes;
- to impose strict budgetary control over maintenance expenditure, particularly Change of Tenancy;
- to assess the potential for savings in heating, security and routine repairs;
- to review procurement methods in relation to ‘aggregation’; and
- to prepare for Decent Homes by way of work programmes, performance management and reporting systems.

Based on progress to date, and taking into account factors including changing building regulations, health and safety issues, (asbestos removal and provision of smoke alarms) and rising build costs, a review of the maintenance investment strategy was carried out in 2007. The review concluded that - allowing for essential ongoing activity including adaptations, response maintenance and servicing of heating appliances and smoke alarms - the targets for heating replacement, the capital improvement programme and kitchen replacements should all be extended to 2012. Priorities in the Strategy will be considered in the light of funding availability for 2008/09, and progress against the Maintenance Investment Strategy and Decent Homes targets will continue to be monitored on a regular basis.

### Major Repairs to Housing Association Dwellings

A combination of factors including the relatively young age profile of housing association stock and the fact that major improvement/rehabilitation works are financed from the budget for capital expenditure or association reserves, means that the need for major repair works is difficult to estimate.

Since the mixed funding scheme was introduced, the Government has required housing associations to make their own financial provision for major repairs over the entire lifespan of an increasing proportion of their dwellings. The Government expects those associations with sufficient reserves to pay for their own major repairs.

Recent estimates by the Northern Ireland Federation of Housing Associations indicate that, together with the cost of adapting dwellings for tenants with a disability, housing associations are likely to require at least £2 million in grant aid for major repairs and adaptations work each year.

# Social Housing

## Key Issues and Strategic Perspective

- Over the next three years, it is anticipated that the level of social housing will remain broadly static as the number of house sales and demolitions dwindles to fewer than 1,000. It is hoped that with sufficient funding made available, this will be more than outweighed by the number of new social dwellings which are acquired or built.

- Since 2001 the Social Housing Development Programme has failed to keep pace with the steadily rising need for social housing. The most recent census-based models of the future need for social housing, published in February 2007, estimate that there is an annual requirement for 2,500 additional new social dwellings.

- It is estimated that the final Draft Programme for Government and the associated budget published in January 2008 will provide finance for 5,250 social and affordable dwellings over a three year period. Progress on developer contributions to the provision of social and low cost affordable housing is being made, but experience from Great Britain and the Republic of Ireland indicates that it will be a number of years before this route effectively delivers any significant numbers.

- Co-Ownership has been revitalised by the raising (and more recently abolition) of its financial limits and the lowering of rental contributions. This financial year the demand for Co-Ownership has risen dramatically. Co-Ownership will continue to play a vital bridging role for first time buyers trying to enter owner occupation.

- Sufficient expenditure on maintenance and improvement is vital to ensure that stock condition is maintained. The proportion of dwellings meeting the Decent Homes Standard has risen significantly as multi-element improvement and heating conversion programmes are implemented. However, despite the reduced number of dwellings heated by solid fuel and electricity, rising fuel costs have had a negative impact on Fuel Poverty, with 41 per cent of Housing Executive and 21 per cent of housing association households in Fuel Poverty in 2006.

- There will be ongoing demand for adaptations for people with disabilities. It is very important that adequate funding is made available to facilitate this work.

# Conclusion

# Conclusion

During 2007, Northern Ireland's housing market experienced a significant spike in house prices. The enormous investor driven increases in house prices reached their peak in the Spring. Over the Summer a period of caution followed, with investor interest moving to Great Britain and further afield. Transaction levels fell markedly as buyers waited for prices to drop and sellers held back hoping to achieve the prices of early 2007. During the last quarter of 2007 significant price reductions became increasingly apparent and developers and vendors accepted that the prices achieved in the first two quarters of 2007 were no longer sustainable.

There is no doubt that the future of Northern Ireland's housing market is closely tied up with developments in the world economy. The USA remains the hub of global economic activity and any assessment of the future of Northern Ireland's housing market must have as its point of departure the likelihood, duration and depth of a downturn in the US economy and the magnitude of the spill over effects on the rest of the industrialised countries. There are increasing signs that the US economy has already entered a more prolonged recession. The dependence of the UK economy on the financial sector makes it particularly vulnerable to the ongoing effects of the "credit crunch". Northern Ireland's economy will not escape the effects of this economic turbulence.

Northern Ireland's consumers too are facing the impact of a declining manufacturing base, lower increases in public expenditure, increasing levels of debt, higher fuel and food prices and increases in local taxation. In addition lenders are being more cautious in terms of lending policies and the price of credit has increased. These factors combined indicate a significant downturn in Northern Ireland's housing market, with sustained difficulties for most first time buyers.

It is likely that an increasing number will seek to meet their accommodation needs in the private rented sector or social rented sector. This may mean that the risk of disinvestment by landlords on a larger scale is less likely. In the social rented sector it is likely to result in increased waiting lists.

However there is no doubt that despite the further significant improvement in housing conditions recorded by the 2006 House Condition Survey there remains an ongoing demand for investment in new social housing, in improvement and maintenance and in measures to help alleviate Fuel Poverty.

Housing Executive

# Appendices

## Table A1: Basic Housing Statistics by Tenure (000's (%)) 2001-2007

| | Owner Occupied | NIHE | Housing Association | Private Rented | Vacant | Total |
|---|---|---|---|---|---|---|
| 2001-2002 | 453.2 (67.9) | 113.4 (17.0) | 18.9 (2.8) | 44.0 (6.6) | 38.4 (5.7) | 667.9 |
| 2002-2003 | 461.0 (67.9) | 105.8 (15.6) | 19.6 (2.9) | 50.5 (7.4) | 42.1 (6.2) | 679.0 |
| 2003-2004 | 471.9 (69.0) | 94.6 (13.8) | 20.5 (3.0) | 57.5 (8.4) | 39.4 (5.8) | 683.8 |
| 2004-2005 | 478.2 (68.6) | 96.6 (13.8) | 21.1 (3.0) | 64.7 (9.3) | 36.9 (5.3) | 697.5 |
| 2005-2006 | 477.8 (67.7) | 93.6 (13.3) | 21.7 (3.1) | 71.3 (10.1) | 41.8 (5.9) | 706.2 |
| 2006-2007 | 487.9 (68.5) | 91.0 (12.8) | 22.3 (3.1) | 64.2 (9.0) | 47.3 (6.6) | 712.6 |

*Source: DSD Housing Statistics 2006/07*

## Table A2: Trends in Waiting List 1997-2007

| | Total Waiting List | Total "Urgent Need" | % "Urgent Need" |
|---|---|---|---|
| March 1997 | 23,759 | 11,895 | 50.1 |
| March 1998 | 22,691 | 11,510 | 50.7 |
| March 1999 | 23,193 | 11,678 | 50.4 |
| March 2000 | 23,084 | 11,732 | 50.8 |
| March 2001* | 22,054 | 10,639 | 48.2 |
| March 2002 | 25,983 | 12,486 | 48.1 |
| March 2003 | 26,700 | 13,237 | 49.6 |
| March 2004 | 27,656 | 14,247 | 51.5 |
| March 2005 | 29,819 | 15,660 | 52.5 |
| March 2006 | 32,215 | 17,433 | 54.1 |
| March 2007 | 36,182 | 19,703 | 54.5 |

*Source: NIHE*

** From March 2001 Urgent Need was redefined as Housing Stress*

## Table A3: Trends in Homelessness 1997-2007

| | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 |
|---|---|---|---|---|---|
| No Presenting | 11,672 | 11,552 | 10,997 | 12,694 | 14,164 |
| No Awarded Priority Status | 4,956 | 4,997 | 5,192 | 6,457 | 7,374 |

| | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 |
|---|---|---|---|---|---|
| No Presenting | 16,426 | 17,150 | 17,362 | 20,121 | 21,013 |
| No Awarded Priority Status | 8,580 | 8,594 | 8,470 | 9,749 | 9,744 |

*Source: NIHE*

# Appendix 2

## Affordability in Northern Ireland, 2007

| District Council | Median Income (£) | Price (£) (Quartile 1) | Affordable Price (£) | Affordability Gap (£) | Per cent Affordable |
|---|---|---|---|---|---|
| Derry | 15,719 | 149,225 | 64,791 | -84,434 | 0 |
| Limavady | 13,866 | 149,975 | 57,153 | -92,822 | 0 |
| Coleraine | 15,579 | 200,000 | 64,214 | -135,786 | 0 |
| Ballymoney | 14,443 | 180,000 | 59,532 | -120,468 | 0 |
| Moyle | 15,017 | 200,000 | 61,898 | -138,102 | 0 |
| Larne | 19,448 | 138,950 | 80,162 | -58,788 | 1 |
| Ballymena | 17,020 | 141,500 | 70,154 | -71,346 | 0 |
| Magherafelt | 15,667 | 187,500 | 64,577 | -122,923 | 0 |
| Cookstown | 17,817 | 192,750 | 73,439 | -119,311 | 0 |
| Strabane | 15,579 | 131,250 | 64,214 | -67,036 | 0 |
| Omagh | 21,024 | 190,500 | 86,658 | -103,842 | 0 |
| Fermanagh | 16,803 | 170,000 | 69,259 | -100,741 | 0 |
| Dungannon | 17,817 | 190,000 | 73,439 | -116,561 | 0 |
| Craigavon | 16,803 | 170,500 | 69,259 | -101,241 | 0 |
| Armagh | 17,020 | 183,250 | 70,154 | -113,096 | 0 |
| Newry & Mourne | 16,803 | 181,500 | 69,259 | -112,241 | 0 |
| Banbridge | 19,448 | 189,000 | 80,162 | -108,838 | 0 |
| Down | 19,448 | 173,000 | 80,162 | -92,838 | 0 |
| Lisburn | 19,448 | 183,000 | 80,162 | -102,838 | 0 |
| Antrim | 21,024 | 192,000 | 86,658 | -105,342 | 0 |
| Newtownabbey | 21,136 | 155,000 | 87,119 | -67,881 | 0 |
| Carrickfergus | 19,513 | 150,000 | 80,429 | -69,571 | 0 |
| North Down | 21,136 | 180,000 | 87,119 | -92,881 | 0 |
| Ards | 17,817 | 165,250 | 73,439 | -91,811 | 0 |
| Castlereagh | 23,027 | 194,475 | 94,914 | -99,561 | 0 |
| Belfast | 13,690 | 165,000 | 56,428 | -108,572 | 0 |
| North Belfast | 14,586 | 149,000 | 60,121 | -88,879 | 0 |
| South Belfast | 16,747 | 208,250 | 69,028 | -139,222 | 0 |
| West Belfast | 10,538 | 155,000 | 43,436 | -111,564 | 0 |
| East Belfast | 17,020 | 177,750 | 70,154 | -107,596 | 0 |
| Northern Ireland | 17,019 | 169,125 | 70,150 | -98,975 | 0 |

*Source: NIHE*

# Notes

| | |
|---|---|
| Median Income | District Council baseline is drawn from the 2006 House Condition Survey - banded figures for household income (Household Reference Person and partner where applicable). Actual figure is midpoint of median band for each district. This has been adjusted to take account of rising earnings and data from the Family Resources Survey. |
| Price (25th percentile) | District Council figure for 2007 as a whole from the University of Ulster Survey - 25th percentile (upper boundary quartile 1). |
| Affordable Price | Using annuity formula - the price a household on a medium income for that District Council afford to pay. |
| Affordability Gap | Measures income gap between Affordable Price and House Price (25th percentile). |
| Percentage Affordable | Proportion of housing stock in district sold at below affordable price during 2007. |
| Mortgage Term | The calculation assumes a 25 year mortgage. |
| % of Income | Following the Semple Review, the calculation assumes that 35 per cent of median household income is the maximum which can be spent on servicing mortgage debt. |
| Mortgage Interest Rate | The calculation assumes a mortgage interest rate of 7.59% (Bank of Ireland Standard Variable Rate). |
| Loan to Value Ratio | The calculation assumes a loan to value ratio of 95%. |

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Housing Executive

The Regional Strategic Housing Authority
for Northern Ireland

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