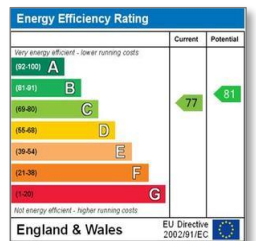




## Durham County Council: First Homes Assessment 2022

### Report of Findings

**DRAFT**





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# 1. Introducing the Study

## Background to the project and wider policy context

### Introduction

- 1.1 In 2018, Opinion Research Services (ORS) was commissioned by the Durham County Council to prepare a Strategic Housing Market Assessment (SHMA) to identify the total number, size, type and tenure of homes that will be needed in the future, and the housing needs of different groups, including affordable housing.
- 1.2 This formed part of the evidence base for the Durham Local Plan 2016-35, which was adopted in October 2020. This included a housing target of 24,852 dwellings for 2016-35. However, since that time, in the period 2016-2022 a total of 8,839 dwellings have been delivered in Durham. This leaves a total of 16,013 remaining for the period 2022-2035 of the Local Plan.
- 1.3 Since 2018, new data has been released which underpins the affordable housing needs figures and also new guidance has been released for policy issues such as First Homes. This current study represents an update for Durham in light of the 16,013 dwelling requirement for the remainder of the Local Plan period in light of the introduction of First Homes. This Update adheres to the requirements of the new National Planning Policy Framework (NPPF) published in July 2021 and the associated Planning Practice Guidance (PPG), in particular the section on housing and economic needs assessment.
- 1.4 This update only considers the potential demand for First Homes in Durham and does not reassess the wider need for affordable housing in the area which was already established in the Local Plan. Therefore, any figures quoted for affordable housing need are in addition to the need set out in the Durham Local Plan. The study assesses how many households will potentially be able to access the new housing product in Durham based upon different assumptions around mortgage to income ratios. It also considers the wider policy considerations around introducing First Homes in Durham.

### Government Policy on Identifying Housing Needs and First Homes

- 1.5 The Government published the National Planning Policy Framework (the Original NPPF) in 2012. This set out the planning policies for England and how these were expected to be applied.
- 1.6 A revised version of the National Planning Policy Framework (the Revised NPPF) was published in July 2018 and was subsequently updated in February 2019 and July 2021, retaining the same definition of affordable housing throughout. Whilst the Revised NPPF maintains the underlying theme of sustainable development, several significant changes have been introduced in relation to identifying and meeting housing needs. The Revised NPPF introduced a new definition for affordable housing. Whilst the Original NPPF identified (in the Glossary at Annex 2) that affordable housing should be provided for households “*whose needs are not met by the market*”, the Revised NPPF adds that this includes “*housing that provides a subsidised route to home ownership and/or is for essential local workers*”. This has led to a specific change in the Planning Practice Guidance (PPG) for assessing affordable housing need.
- 1.7 Under the Original NPPF, affordable housing need was based on those who could not afford to buy or rent in the market. Households who could afford market rent were not counted as in affordable housing need even if they would have preferred to buy and couldn't afford to do so. However, the latest PPG states that

assessments must now include the needs of “those that cannot afford their own homes, either to rent, or to own, where that is their aspiration” [ID 2a-020-20190220]. On this basis, households able to afford market rent who aspire to but are unable to afford homeownership must now be counted as being in affordable housing need.

- 1.8 Neither the NPPF nor PPG identify that any affordability criteria should be applied to those households who aspire to homeownership but cannot afford to buy their own home. However, it is appropriate to consider the extent to which these households could plausibly afford affordable homeownership products if they were provided and that calculation is made in this report.
- 1.9 Whilst a range of affordable homeownership products are available, each with different costs and eligibility criteria, the most recently introduced is First Homes and national policy states that at least 25% of affordable housing on sites of 10 or more units should be First Homes. The government set out the definition and criteria for First Homes in Planning Practice Guidance (PPG) issued in May 2021. This states at paragraph 2 that:

***How does the housing need of particular groups relate to overall housing need calculated using the standard method?***

*The First Homes criteria are the minimum requirements a housing unit must meet in order to qualify as a First Home. Affordable Housing Update Written Ministerial Statement published on 24 May 2021, the national standards for a First Home are that:*

- a) a First Home must be discounted by a minimum of 30% against the market value;*
- b) after the discount has been applied, the first sale must be at a price no higher than £250,000 (or £420,000 in Greater London); and,*
- c) the home is sold to a person who meets the First Homes eligibility criteria, as set out in first 2 paragraphs under First Homes eligibility criteria.*

Planning Practice Guidance, ID: 70-002-20210524

- 1.10 It goes on at paragraph 4 to outline that:

***Can the required minimum discount be changed?***

*In order to qualify as a First Home, a property must be sold at least 30% below the open market value. Therefore, the required minimum discount cannot be below 30%.*

*However, the First Homes Written Ministerial Statement does give local authorities and neighbourhood planning groups the discretion to require a higher minimum discount of either 40% or 50% if they can demonstrate a need for this. As part of their plan-making process, local planning authorities should undertake a housing need assessment to take into account the need for a range of housing types and tenures, including various affordable housing tenures (such as First Homes). Specific demographic data is available on open data communities which can be used to inform this process. The assessment will enable an evidence-based planning judgement to be made about the need for a higher minimum discount level in the area, and how it can meet the needs of different demographic and social groups.*

*In such circumstances, the minimum discount level should be fixed at either 40% or 50% below market value and should not be set at any other value. In each case, these percentages represent the minimum discount required for a home to qualify as a First Home. Developers who are able to offer higher discounts within their contributions should be free to do so but the local authority cannot require this. In such cases, whatever discount (as a percentage of market value) is given at the first disposal should be the same at each subsequent sale. These minimum discounts should apply to the entire local plan area (except if Neighbourhood Plans are in place in certain areas) and should not be changed on a site-by-site basis.*

*If local authorities or neighbourhood planning groups choose to revise their required minimum discounts in any future alterations to their plans, this should not affect the minimum discounts required for previously sold First Homes when they come to be resold, as these will be bound by the section 106 agreements entered into at the time of their first sale.*

**Planning Practice Guidance, ID: 70-004-20210524**

1.11 It further outlines at paragraph 7 that:

#### **Who is eligible to purchase a First Home?**

*A purchaser (or, if a joint purchase, all the purchasers) of a First Home should be a first-time buyer as defined in paragraph 6 of schedule 6ZA of the Finance Act 2003 for the purposes of Stamp Duty Relief for first-time buyers.*

*Purchasers of First Homes, whether individuals, couples or group purchasers, should have a combined annual household income not exceeding £80,000 (or £90,000 in Greater London) in the tax year immediately preceding the year of purchase.*

*A purchaser of a First Home should have a mortgage or home purchase plan (if required to comply with Islamic law) to fund a minimum of 50% of the discounted purchase price.*

*These national standard criteria should also apply at all future sales of a First Home.*

**Planning Practice Guidance, ID: 70-007-20210524**

1.12 Therefore, in summary, First Homes are a national policy with 25% of all newbuild affordable homes expected to be delivered in this form. Local authorities have the ability to vary a range of policy considerations including:

**Minimum discount** – while First Homes require a discount of at least 30% on market sale prices, local authorities have the discretion to require a higher minimum discount of either 40% or 50% if they can demonstrate a need for this.

**Price caps** – First Homes outside of London must be priced at below £250,000 after the discount has been applied, but local authorities have the discretion to set lower price caps if they can demonstrate a need for this.

**Eligibility criteria** - Purchasers of First Homes outside of London, should have a combined annual household income not exceeding £80,000 in the tax year immediately preceding the year of purchase. Local authorities can apply eligibility criteria in addition to the national criteria described above. This may involve lower income caps if this can be justified, a local connection test, or employment-based criteria such as key worker status.

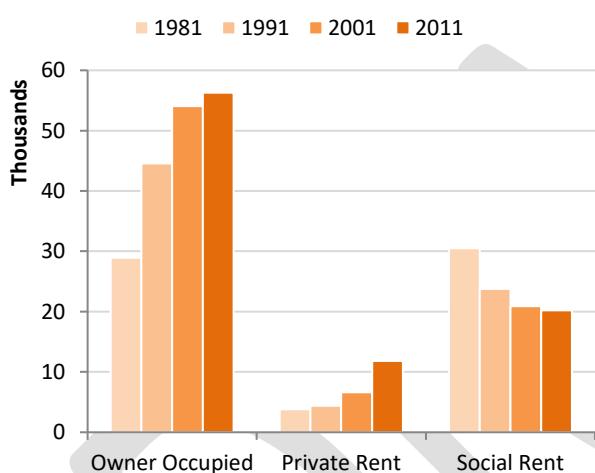
# 2. Local Housing Market

## Housing options and cost of housing in Durham

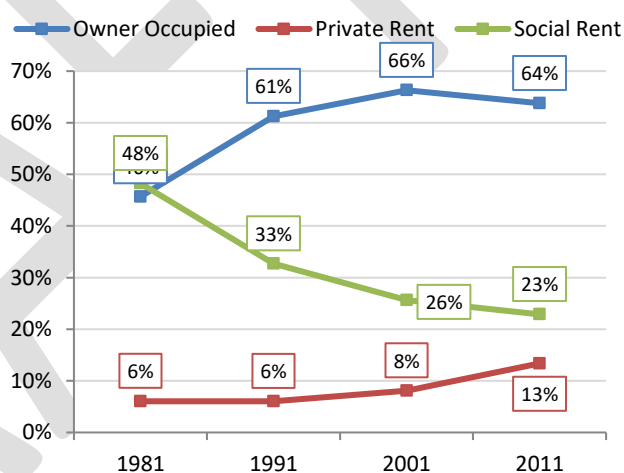
### Housing Tenure Trends

<sup>2.1</sup> Clear trends are evident in the local data for Durham, even while recognising that the 2011 Census is now over 10 years and that the 2021 Census data for housing will be released in January 2023. Figure 1 to Figure 3 show that there has been a steady increase in the overall number of owner occupiers since 1981, but that this slowed to almost zero between 2001 and 2011. The proportional numbers of social renters decreased 1981-2001 (likely in part as a result of the introduction of the Right-to-Buy in 1980), with the total number of social rented households only around two thirds the 1981 level in. More recent products such as Affordable Rent had not been introduced in 2011. In comparison, the proportion of private renters has grown sharply since 1991.

**Figure 1: Number of Households by Tenure in Durham 1981-2011 (Source: UK Census of Population)**



**Figure 2: Percentage of Households by Tenure in Durham 1981-2011 (Source: UK Census of Population)**



**Figure 3: Households by Tenure for Durham 1981-2011 (Source: UK Census of Population)**

Tenure	Total Households				Net Change		
	1981	1991	2001	2011	1981-1991	1991-2001	2001-2011
Owner occupied	28,892	44,573	54,071	56,305	+15,681	+9,498	+2,234
Private rent	3,831	4,395	6,605	11,813	+564	+2,210	+5,208
Social rent	30,514	23,790	20,888	20,206	-6,724	-2,902	-682
<b>TOTAL</b>	<b>63,237</b>	<b>72,758</b>	<b>81,564</b>	<b>88,324</b>	<b>+9,521</b>	<b>+8,806</b>	<b>+6,760</b>
Owner occupied	45.7%	61.3%	66.3%	63.7%	15.6%	5.0%	-2.5%
Private rent	6.1%	6.0%	8.1%	13.4%	0.0%	2.1%	5.3%
Social rent	48.3%	32.7%	25.6%	22.9%	-15.6%	-7.1%	-2.7%

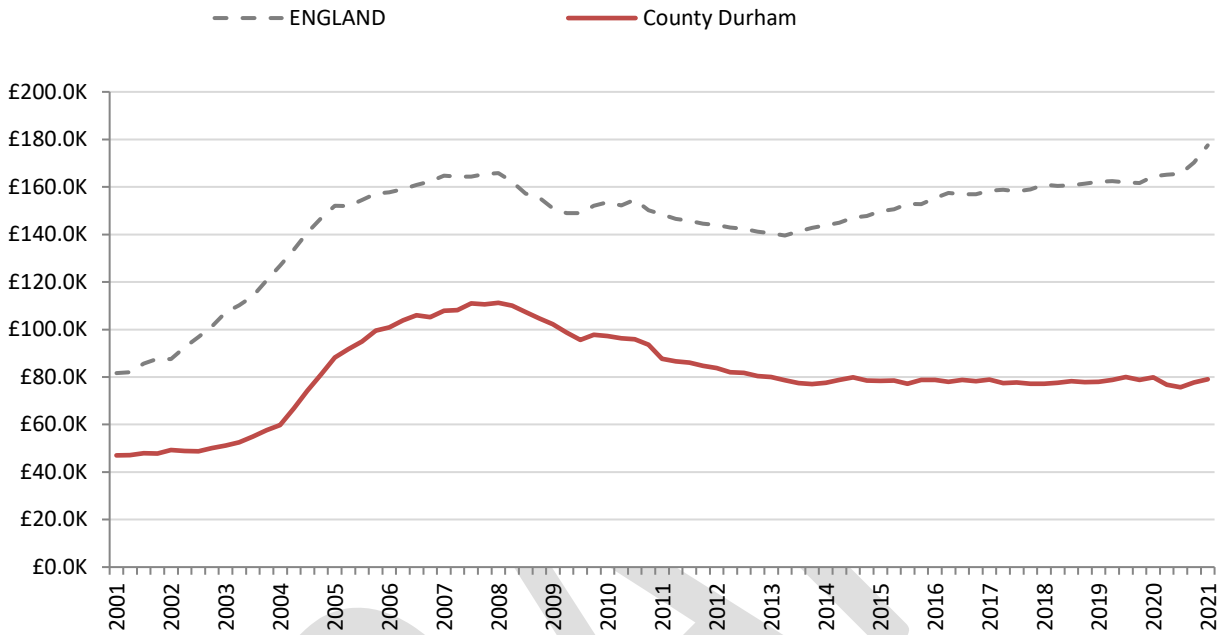
### Cost of Home Ownership

<sup>2.2</sup> House price trends (2001-2021) are shown in Figure 4 based on lower quartile house prices. Lower quartile prices are used to consider the entry level price for home ownership. Of course, the value of money has also

changed during this period, so the data is adjusted to take account of and remove the impact of inflation; therefore, the values reflect real changes in house prices since 2001.

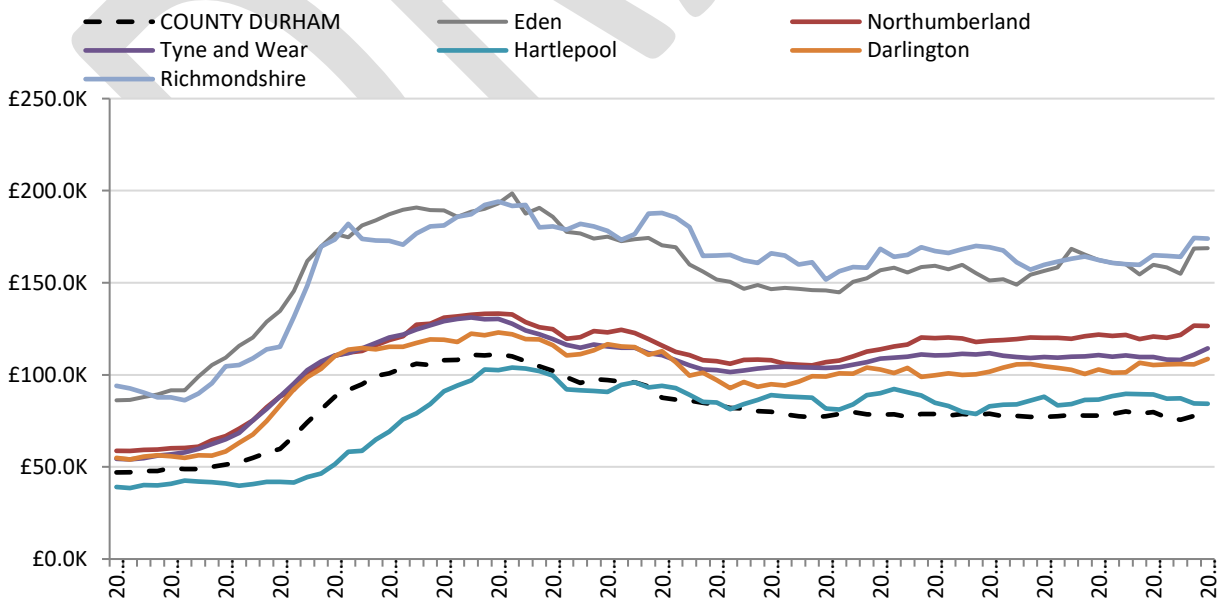
<sup>2.3</sup> It is evident that real house prices in Durham increased substantially in the period 2001-2008 and have been consistently lower than England prices. Values reduced during the economic downturn to below £80,000 by mid-2012, and hasn't recovered from that point.

Figure 4: Real House Price Trends: Lower Quartile Prices adjusted to 2021 values using CPI (Source: ONS; Bank of England)



<sup>2.4</sup> To set the prices for Durham in a wider context, we have compared them to those for its neighbouring boroughs. Durham represents the lowest lower quartile house price in the wider region.

Figure 5: Real House Price Trends: Lower Quartile Prices adjusted to 2021 values using CPI (Source: ONS; Bank of England)



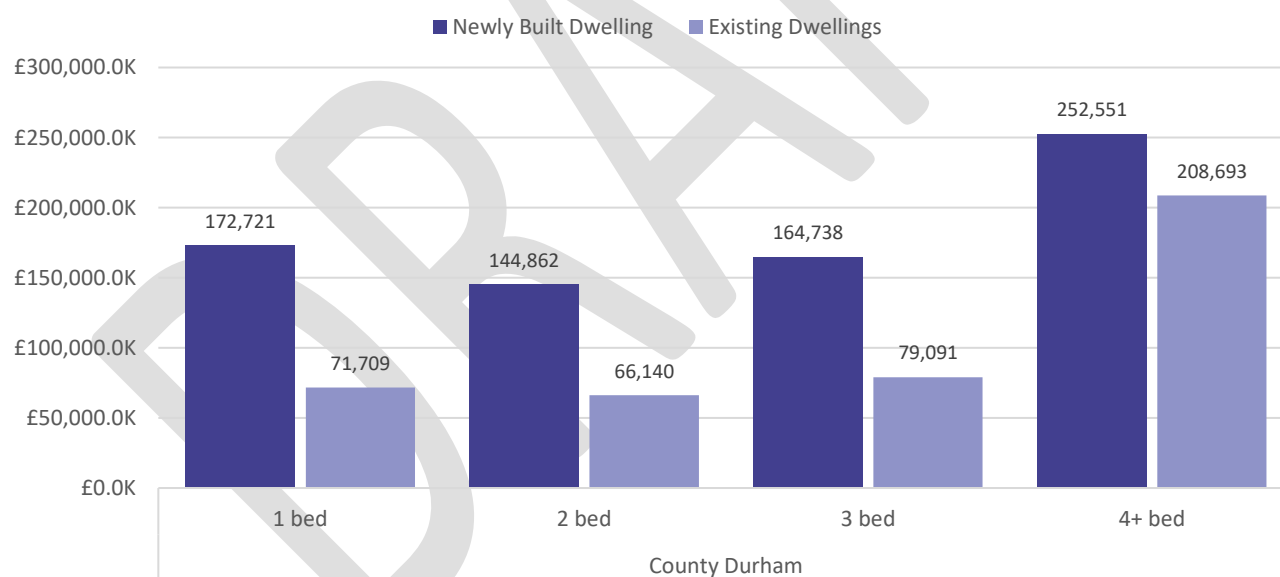
<sup>2.5</sup> Figure 6 shows the lower quartile house prices by bedroom size. The data shows both the lower quartile price for existing properties and new build dwellings, with prices taken from the Land Registry records for



the sales prices of individual properties. When considering first time buyers in particular, many of the purchasers are likely to be newly forming households seeking one and two bed properties, although some will seek larger properties. As discussed in the introduction, schemes such as the new First Homes product which sells new homes at a 30% or more discount compared to market prices to local first-time buyers may make home ownership more accessible for this group and the lower quartile house prices would form the entry point for products such as this as well.

- 2.6 The degree to which new build properties are more expensive than existing homes varies considerably by size of dwelling. This is likely to be down to a range of factors which include the location of newbuild housing, the relative size of properties, gardens and the availability of parking, comparative quality and condition of existing stock, and other intangible issues such as character. In general, new build properties are more expensive than existing dwellings across England, but the uplifts range from 140% for 1 bedroom properties to 21% for 4+ bedrooms and these figures are exceptionally high. While second hand homes are available right across Durham, newbuild has been concentrated in higher value areas, so this makes the properties seem relatively expensive. What they mean is that taking a newbuild home and reducing the price through a product such as First Homes brings the cost down to a level not that far below the cost of 100% of a second hand home. It will of course be the case that any newbuild premium will gradually reduce over time.

**Figure 6: Lower quartile prices (adjusted to 2021 values using CPI) for existing dwellings and newly built dwellings (2019-21) by property size in Durham (Source: ORS based on ONS House Price Statistics, Valuation Office Agency and Land Registry Price Paid Data)**



## Income Needed for Home Ownership

- 2.7 The income needed to purchase market housing will depend on the house price together with the mortgage income multiplier and the available deposit (or percentage loan to value).
- 2.8 To give an illustrative example (based on Durham prices), taking an existing 1-bedroom property:
- » The lower quartile price recorded was £71,709;
  - » Based on a 90% loan-to-value mortgage, a deposit of £7,190 would be needed (equivalent to 10% of the overall price) with the mortgage covering the remaining £64,538.
  - » Using a mortgage income multiplier of 3.5x would therefore need an annual income of £18,400.

- 2.9 Whilst some households will have higher deposits available and others will seek to extend their borrowing as far as possible, taking the initial assumptions of a 10% deposit and a 3.5x mortgage multiplier provides a reasonable indication of the income that first-time buyer households are likely to need in order to afford home ownership.
- 2.10 Based on these assumptions, Figure 7 shows the household income levels needed to buy 1 and 2 bedrooms properties in terms of both existing dwellings and newly built dwellings in Durham. When purchasing larger homes, households will typically have larger deposits available which often include equity from the sale of a smaller property. If households have recourse to a larger deposit, and the loan remains at the same multiple of their salary, then the income they need will reduce. Inversely, if the deposit the household can raise is smaller, the income they need will be higher. On this basis, it is relatively artificial to consider incomes in isolation.

**Figure 7: Annual income required to afford properties based on a 10% deposit and 3.5 times income mortgage by property size (Source: ORS based on ONS House Price Statistics, Valuation Office Agency and Land Registry Price Paid Data)**

Property Type	Annual Household Income Needed to Own at Lower Quartile Prices: Durham
<b>NEWLY BUILT DWELLINGS</b>	
1 bedroom	£44,400
2 bedrooms	£37,300
<b>EXISTING DWELLINGS</b>	
1 bedroom	£18,400
2 bedrooms	£17,000

## Income Needed for First Homes

- 2.11 As noted in the introduction, First Homes can be sold with a 30%, 40% or 50% discount. Taking a 4 bedroom property in Durham, the lower quartile newbuild price is £252,551. Taking a 30% discount on this price, would see a figure of £176,800, so well under the maximum cap.
- 2.12 The figures set out in Figure 7 are based upon a mortgage to income ratio of 3.5 times and a 10% deposit, but these figures can clearly be varied as appropriate. In Figure 8 we consider how different deposit rates and different mortgages to income multipliers would impact upon the income needed for 1 and 2 bed properties for First Homes with a 50% discount on lower quartile market prices. These income levels are therefore those required for the entry level market newbuild housing using the largest discount possible.

Figure 8: Annual income required to afford properties based on a First Homes with a 50% discount on lower quartile market prices (Source: ORS based on ONS House Price Statistics, Valuation Office Agency and Land Registry Price Paid Data)

Property Type	Annual Household Income Needed for 3 Times Income Mortgage	Annual Household Income Needed for 3.5 Times Income Mortgage	Annual Household Income Needed for 4 Times Income Mortgage	Annual Household Income Needed for 4.5 Times Income Mortgage
<b>NEWLY BUILT DWELLINGS 5% DEPOSIT</b>				
1 bedroom	£27,300	£23,400	£20,500	£18,200
2 bedrooms	£22,900	£19,700	£17,200	£15,300
<b>NEWLY BUILT DWELLINGS 10% DEPOSIT</b>				
1 bedroom	£25,900	£22,200	£19,400	£17,300
2 bedrooms	£21,700	£18,600	£16,300	£14,500

## Cost of Renting

- 2.13 As a comparison with the cost of First Homes we have also considered the cost of renting in Durham. Figure 9 sets out the weekly rents for different property sizes.

Figure 9: Weekly rent thresholds 2021 (Source: Private Rental Market Statistics, Valuation Office Agency; GLA, Regulator of Social Housing. Note: Private rent data excludes housing benefit funded tenancies)

Weekly Rent £	Median Private Rent	Lower Quartile Private Rent	Affordable Rent	Social Rent
<b>DURHAM</b>				
1 bedroom	£86.24	£74.74	£76.09	£64.28
2 bedrooms	£97.74	£89.69	£89.82	£73.44
3 bedrooms	£114.99	£103.49	£100.00	£79.31
4+ bedrooms	£167.20	£144.89	£106.73	£86.67

## Income Needed for Other Types of Housing

- 2.14 Another housing option that could be made available in Durham, thereby increasing the variety of products available, is Build to Rent. Build to Rent is defined by the NPPF Glossary as:

**Build to Rent:** purpose-built housing that is typically 100% rented out.

Schemes will usually offer longer tenancy agreements of three years or more, and will typically be professionally managed stock in single ownership and management control.

NPPF 2021(Glossary)

- 2.15 Build to Rent housing tends to be somewhat more expensive than median rents (typically more comparable to upper quartile rents). Occupants tend to be those that can afford these higher rents, but are not currently seeking to own a property, since the income required to service such rents is typically in excess of that required to get onto the housing ladder through Low Cost Home Ownership options.
- 2.16 The National Planning Policy Framework states that affordable housing on build to rent schemes should be provided in the form of affordable private rent, but currently none exists in Durham. The PPG offers a

“generally suitable” benchmark that 20% of any given build to rent scheme should be provided as affordable rent (maintained in perpetuity).

- 2.17 However, the affordability of these affordable Build to Rent options is highly dependent on the rent being discounted. Research by JLL<sup>1</sup> shows that the average Build to Rent option is 9.3% more expensive than the median rent. If it is assumed that these rent levels were to be the case in Durham, and a discount of 20% were to be applied to these rents (as is suggested by the NPPF) for the affordable units, then the range of rental costs available would be as Figure 10:

Figure 10: Weekly rent thresholds in Durham (Source: Valuation Office Agency 2020-21; GLA, Durham County Council, JLL)

Weekly Rent £	Upper Quartile Private Rent	Build to Rent (Median + 9.3%)	Median Private Rent	Local Housing Allowance	Lower Quartile Private Rent	Affordable Build to Rent (20% discount)
1 bedroom	£97.74	£94.26	£86.24	£74.79	£74.74	£75.41
2 bedrooms	£113.84	£106.83	£97.74	£87.45	£89.69	£85.46
3 bedrooms	£133.39	£125.68	£114.99	£103.56	£103.49	£100.55
4+ bedrooms	£213.19	£182.74	£167.20	£140.38	£144.89	£146.20

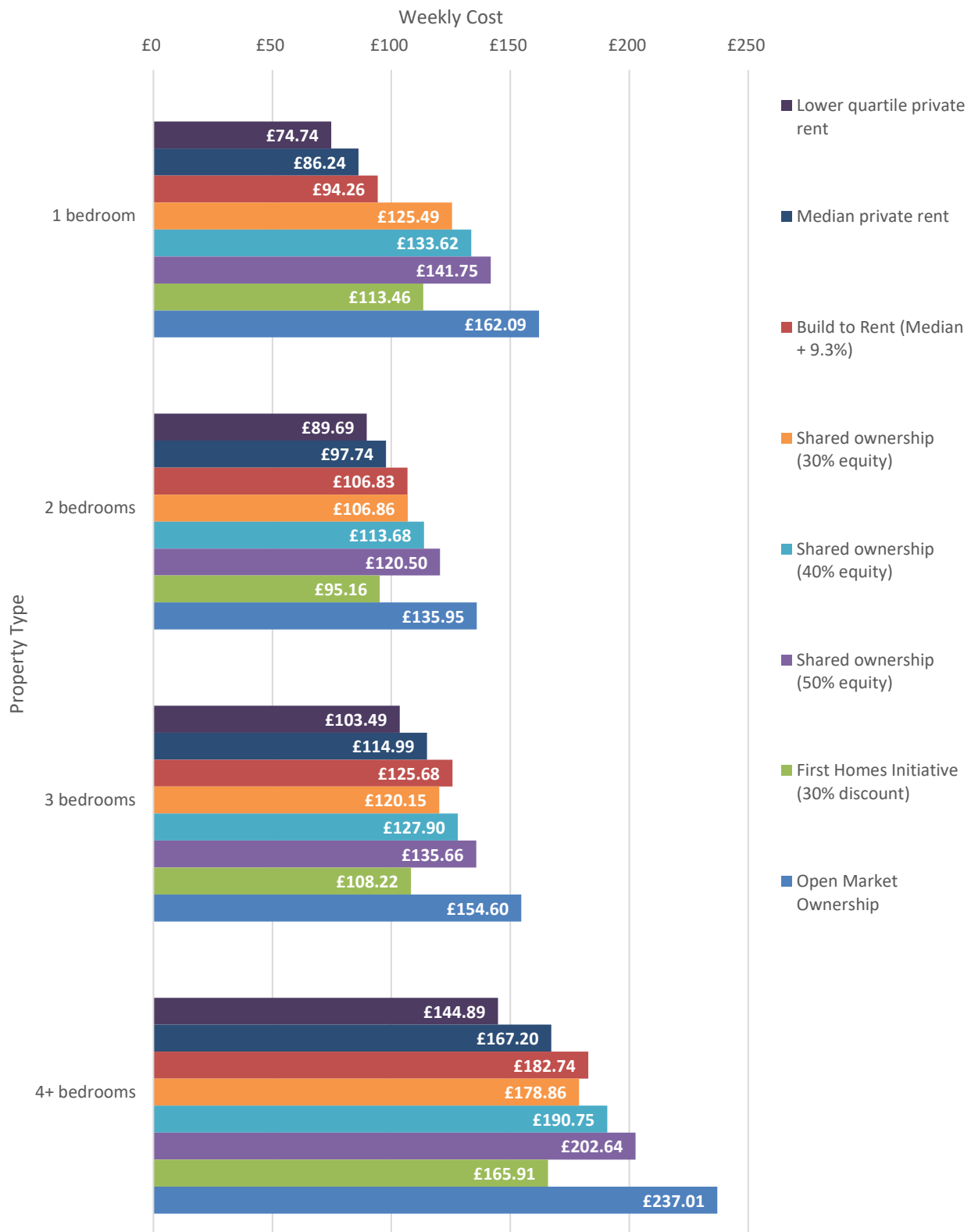
- 2.18 The local housing allowance would be insufficient to cover the costs of affordable Build to Rent units for all dwelling types, but the affordable element could potentially be capped at the LHA rate. As such, the promotion of build to rent could be a potentially useful mechanism for bringing forward affordable housing options, particularly for households requiring smaller properties.
- 2.19 In terms of pricing, build to rent options in Durham are cheaper than the equivalent to upper quartile private rents and are also more accessible than affordable home ownership options.

## Summary of Housing Costs

- 2.20 This chapter has considered in some detail the cost of housing depending on tenure type and property size. Figure 11 summarises these costs for each property size.

<sup>1</sup> <https://www.jll.co.uk/content/dam/jll-com/documents/pdf/research/emea/uk/jll-residential-insight-build-to-rent.pdf>

Figure 11: Comparison of weekly housing costs in Durham by property size (Source: VOA 2019-2020, Land Registry, ORS model)



<sup>2.21</sup> The cost of shared ownership predictably varies depending on the equity size purchased, however the fact that it is more expensive on a weekly basis than First Homes for all three equity levels illustrated is evidence of the significance of the rent payable on the equity retained (along with service charges) on weekly costs.

Nonetheless, shared ownership is much more flexible than First Homes because a household can buy smaller shares of the property and therefore may meet the needs of different households.

<sup>2.22</sup> Overall, compared to rental options, the range of affordable home ownership products shown appear to be relatively accessible, and not that much more expensive than renting.

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# 3. Need for First Homes

## Identifying households who aspire to own

### Introduction

- 3.1 The definition of affordable housing was changed by the NPPF 2019, with a specific emphasis now placed on affordable homeownership. This was retained in the NPPF 2021 update and does not explicitly include First Homes. Annex 2 of the Revised NPPF now defines affordable housing as being:

#### **Affordable housing**

*Housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers)*

Revised NPPF 2021, Annex 2

- 3.2 To reflect this change, paragraphs of PPG were updated in February 2019. These were further updated with a new set of guidance on “Housing needs of different groups” published on 22nd July 2019<sup>2</sup>, which covered:
- » Addressing the need for different types of housing
  - » Affordable housing
  - » Rural Housing
- 3.3 Further guidance to reflect the need to consider First Homes was then added on May 24<sup>th</sup> 2021.
- 3.4 The changes between the archived PPG and the current revision are highlighted below:

#### **How can the current unmet gross need for affordable housing be calculated?**

*Strategic policy-making authorities will need to estimate the current number of households and projected number of households who lack their own housing or who cannot afford to meet their housing needs in the market.*

*The unmet (gross) need for affordable housing by assessing (sic) past trends and current estimates of:*

- » *the number of homeless households;*
- » *the number of those in priority need who are currently housed in temporary accommodation;*
- » *the number of households in over-crowded housing;*
- » *the number of concealed households;*
- » *the number of existing affordable housing tenants in need (i.e. householders currently housed in unsuitable dwellings); and*
- » *the number of households from other tenures in need and those that cannot afford their own homes, **either to rent, or to own, where that is their aspiration.***

Planning Practice Guidance, ID: 2a-020-20190220

Emphasis added shows change first introduced in September 2018

<sup>2</sup> <https://www.gov.uk/guidance/housing-needs-of-different-groups#affordable-housing>

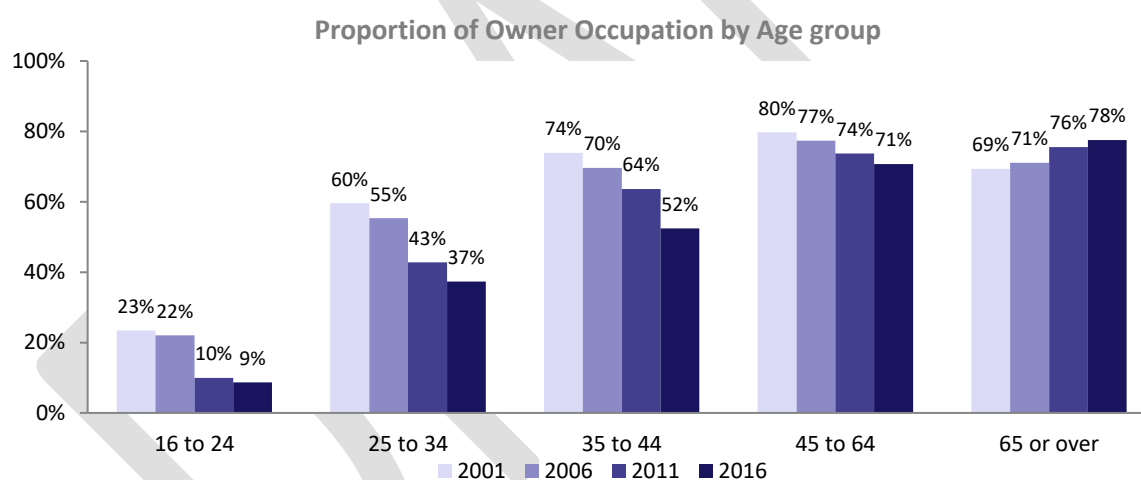
- 3.5 On this basis, it is clear that the assessment of affordable housing need must now consider those households who would like to own but are unable to do so, in addition to those households unable to afford to own or rent which have formed the longstanding basis for assessing affordable housing needs.

## Needs of Households Aspiring to Homeownership

### Home Ownership Trends

- 3.6 The new emphasis on households that cannot afford to own their home reflects Government concerns that the proportion of owner occupiers has reduced nationally over the last ten to fifteen years. Estimates from the English Housing Survey suggest that the proportion of owner occupiers nationally reduced from around 69% in 2006 to 65% in 2011 and to 63% by 2016. Over the same period the proportion of households renting from a social landlord also reduced from 19% to 17% whilst the proportion renting privately increased from 12% to 20%.
- 3.7 The proportion of owner occupiers varies by age with younger age groups less likely to own their home than older households. The real change is in the extent to which younger age groups owning their property has fallen over recent years whilst at the upper end of the age scale (aged 65 or over) home ownership has been increasing (Figure 12).

Figure 12: Percentage of Owner Occupiers in England by Age Group 2001-2016 (Source: English Housing Survey)



### Establishing the number of households aspiring to home ownership

- 3.8 English Housing Survey data shows that, unsurprisingly, 96% of households who currently own their property wish to stay as owner occupiers in the long term. In terms of potential demand over half (54%) of households who rent privately and almost a fifth (18%) of those in social rented housing aspire to homeownership.

Figure 13: Long-term aspirations for England (Source: English Housing Survey 2013/4)

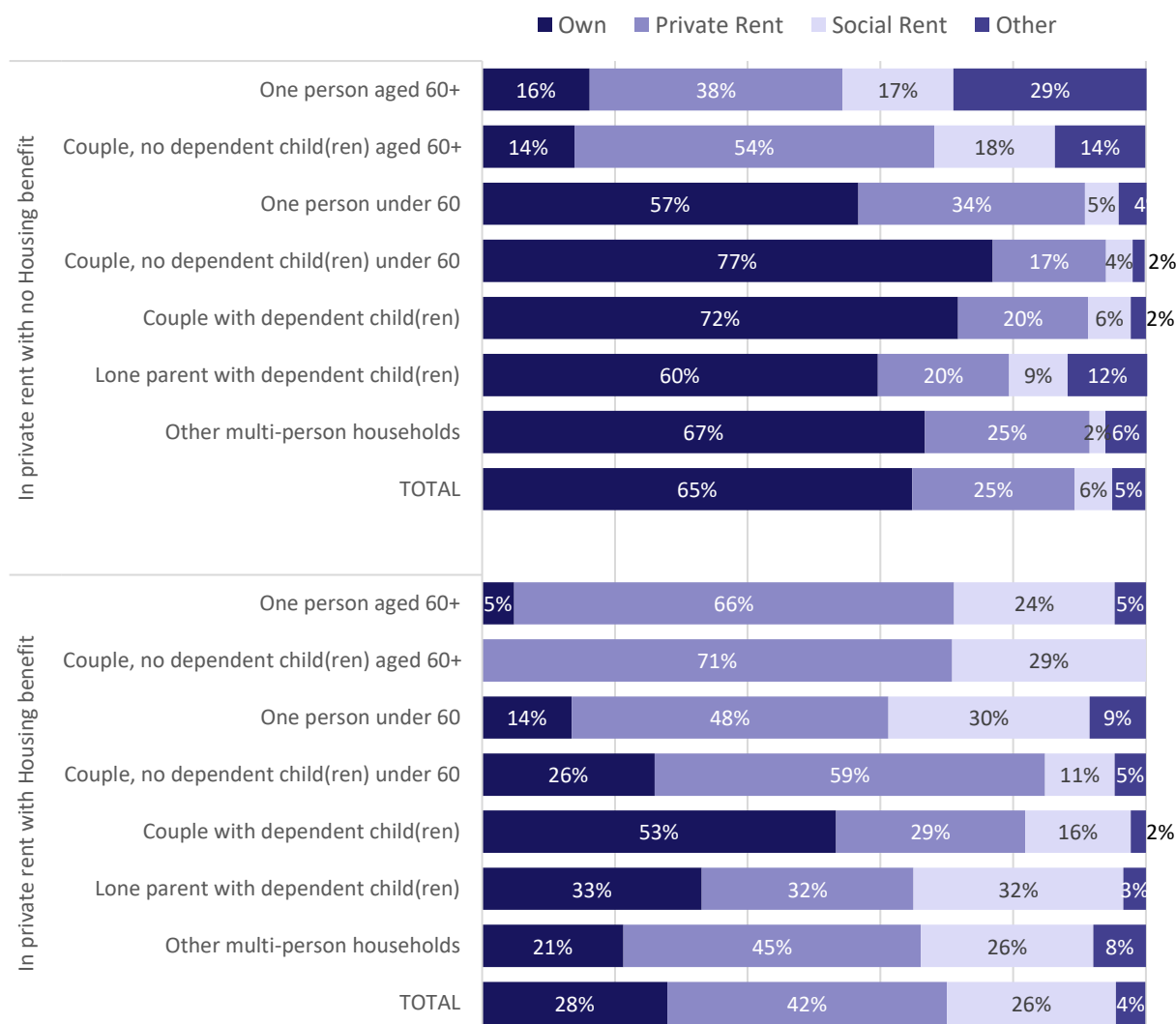
Current Tenure	Long-term Tenure Plan				
	Owner Occupier	Shared Ownership	Rent from Private Landlord	Rent from Social Landlord	Other
Owner occupied	96.1%	0.4%	0.7%	1.1%	1.6%
Private rent	53.5%	2.6%	28.8%	11.4%	3.8%
Social rent	18.1%	1.8%	1.9%	77.0%	1.1%



- 3.9 These figures relate to aspirations only and there is no test within the data as to whether this aspiration is affordable. It is therefore worth considering the responses of those currently in private rent in more detail with a view to understanding the types of household aspiring to buy.
- 3.10 The following chart (Figure 14) shows long-term tenure aspirations of those in private rent by household type as well as whether they are currently in receipt of housing benefit.
- 3.11 Almost two in three (65%) of those who are currently renting privately and NOT receiving housing benefit wish to buy their own home in the future. The proportion is much lower for those households with an Household Representative Person (HRP) over 60 (averaging 15%) and slightly higher amongst couples under 60 (77% and 72% depending on whether or not there are dependent children in the household).
- 3.12 Just under three in ten (28%) of those households in the private rented sector and in receipt of housing benefit wish to buy their own home in the future. This increases to 53% of couples with dependent children.

**Figure 14: Long-term Tenure Expectation for those in the Private Rented Sector with and without Housing Benefit support for England (Source: English Housing Survey 2013-14. Note: Own includes shared ownership)**

Long-term tenure expectations of those currently in private rented sector



## Additional Need for Affordable Homeownership

- 3.13 Through combining data on the number of households of each type in each age group living in private rented housing and paying their own rent in Durham in 2022 with the aspiration data from the EHS 2013-14, Figure 15 establishes the number of existing households likely to aspire to home ownership who can currently afford to pay their own rents. It is important to recognise that all of these households are able to meet their own housing costs in the private rented sector, so would typically not be considered for Social or Affordable Rent. It is also important to recognise that these households aspire to own, but whether that is possible is not being tested at this stage, but we will proceed to test if First Homes can meet their need below.

**Figure 15: Households currently living in the Private Rented Sector in Durham and paying their own rent that aspire to home ownership in 2022 (Note: Figures may not sum due to rounding)**

Household Type	Age of Household Representative						TOTAL
	15-24	25-34	35-44	45-54	55-64	65+	
Single person	549	1613	123	0	0	0	2285
Couple without children	196	931	196	271	111	0	1703
Families with child(ren)	54	750	352	60	0	0	1216
Other households	683	0	1	0	0	0	685
<b>Total</b>	<b>1,482</b>	<b>3,294</b>	<b>672</b>	<b>331</b>	<b>111</b>	<b>0</b>	<b>5,890</b>
<i>Percentage of households</i>	25%	56%	11%	6%	2%	0%	100%

- 3.14 Based on this analysis, we can estimate that there is a total of around 5,890 households currently resident in Durham who cannot afford to own their own home but would aspire to do so. 81% are aged 15-34 years.
- 3.15 In addition to the current need, it is also important to consider new households that are projected to form over the period 2022-2035. Through combining this data with the aspiration data from the EHS, we can conclude that it is likely that there would be a further 5,608 households that form over the 13-year period who will be able to afford to pay market rent but unable to afford to own, despite that being their aspiration. Overall, Figure 16 shows that there are likely to be 11,498 households who aspire to homeownership but who cannot afford to buy their own home over the period 2022-35, a net annual need of 885 per year. The vast majority of this group of private renters can be assumed to be potential first-time buyers, as it is far more common for a renter to become a homeowner (i.e. as a first-time buyer) than the reverse (i.e. entering the rental market having previously owned a home).
- 3.16 As noted earlier, the government have recently introduced First Homes; properties to be sold with at least a 30% discount to first-time buyers. While the figure of 11,498 households who aspire to homeownership in Durham sets an upper threshold for the number who could seek to access First Homes, it would still be the case that these households would require a deposit and to be able to afford to service the cost of a mortgage. We explore the importance of this point below.

**Figure 16: Assessing total need for affordable housing 2022-2035 (Source: ORS Housing Model)**

	Households aspiring to home ownership
Current housing need in 2022	5,890
Future housing need 2022-35	5,608
<b>TOTAL HOUSING NEED</b>	<b>11,498</b>

- 3.17 This represents more than two thirds of the annual housing target identified by the Durham County Local Plan. This is due to a large proportion of this need being associated with the whole population as opposed to the projected new households, which is recognised by the PPG:

***How does the housing need of particular groups relate to overall housing need calculated using the standard method?***

*The standard method for assessing local housing need identifies an overall minimum average annual housing need figure but does not break this down into the housing need of individual groups. This guidance sets out advice on how plan-making authorities should identify and plan for the housing needs of particular groups of people.*

*This need may well exceed, or be proportionally high in relation to, the overall housing need figure calculated using the standard method. This is because the needs of particular groups will often be calculated having consideration to the whole population of an area as a baseline as opposed to the projected new households which form the baseline for the standard method. How can needs of different groups be planned for?*

*Strategic policy-making authorities will need to consider the extent to which the identified needs of specific groups can be addressed in the area, taking into account:*

- » *the overall level of need identified using the standard method (and whether the evidence suggests that a higher level of need ought to be considered);*
- » *the extent to which the overall housing need can be translated into a housing requirement figure for the plan period; and*
- » *the anticipated deliverability of different forms of provision, having regard to viability.*

**Planning Practice Guidance, ID 67-001-20190722**

- 3.18 The size, type and tenure of homes also needs to be calculated separately from the standard method. PPG February 2019 states:

***How does the housing need of particular groups relate to overall housing need calculated using the standard method?***

*The standard method for assessing housing need does not break down the overall figure into different types of housing. Therefore the need for particular sizes, types and tenures of homes as well as the housing needs of particular groups should be considered separately.*

**Planning Practice Guidance, ID 2a-017-20190220**

- 3.19 It is important to recognise that the figures for those who aspire to home ownership are based upon those households who currently can afford market rent without the support of housing benefit. However, these households would not necessarily choose new build Affordable Home Ownership if it was available, as some may prefer to secure full ownership in the less expensive second-hand housing market. Similarly, some households may not ultimately need affordable home ownership if their circumstances change to such a degree that they are eventually able to buy without financial assistance. It is also important to recognise that the identified demand could only be realised if Affordable Home Ownership products can be delivered at prices that are truly affordable in the area, in line with local house prices and incomes.

- 3.20 Figure 17 to Figure 20 consider the ability of households to afford First Homes at different levels of discount and also different assumptions around mortgage multipliers. In all case the models work with households

having incomes under £80,000 and having at least some significant saving to contribute to a deposit. In order to profile affordability, income data from the English Housing Survey (2012-14) and ONS Survey of Personal Incomes (2014 and 2018) has been combined and modelled to establish the income distribution by household type and age. This excludes any income from housing benefit, as the analysis seeks to determine to what extent housing benefit would be needed by households in each group.

3.21 The only difference between the four charts is the mortgage to income loan ratio and level of discount assumed:

- » Figure 17 uses a 4.0 times mortgage to income multiplier and 50% discount;
- » Figure 18 uses a 3.5 times mortgage to income multiplier and 50% discount;
- » Figure 19 uses a 4.0 times mortgage to income multiplier and 30% discount;
- » Figure 20 uses a 3.5 times mortgage to income multiplier and 30% discount;

3.22 The results show that the potential need for First Homes in Durham is not that sensitive to either assumption. Only a further 376 more dwellings can potentially be afforded if we assume that mortgage multipliers are 4 times income and the discount is 50% compared to a mortgage multiplier of 3.5 times incomes and a 30% discount.

3.23 The figures in each chart represent a maximum, rather than a minimum need. They are for all households who may aspire to own and have income in the correct range to be able to afford the First Homes property and also have some savings. Many of these households may still meet their needs in the cheaper second hand market, or be unable to obtain a mortgage of up to 4.0 times their income.

**Figure 17: Households aspiring to home ownership who have incomes sufficient to afford First Homes with a 4.0 times mortgage to income ratio and have incomes below £80,000 per annum (Source: ORS Housing Model)**

	All households aspiring to home ownership	MINUS households able to afford market home ownership	Households unable to afford market home ownership	MINUS households unable to afford 50% of newbuild LQ	Households able to afford 50% of newbuild LQ	MINUS households with savings of less than £5,000	Households able to afford 50% of newbuild LQ and have savings of £5,000 or more
1 bedroom	526	73	453	176	277	162	115
2 bedrooms	5,413	1,120	4,293	852	3,441	2,710	732
3 bedrooms	4,885	751	4,134	801	3,333	2,599	734
4+ bedrooms	674	111	563	225	338	199	139
<b>TOTAL</b>	<b>11,498</b>	<b>2,056</b>	<b>9,442</b>	<b>2,053</b>	<b>7,389</b>	<b>5,669</b>	<b>1,719</b>

**Figure 18: Households aspiring to home ownership who have incomes sufficient to afford First Homes with a 3.5 times mortgage to income ratio and have incomes below £80,000 per annum (Source: ORS Housing Model)**

	All households aspiring to home ownership	MINUS households able to afford market home ownership	Households unable to afford market home ownership	MINUS households unable to afford 50% of newbuild LQ	Households able to afford 50% of newbuild LQ	MINUS households with savings of less than £5,000	Households able to afford 50% of newbuild LQ and have savings of £5,000 or more
1 bedroom	526	88	438	144	294	182	112
2 bedrooms	5,413	1,269	4,144	645	3,500	2,759	740
3 bedrooms	4,885	899	3,986	587	3,399	2,734	665
4+ bedrooms	674	161	513	174	339	185	154
<b>TOTAL</b>	<b>11,498</b>	<b>2,418</b>	<b>9,080</b>	<b>1,549</b>	<b>7,531</b>	<b>5,859</b>	<b>1,672</b>

**Figure 19: Households aspiring to home ownership who have incomes sufficient to afford First Homes with a 4.0 times mortgage to income ratio and have incomes below £80,000 per annum (Source: ORS Housing Model)**

	All households aspiring to home ownership	MINUS households able to afford market home ownership	Households unable to afford market home ownership	MINUS households unable to afford 70% of newbuild LQ	Households able to afford 70% of newbuild LQ	MINUS households with savings of less than £5,000	Households able to afford 70% of newbuild LQ and have savings of £5,000 or more
1 bedroom	526	73	453	258	194	118	76
2 bedrooms	5,413	1,120	4,293	1,489	2,804	2,217	586
3 bedrooms	4,885	751	4,134	1,480	2,654	1,989	665
4+ bedrooms	674	111	563	331	231	169	63
<b>TOTAL</b>	<b>11,498</b>	<b>2,056</b>	<b>9,442</b>	<b>3,559</b>	<b>5,883</b>	<b>4,493</b>	<b>1,390</b>

**Figure 20: Households aspiring to home ownership who have incomes sufficient to afford First Homes with a 3.5 times mortgage to income ratio and have incomes below £80,000 per annum (Source: ORS Housing Model)**

	All households aspiring to home ownership	MINUS households able to afford market home ownership	Households unable to afford market home ownership	MINUS households unable to afford 70% of newbuild LQ	Households able to afford 70% of newbuild LQ	MINUS households with savings of less than £5,000	Households able to afford 70% of newbuild LQ and have savings of £5,000 or more
1 bedroom	526	88	438	216	222	130	91
2 bedrooms	5,413	1,269	4,144	1,162	2,982	2,439	543
3 bedrooms	4,885	899	3,986	1,133	2,853	2,228	625
4+ bedrooms	674	161	513	260	253	156	96
<b>TOTAL</b>	<b>11,498</b>	<b>2,418</b>	<b>9,080</b>	<b>2,771</b>	<b>6,309</b>	<b>4,953</b>	<b>1,355</b>

- <sup>3.24</sup> On the evidence set out above, First Homes in Durham would only be suitable for all bedroom sizes, but in particular for 2 and 3 bedroom properties.
- <sup>3.25</sup> Following the SHMA 2018, we have also considered the sub-housing market areas of Durham. Figure 21 sets out the need for each sub-area, with the largest potential need being in Durham City.

**Figure 21: Households aspiring to home ownership who have incomes sufficient to afford First Homes by housing sub-market area (Source: ORS Housing Model)**

	Households able to afford 50% of newbuild LQ and have savings of £5,000 or more at 4.0 mortgage to income ratio	Households able to afford 50% of newbuild LQ and have savings of £5,000 or more at 3.5 mortgage to income ratio	Households able to afford 70% of newbuild LQ and have savings of £5,000 or more at 4.0 mortgage to income ratio	Households able to afford 70% of newbuild LQ and have savings of £5,000 or more at 3.5 mortgage to income ratio
<b>Local Plan Monitoring Area</b>				
Central Durham	207	191	177	165
Durham City	349	403	217	262
East Durham	130	120	111	104
Mid Durham	163	151	140	130
North Durham	153	142	131	122
North West Durham	239	222	205	191
South Durham	159	147	136	127
South East Durham	45	42	38	36
West Durham	274	254	235	219
<b>TOTAL</b>	<b>1,719</b>	<b>1,672</b>	<b>1,390</b>	<b>1,355</b>

3.26 In terms of the other policy issues relating to First Homes, we would note the following conclusions:

**Minimum discount** – there is no clear case why a discount larger than 30% should be applied in Durham. House prices are below the £250,000 price cap for First Homes without a discount, so there is no strong case for a larger discount than 30% because this would adversely impact upon viability and does not make a significantly higher number of households be able to afford First Homes.

**Price caps** - in Durham, 70% of the lower quartile 4 plus bedroom property price is £176,500. A price cap at this value would ensure that First Homes remain a genuinely affordable option. However, almost all of the need for First Homes comes from properties which are 3 bedrooms or lower and a price cap of around £120,000 would ensure that any properties sold represent a genuine discount. A price cap of Any properties being sold as First Homes with prices above £176,500 for 4 bedrooms, or 120,000 for 3 bedrooms would not represent a 30% discount on current entry level house prices. However, this requires a flexible policy to reflect prices in the market in the future, so if entry level market price rises or falls the price cap should also rise or fall.

**Eligibility criteria** –The need for affordable home ownership in Durham is insufficient to justify a 25% target within affordable housing delivery and does not reach 10% of the outstanding Local Plan delivery target if a

30% discount is applied, It is not sufficiently high that additional eligibility criteria should be considered to ensure only a particular subset of the population can benefit from First Homes. A major limiting factor on the uptake of First Homes may be the ability of households on suitable incomes to secure mortgages.

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# Appendix A

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# Appendix B

## Glossary of Terms

### Definitions

**Affordability** is a measure of whether housing may be afforded by certain groups of households.

**Affordable housing** includes social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. For the purpose of this report we have used the definition in the Revised NPPF, which specifies the main categories of affordable housing to be: affordable housing for rent; starter homes; discounted market sales housing (sold at a discount of at least 20% below market value); shared ownership, relevant equity loans, other low cost homes for sale and rent to buy.

**Affordable Rent** is provided by social landlords and rented for less than would be paid if renting privately. It must be at least 20% cheaper than the equivalent private rent in the area and must also be below the value of the Local Housing Allowance in the area.

**Category 2 and 3** are classifications of wheelchair accessible housing. They refer to building regulations Approved Document M (2015) which introduced three categories of accessible dwellings. Category 1 (visitable dwellings) relates to accessibility of all properties and, being mandatory, is not assessed in the HNA. Category 2 (accessible and adaptable dwellings) is optional and similar to Lifetime Homes. Category 3 (wheelchair user dwellings) is optional and equivalent to wheelchair accessible and adaptable standard.

**Census Output Area** is the smallest area for which UK Census of Population statistics are produced. Each Census Output Area had a population of around 250 people with around 100 dwellings at the time of the 2011 Census.

**Concealed families** are defined as; *“family units or single adults living within other households, who may be regarded as potential separate households which may wish to form given appropriate opportunity”*<sup>3</sup>.

**ECO** underpins the Green Deal and places obligations on energy companies to facilitate installation of energy efficiency measures in homes. ECO fits within the Green Deal framework where Green Deal finance alone is not enough.

**Equity** is the difference between the selling price of a house and the value of the outstanding mortgage.

**First Homes** are discounted market sale units which must be sold with either a 30%, 40% or 50% discount in perpetuity to a person or persons meeting the First Homes eligibility criteria.

**Green Deal** is a market led framework that will allow individuals and businesses to make energy efficiency improvements to their buildings at no upfront cost. Finance needed for the improvements is repaid, in instalments, attached to an electricity bill.

**Headship rates** are defined by CLG as: *“the proportion of people in each age group and household type who are the ‘head’ of a household”*<sup>4</sup>

<sup>3</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/6338/1776873.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6338/1776873.pdf)

<sup>4</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/182417/MethodologyFinalDraft.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/182417/MethodologyFinalDraft.pdf)

**A household** is one person living alone, or two or more people living together at the same address who share at least one meal a day together or who share a living room.

**Household formation** refers to the process whereby individuals in the population form separate households. 'Gross' or 'new' household formation refers to households that form over a period of time, conventionally one year. This is equal to the number of households existing at the end of the year that did not exist as separate households at the beginning of the year (not counting 'successor' households, when the former head of household dies or departs). 'Net' household formation is the net growth in households resulting from new households forming less the number of existing households dissolving (e.g. through death or joining up with other households).

**A Housing Association or Registered Provider** is an independent not-for-profit body that primarily provides low-cost "social or affordable housing" for people in housing need.

**Housing demand** is the quantity of housing that households are willing and able to buy or rent.

**Household income** includes all salaries, benefits and pensions, before deductions such as tax and National Insurance.

**House in Multiple Occupation** are currently defined by the Housing Act 2004 as:

- » an entire house or flat which is let to three or more tenants who form two or more households and who share a kitchen, bathroom or toilet;
- » a house which has been converted entirely into bedsits or other non-self-contained accommodation and which is let to three or more tenants who form two or more households and who share kitchen, bathroom or toilet facilities;
- » a converted house which contains one or more flats which are not wholly self-contained (i.e. the flat does not contain within it a kitchen, bathroom and toilet) and which is occupied by three or more tenants who form two or more households; and
- » a building which is converted entirely into self-contained flats if the conversion did not meet the standards of the 1991 Building Regulations and more than one-third of the flats are let on short-term tenancies.

**Housing market areas** are geographical areas in which a substantial majority of the employed population both live and work and where those moving house without changing employment choose to stay.

**Housing need** is the quantity of housing required for households who are unable to access suitable housing without financial assistance.

**Housing requirements** encompasses both housing demand and housing need, and is therefore the quantity of housing necessary for all households to have access to suitable housing, irrespective of their ability to pay.

**Housing type** refers to the type of dwelling, for example, flat, house, specialist accommodation.

**Intermediate affordable housing** is housing at prices and rents above those of social rent, but below market price or rents, and which meet the criteria for affordable housing set out above. These include shared equity products (e.g. HomeBuy), other low cost home ownership products and intermediate rent.

**Lending multiplier** is the number of times a household's gross annual income a mortgage lender will normally be willing to lend. The most common multipliers quoted are 3.5 times income for a one-income household and 2.9 times total income for dual income households.

**Low cost home ownership** or **Shared ownership** is intermediate affordable housing designed to help people who wish to buy their own home, but cannot afford to buy outright (with a mortgage). Through this type of scheme you buy a share in the property with a Housing Association or other organisation.

**Lower quartile** means the value below which one quarter of the cases falls. In relation to house prices, it means the price of the house that is one-quarter of the way up the ranking from the cheapest to the most expensive.

**Lower Super Output Area** is a group of around 5-6 Census Output Areas and is the smallest geography for many Government statistics. Each Lower Super Output Area had a population of around 1,250 people with around 500 dwellings at the time of the 2001 Census.

**Market housing** is private housing for rent or for sale, where the price is set in the open market.

**Market signals** are indicators that supply and demand are not in balance for a local housing market. Possible market signals are listed in PPG and the following are the most pertinent; house prices, private sector rents, affordability, rate of development and overcrowding.

**Migration** is the movement of people between geographical areas. In this context it could be either local authority districts, or wider housing market areas. The rate of migration is usually measured as an annual number of individuals, living in the defined area at a point in time, who were not resident there one year earlier. Gross migration refers to the number of individuals moving into or out of the authority. Net migration is the difference between gross in-migration and gross out-migration.

**A projection of housing needs or requirements** is a calculation of numbers expected in some future year or years based on the extrapolation of existing conditions and assumptions. For example, household projections calculate the number and composition of households expected at some future date(s) given the projected number of residents, broken down by age, sex and marital status, and an extrapolation of recent trends in the propensity of different groups to form separate households.

**Registered Social Landlord/Registered Provider** see Housing Association.

**Secondary data** is existing information that someone else has collected. Data from administrative systems and some research projects are made available for others to summarise and analyse for their own purposes (e.g. Census, national surveys).

**Shared ownership** see Low Cost Home Ownership.

**Social rented housing** is provided by social landlords and rented for less than would be paid if renting privately. It typically has lower rents than Affordable Rent.

**Specialised housing** refers to specially designed housing (such as mobility or wheelchair accommodation, hostels or group homes) or housing specifically designated for particular groups (such as retirement housing).

## Acronyms and Initials

<b>BRMA</b>	Broad Rental Market Area
<b>CLG</b>	Department for Communities and Local Government (now MHCLG)
<b>DWP</b>	Department of Work and Pensions
<b>LA</b>	Local Authority
<b>LHA</b>	Local Housing Allowance
<b>LHN</b>	Local Housing Need
<b>LHNA</b>	Local Housing Needs Assessment
<b>MHCLG</b>	Ministry for Housing, Communities and Local Government
<b>NPPF</b>	National Planning Policy Framework
<b>ONS</b>	Office for National Statistics
<b>ORS</b>	Opinion Research Services
<b>PPG</b>	Planning Practice Guidance
<b>RSL</b>	Registered Social Landlord
<b>SHMA</b>	Strategic Housing Market Assessment