Northern Ireland Housing Market

Review & Perspectives 2013-2016

Housing Executive

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Preface

"The overall waiting list for social housing rose to an all-time peak of more than 40,000…"

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Preface

Once again we are pleased to present one of our most significant annual publications. The *Northern Ireland Housing Market: Review and Perspectives, 2013-2016* provides a strategic overview of developments in the housing market, highlights key issues to be addressed and the perspective for each of the tenures over the coming three year period.

This strategic document acts as a point of departure for our Corporate and Business Plans, which this year have been recast to reflect the ongoing process of organisational restructuring into two bodies, one providing Regional Services and one providing Landlord Services.

Further analysis of data from the 2011 House Condition Survey provided some welcome news during 2012. A reduction in the headline fuel poverty rate from 44 per cent in 2009 to 42 per cent in 2011 and a much lower proportion of homes failing the Decent Homes Standard (11 per cent in 2011 compared to 15 per cent in 2009) bears testimony to the significant impact that well-targeted investment in housing can make. In social housing in particular, where thermal comfort had been an issue in a significant number of dwellings, heating and insulation improvements to some 20,000 properties between 2009 and 2011 saw the proportion of homes failing the Decent Homes Standard fall from 15 per cent to only four per cent.

It is important, however, not to underestimate the need for ongoing investment in housing. In 2011, the rate of unfitness in the stock rose for the first time since 1974 (to 4.6%), and although this is essentially now an issue associated with vacant stock, the number of vacant properties is continuing to rise at a time when the demand for housing is also increasing. Vacancy is increasingly associated with isolated rural areas. One third of all vacant properties in Northern Ireland are in isolated rural areas and 17 per cent of all homes in these remoter areas are vacant. Given the ongoing rural-urban drift of population, this is a very difficult issue to address.

First-time buyers continue to face major challenges, for although house price to income ratios are now at much more sustainable levels, labour market uncertainty and larger deposits required by lenders have made it much more difficult for young households to enter the market. Recent figures indicate that transaction levels are increasing and a growing proportion of sales are going to first time buyers, but high levels of negative equity in Northern Ireland have resulted in a growing number of "mortgage prisoners" as prices continue to drift downwards and unemployment rises.

Against this background the private rented sector will continue to play a very important role in Northern Ireland's housing market. There is growing evidence-based concern regarding how the ongoing changes to Housing Benefit will impact on tenants and landlords in the medium term. There is no doubt that the continuation of direct payment to landlords in Northern Ireland is an important modification to the UK wide policy, which will most certainly help sustain the private rented sector at a time when real household incomes are falling.

Social housing too will benefit enormously from the continuation of direct payment to landlords, although the implementation of the under-occupation related reduction in Housing Benefit will undoubtedly result in rising arrears and uncertainty for many working age tenants, who will find it almost impossible to find alternative accommodation in the social sector in an area of their choice.

The next three year period will be one of significant change in the governance of social housing in Northern Ireland. It is important, however, that during these challenging times, we do not lose sight of the importance of making the best use of scarce public resources for housing; we hope that this *Review and Perspectives* will be of benefit to all housing decision makers.

Dr John McPeake
Chief Executive

Donald Hoodless
Chairman

Housing Executive

Introduction

The "Northern Ireland Housing Market: Review and Perspectives" is a key strategic document published each year by the Housing Executive in its role as the regional housing authority.

It aims to provide a sound evidence base for the development of housing strategies, housing policy and interventions in the housing market. This is the seventeenth consecutive year that the "Review and Perspectives" has been published.

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" provides a starting point for the Housing Executive's Corporate Plan, thereby helping to guide the organisation's intervention in the housing market and providing an important means of monitoring the strategic impact of this intervention.

Chapter 1 provides the strategic context for Northern Ireland's housing market. It examines the key drivers of the housing market: the underlying influence of developments in the world economy, and particularly in the Eurozone and more specifically the economies of the UK and Ireland, before turning specifically to Northern Ireland's economy. It summarises the most recent socio-demographic data, often seen as having the most direct impact on developments in the housing market, before examining more direct indicators of housing need

Chapters 2 – 4 analyse developments in each of the three main housing tenures: owner occupation, the private rented sector and social housing. The most recent statistics and trends are examined as a 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.

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Executive Summary

The Housing Executive publishes the Northern Ireland Housing Market: Review and Perspectives each year in its role as Northern Ireland's strategic housing authority.

This is the seventeenth consecutive year it has been published. The report provides an analysis of the key economic and demographic drivers of the housing market and the latest trends and developments in its three sectors. On this basis it highlights the key issues and perspectives for the coming three year period.

Chapter 1

The Strategic Context

This chapter examines the key economic and demographic factors driving Northern Ireland's housing market. However, it begins by looking at Northern Ireland's revised *Regional Development Strategy (RDS - 2035)*, published in 2012, which provides a new overarching strategic planning framework for development. The Strategy envisages 190,000 new dwellings being built in Northern Ireland over the period 2008-2025, an annual average of approximately 11,200. This is a smaller number than under the previous RDS (12,200 per annum), and reflects in the main a declining rate of household formation.

The Economic Context

The World Economy

The world economy is an important underlying determinant of developments in Northern Ireland's housing market – above all because of the impact of developments in the world economy on the financial system and the propensity of banks / building societies to lend to potential homebuyers and investors.

The International Monetary Fund's (IMF) *World Economic Outlook* Update (January 2013) estimates that the world economy is expected to grow by 3.5 per cent in 2013, a slightly higher rate than in 2012 (3.2%), if the euro area recovers. However, the expected upturn will be more gradual than in its October 2012 projections. In the **USA**, a "supportive financial market environment", has been reflected in a significant increase in housing market activity and a reduction in the level of household debt. House prices rose by an average 7.3 per cent during 2012, the highest figure since 2006

The biggest threat to world economic recovery comes from the sovereign debt crisis and the related economic crisis in the **euro area**. The IMF estimates that the euro area's economy shrank by 0.4 per cent in 2012 and will continue to do so in 2013 (-0.2%). The multi-billion euro 'bail-outs' of Greece, Portugal and Ireland, as well as the vulnerability of Italy and Spain (where 26 per cent of the working population is unemployed) are having a significant impact on banks' ability and willingness to lend. The banking crisis which emerged in Cyprus in March 2013 confirms that bank liquidity is still a major issue and would indicate that prolonged stagnation in the euro area is a very real possibility.

In the **Republic of Ireland**, where the economic crisis broke out first, the economy has started to show signs of recovery, although high levels of unemployment (14%) and lower wages caused by the five-year economic crisis have pushed many mortgage holders to the brink of repossession.

The UK economy

The **United Kingdom** is experiencing the slowest post-recession recovery in its economy since the nineteenth century, more than 100 years ago. Although the UK officially emerged from recession in Q4, 2009, economic growth has been erratic and in Q4, 2011 entered a "double-dip" recession. In Q3, 2012 the Olympics and Paralympics provided a significant stimulus to the economy, but a contraction in Q4, 2012 has raised the possibility of a "triple-dip" recession.

It was against this background and in the context of a continued Government commitment to austerity in order to achieve further reductions in the budget deficit that the Chancellor announced what the Institute for Fiscal Studies characterised as a fiscally neutral budget on 21st March 2013. The Office for Budgetary Responsibility (OBR) revised its forecast for GDP growth in 2013 downwards from 1.2 per cent (in December 2012's Autumn Statement) to 0.6 per cent and from 2.0 per cent to 1.8 per cent for 2014. The ongoing adverse economic context is reflected in the most recent (February 2013) figures on mortgage lending issued by the British Bankers' Association, which showed that net lending by banks fell by £982m over the month, the largest net repayment on record.

In **Northern Ireland** the economic outlook remains bleak. The most recent overview of Northern Ireland's economy from PwC *(Northern Ireland Economic Outlook,* March 2013) notes that "Northern Ireland is slipping behind the rest of the UK in just about every measure of employment, growth and productivity" (p.1), including the lowest level of business confidence and long-term unemployment (59 per cent of the total) that is very significantly higher than the UK average (35%). Northern Ireland's economy contracted in 2012 (-0.3%), but although PwC forecasts growth for 2013 (0.4%), this is the lowest of all the UK's 12 regions. Labour market conditions remain particularly challenging with working age economic inactivity at 555,000 (27.2%) compared to an average for the UK as a whole of 22.3 per cent.

Demographic Profile

The 2011 Census figures have provided key information in relation to trends and future developments in the housing market:

- Northern Ireland's total population is approximately 1,811,000.
- Since 2001 the population has increased by 125,600 (7%), representing the fastest growth in population between consecutive Censuses since the 1960s.
- The age structure of the population has continued to become older since 2001 and the median age has increased from 34 to 37 years.
- The population aged 65 and over has increased by 40,400 (18%); the proportion of the population aged 85 and over has risen from 23,300 to 31,400 – an increase of 35 per cent.
- Conversely the number of children (people aged under 16) has declined from 398,100 to 379,300 (-5%).

The demographic structure of the population has continued to change since 2001:

- Average household size fell from 2.65 in 2001 to 2.54 in 2011.
- The number of households grew from 628,400 in 2001 to 703,300 in 2011 (although it is important to note from a housing market perspective that this actual 2011 figure was approximately 12,000 lower than that contained in the most recent 2008-based projections published before the census in 2010).
- The number of single person households grew from 172,000 (27.3%) to 196,400 (28%).

The Need for Social Housing

Evidence for the need for social housing in Northern Ireland comes from two main sources: the Common Waiting List for social housing and the Net Stock Model.

Following a lull in the upward trend for a period of two years, largely due to lower rates of household formation and the opportunities presented by the private rented sector, the overall waiting list rose to an all-time peak of more than 40,000 in September 2012. Similarly, the number of applicants in housing stress rose to a peak of more than 22,000.

Successive iterations of the Net Stock Model have provided a useful starting point for determining the size of the Social Housing Development Programme. The most recent version of the model was produced in January 2013 for the period 2008-2018. It was based on the 2008-based household projections (amended to take account of 2011 Census figures) and housing stock data from the 2011 House Condition Survey. The model indicated that a minimum of 1,200 new social dwellings will be required each year in order to meet the ongoing needs of the growing population. In addition a further 800 are needed to address the backlog of more than 7,000 that has built up since 2001 and the expectation that private sector output will remain low over the next three year period, giving an overall annual requirement of 2,000 new social dwellings.

The Condition of the Stock and Fuel Poverty

The 2011 House Condition Survey provided an update on the condition of Northern Ireland's housing stock. The headline unfitness rate for 2011 was 4.6 per cent (35,200 dwellings), an increase from the 17,500 (2.4%) recorded in 2009. Four-fifths (80%) of all unfit properties were vacant.

Other key findings from the 2011 Survey on Decent Homes, Housing Health and Safety Rating, energy efficiency and fuel poverty emerged during 2012. The most important of these was the finding that fuel poverty has decreased by two percentage points, primarily as a result of very significant investment in energy efficiency measures in social housing.

Key Issues and Strategic Perspectives

The world economy has entered a period of lower growth. There are signs that prospects for employment and output have improved in the USA over the last six months in response to a more relaxed credit regime, which in turn has stimulated a more active housing market. However, the Eurozone sovereign debt crisis still poses a very significant risk to the economies of the UK and the Republic of Ireland – and therefore for Northern Ireland too. In Northern Ireland lower levels of public expenditure, higher levels of indebtedness and benefit dependency, rising unemployment, more cautious lending practices and a subdued housing market will continue to impact negatively on household incomes and investor confidence.

Northern Ireland's demography is continuing to change. The 2011 Census confirmed that although the number of households is continuing to rise, the rate of household formation has slowed a little – at least partly in response to the economic environment. The continuing trend towards more single person households and older households will continue, resulting in a sustained demand for accommodation and in particular for smaller units of accommodation and supported housing.

The numbers of applicants on the waiting list (more than 40,000) and those in "housing stress" (more than 22,000) continues to rise. The Net Stock Model indicates an ongoing annual requirement of 1,200 new social dwellings for the period 2008-2018. However, the annual requirement has been set at 2,000 to reflect a significant backlog which has developed since 2001, as well as the very challenging market conditions, which make it unlikely that there will be a significant upturn in the rate of construction by the private sector in the near future.

Northern Ireland's housing stock continued to grow steadily between 2009 and 2011, with approximately 20,000 additional homes being added to the stock. However, for the first time, the rate of unfitness has increased: from 2.4 per cent in 2009 to 4.6 per cent in 2011. This undoubtedly reflects the reduction in real household incomes and investor confidence, but also to a certain extent the substantial reduction in funding for home improvement grants.

Although the rate of fuel poverty in Northern Ireland reduced between 2009 and 2011 to 42 per cent, reducing it further remains a very difficult challenge in the short term, given that energy prices are to remain high and real household incomes are falling. Improving the fabric of dwellings can ameliorate the impact of fuel poverty significantly, but cannot eradicate it altogether.

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Chapter 2

Owner Occupation

The rapid growth of the owner occupied sector which characterised Northern Ireland's housing market during the early years of the new millennium came to an end in 2007. A combination of a decline in the construction of new private sector dwellings, the increasing number of vacant properties, the sale of very few social dwellings and the growth of the private rented sector resulted in the owner occupied proportion of the total housing stock falling from 66 per cent in 2006 to only 62 per cent in 2011.

New Housing

The number of new dwellings constructed for the private sector remains at a much lower level than during the mid-2000s. In 2006/07 almost 14,000 new private sector dwellings were started. In 2011/12 there were fewer than 5,000 new starts (less than 40 per cent of the previous peak).

House Prices

House price figures indicate that the UK housing market remained generally flat during 2012, with higher price rises in London and the South East being counteracted by reductions in Scotland, Wales and Northern Ireland. Northern Ireland continues to have the lowest average house price in the UK (36 per cent below the UK average).

The University of Ulster mix-adjusted index recorded a further annual decline of 1.4 per cent between Q4, 2011 and Q4, 2012. However, this figure disguises significant regional variations. The Residential Property Price Index produced by Land & Property Services – using a different methodology and including auctioned / repossessed properties in the calculation – estimates that average prices fell by 13 per cent. However, both indices record a very significant increase in transaction rates. The Office for National Statistics – using data from the Council of Mortgage Lenders – estimates that property prices fell by 5.7 per cent during 2012.

Affordability

Affordability for first-time buyers in Northern Ireland in terms of house price to income ratios is no longer a significant issue. In Q4, 2012, almost two-fifths of homes sold for less than £100,000. The number and proportion of homes sold to first-time buyers has also increased from 4,700 (54%) to 5,100 (59%). Repossession Orders increased somewhat between 2010/11 and 2011/12 and again during 2012/13 but, unfortunately figures on actual repossessions are still not available.

Characteristics and Condition

The owner occupied stock continues to remain in very good condition. In 2011, there were less than 5,000 (less than 1 per cent) occupied properties in this sector which were unfit. However, if vacant properties are included, the unfitness rate rises to almost 5 per cent.

Key Issues and Strategic Perspective

The health of the economy will always be the single most important underlying determinant of the owner-occupied sector of the housing market. Northern Ireland's economy is likely to experience only marginal growth over the coming three year period with the result that the labour market will remain stagnant, household incomes will continue to fall in real terms and, given the ongoing caution on the part of banks and building societies, it is unlikely that confidence in the housing market will improve significantly.

This rather gloomy economic outlook will impact on the owner-occupied sector of the market over the coming three-year period in a number of ways:

- The number of new dwellings being constructed in the private sector will continue to remain low at around 5,000 per annum.
- The number of existing dwellings entering or re-entering the owner-occupied sector (via the House Sales Scheme or by private landlords selling to owner occupiers) is also likely to continue to remain low.
- The combined effect of these estimates means that it is likely that the proportion of dwellings in the owner-occupied sector will continue to decline.

Average house prices in Northern Ireland have now fallen by approximately 50 per cent from their peak in 2007 to much more sustainable levels, and for those who can secure a mortgage, owner occupation continues to be the most viable way for households to meet their housing needs. However, ongoing labour market uncertainty and further reductions in public expenditure would indicate that prices are likely to continue to drift downwards by up to 5 per cent during 2013.

Affordability in terms of the house price to income ratio for first-time buyers is no longer a significant issue. However, continuing caution by lenders and the requirement to pay substantial deposits means that affordability – in a new form – remains a key issue. It is with this in mind that the Housing Executive is working with the University of Ulster to develop a new Affordability Index which will combine both aspects into a measure which is more meaningful in the context of today's housing market.

Housing Executive

Chapter 3

The Private Rented Sector

A Profile of the Private Rented Sector

The 2011 House Condition Survey estimated that there were more than 125,000 occupied dwellings in Northern Ireland's private rented sector (16.5% of total stock), a substantial increase over the 81,000 (12%) recorded in 2006. Indeed if vacant dwellings, classified according to their previous occupancy, are included, almost one-fifth (19%; 144,500) of all properties are in the private rented sector. The profile of the stock is continuing to change. In 2006, 28 per cent of the stock had been built before 1919; by 2011 this proportion had fallen to 15 per cent mainly as a result of the continued growth in the number of newer buy-to-let properties. The rate of unfitness has continued to fall. In 2006 it stood at 2.7 per cent; by 2011 this had fallen to 2.0 per cent. In terms of the Decent Homes Standard there has also been a significant improvement: only 10 per cent of the sector failed the standard in 2011 compared to 17 per cent in 2009.

Reform of Housing Benefit

Housing Benefit has played a vital role in sustaining the private rented sector in Northern Ireland. In 2010/11 approximately 60,000 private tenants on Housing Benefit were supported by a budget of approximately £250m and – unlike in Great Britain – almost all of this is still being paid directly into the accounts of private landlords.

- Research by the Centre for Regional Economic and Social Research in Sheffield on behalf of the Department for Social Development, published in October 2012, has provided a useful insight into the potential impacts and behavioural responses of tenants and landlords to changes in the Housing Benefit system. Key findings include:

Tenants

- The great majority of tenants who were interviewed had little or no knowledge of how the Housing Benefit scheme worked (86%). Respondents knew even less about the specific changes to Local Housing Allowances (LHA): one-third said they knew 'not very much' and six out of ten said they knew 'nothing at all'.
- Just under two-thirds of respondents had a 'shortfall' between their LHA and their rent.
- In the event that their current accommodation became unaffordable in the future due to reductions in Housing Benefit, the most common likely responses were cutting back on essential spending (52%) and non-essential spending (52%). Three out of ten also said that they would look at lower rent properties (but only in their local area) and one in ten said that they would look at lower rent properties outside their local area.

Landlords

- Less than half (48%) of landlords letting to LHA tenants were aware of the general changes to LHA.
- Similar proportions of landlords noted a general increase in the number of prospective (33%) and current (31%) tenants asking for a reduction in rent.
- More than one-fifth (22%) of landlords were aware of tenants in arrears due to LHA measures.
- Seventeen per cent of landlords said they had evicted tenants or not renewed tenancies because of the effects of the LHA measures on tenants' ability to afford the rent; these tended to be larger landlords and together they owned nearly half of the total stock held by landlords in the survey.
- Qualitative interviews revealed a key concern for landlords was the loss of direct payments in the future.

Private Rented Sector Index

Based on an analysis of data held on the PropertyNews.com website the rental index provides regular consistent information on rental and transactions levels. Since 2007 average rental levels in the Belfast Metropolitan Area have remained broadly consistent, fluctuating between £560 and £600 per month. The average rent for the Belfast Metropolitan Area for H2, 2012 was £588. However, the number of lettings has tended to increase reflecting rising demand for and increasing turnover in, this type of accommodation.

A Strategy for the Private Rented Sector in Northern Ireland

The Department for Social Development launched *Building Sound Foundations: A Strategy for the Private Rented Sector* in 2010. Its primary objective is "to create the conditions in which the private rented sector contributes more fully to meeting our rapidly changing housing needs". It also highlights the role the private rented sector can play in supporting greater tenure choice, the need to promote more sustainable tenancies and the importance of a more balanced approach to the rights and responsibilities of both landlords and tenants.

An important contribution to meeting the objectives of the Strategy has been the development of a new 'Tenancy Deposit Scheme' for Northern Ireland by the Department for Social Development. The need for and advantages of a tenancy deposit scheme were highlighted by research undertaken by the Housing Executive and the University of Ulster. The new scheme was introduced in April 2013.

The main aims of the scheme include:

- Tenancy deposits are protected by a third party.
- The quick repayment of deposits.
- Free access to an independent dispute resolution service.
- Sanctions for non-compliance.
- Provision of information (between tenant and landlord).

Key Issues and Strategic Perspective

The private rented sector grew rapidly between 2006 and 2009 as a result of unprecedented investor activity. This investor-driven boom reflected the growing demand from lower income households who in the 1980s and 1990s would probably have found accommodation in the social sector and from first-time buyers facing affordability issues as a result of ongoing labour market uncertainty and ongoing caution by lenders.

By 2011, the private rented sector accounted for approximately 125,000 dwellings (16.5% of the total stock). If vacant properties in the sector are included this figure rises to 144,500 (19%). The underlying drivers of demand (households on low incomes unable to access social dwellings in an area of choice and affordability problems for first time buyers) will ensure that in the coming years the private rented sector will continue to expand, although at a more measured pace than in the mid-2000s.

The condition of the occupied private rented sector is continuing to improve as increasing numbers of modern homes become part of the sector and the level of unfitness remains low.

Some investors – particularly those who bought at the height of the boom with high loan-to-value ratio mortgages – are leaving the sector. However, the risk of large-scale disinvestment continues to be seen as low and anecdotal evidence suggests a considerable number of cash-rich investors are buying up properties at what the market considers bargain prices. Evidence from the rental index for the Belfast Metropolitan Area would indicate that rents have remained fairly consistent over the past six years and, given ongoing demand, will continue to be so.

The private rented sector is currently underpinned by Housing Benefit payments totalling more than £250 million. The effects of the extension of the single room rate provision to 35 year old single people, the calculation of the Local Housing Allowance at the 30th percentile rather than the median and the introduction of Universal Credit will reduce the amount of Government subvention to the sector. However, the fact that – in contrast to Great Britain – direct payment to landlords will now continue in Northern Ireland must be seen as a major contributory factor to ensuring the longer term viability of the sector.

Chapter 4

Social Housing

In 2012, Northern Ireland's social housing sector consisted of approximately 119,000 dwellings (16% of the total stock). The Housing Executive owned and managed some 89,000 properties and registered housing associations a further 30,000 self-contained rented units. Overall, the social housing stock remains in very good condition; the 2011 House Condition Survey showed that less than one per cent of the occupied stock was unfit, and only an estimated four per cent failed to meet the Decent Homes Standard. Nevertheless the reduced availability of capital funding in recent years has led to a growing backlog of Housing Executive properties that require extensive improvement work.

The Continuous Tenant Omnibus Survey (2011) confirmed that the Housing Executive's stock is home to high concentrations of low income households. Only 17 per cent of household reference persons were working and almost half (46%) of households had incomes of less than £10,400 a year.

Co-ownership Housing

The Northern Ireland Co-ownership Housing Association (NICHA) continues to play a key role in facilitating access to owner occupancy for low income households at a time of ongoing affordability problems for first-time buyers. During 2011/12, a further 595 properties were bought through the Co-Ownership, at a total cost of almost £66 million (£29m from NICHA). Funding committed by the Northern Ireland Executive and continued support from banks and building societies will enable an additional 1,850 homes to be purchased through the scheme in the three years to 2015/16.

The Social Housing Programme

A budget-related target of 1,400 new social dwellings had been set for 2011/12; actual outturn totalled 1,410 units. A target of 1,000 new units of general needs accommodation and a further 325 units of supported housing has been set for 2012/13. However, even if this target is met it will not address the backlog of more than 7,000 new social dwellings which has built up since 2001.

Improvement and Maintenance Programmes

The number of starts on external cyclical maintenance schemes, kitchen replacements and heating replacements (9,000, 4,260 and 5,900 respectively) during 2011/12 were all above target, but there remains a residual group of Housing Executive properties in need of more extensive improvement work to bring them up to a modern day standard. The Housing Executive has been working with the Department for Social Development and Strategic Investment Board to develop appropriate processes for a selective stock transfer to facilitate this improvement work.

Key Issues and Strategic Perspective

The number of social dwellings in Northern Ireland is likely to continue to grow over the next three years, but at a slower rate, as reduced funding for the Social Housing Development Programme will mean fewer additions to the social stock than in recent years.

Since 2001, the Social Housing Development Programme has failed to keep pace with the steadily rising need for social housing. The most recent model of the future need for social housing, produced in January 2013, estimates that there is an annual requirement for at least 1,200 additional new social dwellings to meet ongoing need. An overall figure of a minimum of 2,000 new social dwellings is seen as being required to make significant inroads into the substantial backlog which has developed since 2001 and to take account of the expected low rate of new private construction over the next three year period.

The effects of the Government's Welfare Reform programme will begin to be felt during 2013, when changes to Housing Benefit rules are introduced. A substantial number of social housing tenants in Northern Ireland are likely to be affected by the changes, in particular the reduction in Housing Benefit where the home is deemed to have more bedrooms than the household requires. The likely associated impacts include an increase in social sector rent arrears and increased demand for the limited stock of smaller properties. Housing Benefit will eventually be subsumed within Universal Credit, which is scheduled to begin replacing benefits and tax credits in Northern Ireland in 2014.

The Minister for Social Development's announcement on the Social Housing Reform Programme has set a broad direction of travel for significant change in Northern Ireland's social housing sector. Work to establish detailed plans and proposals has already commenced, and the Department aims to put in place new structures to take forward the fundamental review of the Housing Executive by March 2015.

Work on developer contributions to help fund the provision of social and low cost affordable housing needs to be finalised. It is recognised that in the current market conditions a policy on developer contributions would take some years before producing tangible results in the form of additional homes for social renting or low-cost home ownership. The introduction of developer contributions will, however, be a very important requirement in the longer term in the face of growing constraints on public expenditure.

The Co-Ownership scheme continues to play a very important bridging role in meeting the needs of lower income households wishing to access owner-occupancy. The public and private funding that has been committed to the scheme over the next three years will help the organisation continue to fulfil its invaluable role in the context of a very challenging market.

Conclusion

Northern Ireland's housing market is still undergoing a period of stabilisation. Declining world economic growth, a still unresolved euro area sovereign debt crisis and a prolonged period of austerity provide the wider context for the next three year period. Northern Ireland's labour market remains uncertain and this is reflected in a more cautious approach by banks and building societies to prospective borrowers. Further public expenditure reductions may impact in a disproportionate way in Northern Ireland where approximately one third of all employment is in the public sector and two thirds of GDP is dependent on it.

During the next three years the number of new homes being completed for the private sector is likely to remain well below the recent historic trend. House prices are destined to remain flat, but on balance are more likely to continue to drift downwards, an estimate which unfortunately compounds first-time buyers' reluctance to enter owner occupancy, despite substantial improvements in the affordability ratio of house prices to incomes. However, the significant increase in the number of house sales is a positive sign that the process of stabilisation is accelerating.

The private rented sector has continued to play a vital role in recent years in meeting the needs of both younger households on lower incomes, who might in previous decades have become first-time buyers, and low income households who might previously have found suitable accommodation in the social sector. However, ongoing changes to the Housing Benefit system, and their impact on affordability for tenants and viability for landlords, have the potential to undermine this role to a certain extent.

Given the ongoing constraints on the public purse, resources for stimulating the housing market, for new social housing and undertaking improvements and repairs to existing social dwellings will be more limited, making effective housing policy interventions in the market more difficult than at any time in recent decades. Nevertheless it is important that these resources are maximised and used as effectively as possible to address the need for ongoing investment in new social housing, affordable housing through the Co-Ownership scheme, improvement and maintenance of existing stock and measures to address fuel poverty.

Chapter 1
The Strategic Context

"The escalation in the rate of fuel poverty was mainly due to rising fuel prices."

Housing Executive

Northern Ireland's Housing Market: Key Figures

	2001	2006	2009	2011
TOTAL STOCK	647,500	705,000	740,000	760,000
Urban	434,600 (67%)	493,800 (70%)	508,500 (69%)	530,000 (70%)
Rural	212,900 (33%)	211,200 (30%)	231,500 (31%)	230,300 (30%)
TENURE				
Owner Occupied	432,300 (67%)	468,900 (66.5%)	461,200 (62.3%)	469,100 (61.7%)
Private Rented	49,400 (7.6%)	80,900 (11.5%)	124,600 (16.8%)	125,400 (16.5%)
Housing Executive	116,000(17.9%)	93,400 (13.3%)	85,600 (11.6%)	85,900 (11.3%)
Housing Association	17,900 (2.8%)	21,500 (3.1%)	24,500 (3.3%)	24,800 (3.3%)
Vacant	31,900 (4.9%)	40,300 (5.7%)	44,000 (5.9%)	54,700 (7.2%)
DWELLING AGE				
Pre-1919	116,400 (18.0%)	113,800 (16.1%)	106,500 (14.4%)	87,700 (11.5%)
1919-1980[1]	356,800 (55.1%)	381,600 (54.2%)	385,100 (52.0%)	371,600 (48.9%)
Post 1980	174,300 (27.0%)	209,600 (29.7%)	248,400 (33.6%)	300,700 (39.6%)
HOUSING CONDITIONS				
Unfitness (rate)	31,600 (4.9%)	24,200 (3.4%)	17,500 (2.4%)	35,200 (4.6%)
Non-Decent Home (rate)	205,800 (31.8%)	162,100 (23.0%)	112,000 (15.1%)	86,600 (11.4%)
Fuel Poverty (rate)	167,100 (27.3%)	225,600 (34.2%)	302,300 (43.7%)	294,200 (42%)
NEED FOR SOCIAL HOUSING	**March 2001**	**March 2006**	**March 2009**	**March 2011**
Total Waiting List	22,054	32,215	38,923	39,891
Housing Stress	10,639	17,433	20,481	20,967
	April 2000 – March2001	**April 2005 – March 2006**	**April 2008 – March 2009**	**April 2010 – March 2011**
Homeless: Presented	14,164	21,013	18,076	20,158
Homeless: Accepted	7,374	9,744	8,934	10,443
New Social Housing Required	1,500	2,500	3,000	2,000

[1] The apparent increase in the number of dwellings constructed between 1919 and 1980 is essentially accounted for by sample error.

The Regional Development Strategy

The *Regional Development Strategy for Northern Ireland 2025* played a very significant role in shaping the region's housing market for more than a decade.

It provided an overarching spatial planning framework which guided housing development in Northern Ireland and with hindsight it can be seen as having helped to mitigate the adverse effects of the unsustainable housing boom between 2005 and 2007.

The original Regional Development Strategy (RDS), published in 2001, envisaged a requirement for 160,000 additional dwellings during the period 1998-2015. New demographic and housing figures which became available from the 2001 Census and the 2001 House Condition Survey led to a significant upward revision of this figure to 200,000. Housing Growth Indicators (HGIs) were set for each of the District Council Areas outside the Belfast Metropolitan Area (BMA) and for the BMA as a whole. Following a Public Examination in February 2006 the overall Northern Ireland total was increased by 8,000 to 208,000 to reflect the growing number of migrant workers.

In June 2008, a fundamental review of the RDS was launched in response, in particular, to the criticism of the HGIs in the RDS, which had been seen by many as unnecessary and restrictive in terms of forward planning.

The new *Regional Development Strategy – RDS 2035 – Building a Better Future* was published in January 2012. Its stated purpose is to provide "an overarching strategic planning framework to facilitate and guide the public and private sectors"[3]. The key section in terms of the housing market emerges in the third chapter of the document (Strategic Guidance) which includes regional guidance that emphasises the need "to manage housing growth to achieve sustainable patterns of residential development" (p.40). The guidance states that "the varied housing needs of the whole community need to be met. This includes the availability of affordable and special needs housing." The Strategy also emphasises the need to manage housing growth to ensure a continuing focus on high quality accessible housing within existing urban areas, and sets a regional target of 60 per cent of new housing to be located in appropriate "brownfield" sites within the urban footprints of settlements greater than 5,000.

Planners are tasked with identifying housing land in development plans and will take into account existing vacant housing in the assessment of need. They should also take account of need identified in the Housing Needs Assessments/Housing Market Analyses undertaken by the Housing Executive when allocating land, including

[3] DRD (2012) *Regional Development Strategy – RDS 2035 – Building a Better Future*, Belfast: Department for Regional Development, p.10.

land for social and intermediate housing, such as shared ownership and affordable housing. The overall requirement for new dwellings between 2008 and 2025 is seen as 190,000, an average annual figure of approximately 11,200, which is somewhat lower than the annual average of approximately 12,200 in the previous Regional Development Strategy. It is also important to note the RDS 2035 document was predicated on 2008-based household projections, which in the event overestimated the actual number of households in Northern Ireland in 2011 by approximately 12,000.

The new Housing Growth Indicators contained in RDS 2035 are set out in Table 1 and reflect what may be required to "achieve the policy objectives of strengthening Belfast as the regional economic driver and Londonderry as the principal city of the North West" (ibid. p.41).

Table 1: Housing Growth Indicators 2008-2025

Housing Growth Indicators 2008-2025	
BMUA	50,100
BMUA Hinterland	10,700
BMUA Districts Total	**60,800**
Antrim	7,300
Ards	9,600
Down	9,600
Larne	3,900
Armagh	5,500
Ballymena	6,400
Ballymoney	3,500
Banbridge	5,500
Coleraine	6,900
Cookstown	3,700
Craigavon	10,300
Derry	13,700
Dungannon	5,000
Fermanagh	6,800
Limavady	3,900
Magherafelt	4,600
Moyle	1,800
Newry and Mourne	11,200
Omagh	6,100
Strabane	3,900
Regional Total	**190,000**

Source: Regional Development Strategy – RDS 2035, p. 101.

The Economic Context

The World Economy

The world economy is an important underlying determinant of developments in Northern Ireland's housing market – not only because of the importance of foreign markets for Northern Ireland exports and the contribution of inward investment to the economy, but above all because of the impact of developments in the world economy on the financial system and the propensity of banks/building societies to lend to potential homebuyers and investors.

The International Monetary Fund's (IMF) *World Economic Outlook* Update (January 2013) estimates that the world economy is expected to grow by 3.5 per cent in 2013, a slightly higher rate than in 2012 (3.2%), rising to a projected 4.1 per cent in 2014, if the euro area recovers. However, the expected upturn will be more gradual than in its October 2012 projections.

In the **USA**, a "supportive financial market environment", which includes a commitment by the US Federal Reserve to keep interest rates at close to zero until unemployment falls below 6.5 per cent, a third round of "quantitative easing" (of $85bn a month) and the avoidance of the "fiscal cliff" has been reflected in a significant increase in housing market activity and a reduction in the level of household debt from 100 per cent of GDP to 87 per cent. However, in Q4, 2012 GDP only grew by 0.1 per cent and the effects of $85 billion across-the-board spending cuts ("sequestration") will begin to take effect in April 2013.

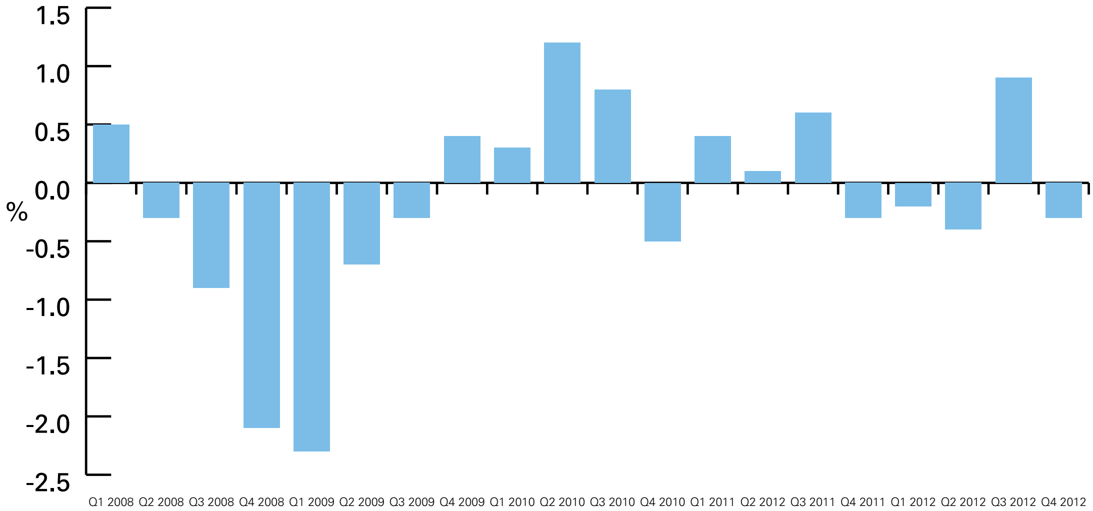
Currently the biggest threat to world economic recovery comes from the sovereign debt crisis and the related economic crisis in the **euro area**. The IMF estimates that the euro area's economy shrank by 0.4 per cent in 2012 and will continue to do so in 2013 (-0.2%) and unemployment has continued to rise to more than 19 million (12%). The multi-billion euro 'bail-outs' of Greece, Portugal and Ireland, as well as the vulnerability of Italy and Spain (where 26 per cent of the working population is unemployed) are having a significant impact on banks' ability and willingness to lend. Although Mediterranean countries have been affected most severely by the crisis, even Germany's economy contracted in Q4, 2012 (-0.5%). The banking crisis which emerged in Cyprus in March 2013 confirms that bank liquidity is still a major issue and would indicate that prolonged stagnation in the euro area is a very real possibility.

In the **Republic of Ireland**, where the economic crisis broke out first, the economy has started to show signs of recovery. Preliminary figures emerging in 2012 show that, after three years of contraction, the economy expanded by 0.9 per cent, driven by a significant growth in exports. However high levels of unemployment (14%), and the lower wages caused by the five-year economic crisis have pushed many mortgage holders to the brink of repossession, with in excess of 80,000 properties more than three months in arrears in June 2012.

The UK economy

The **United Kingdom** is experiencing the slowest post-recession recovery in its economy since the nineteenth century, more than 100 years ago. Figure 1 illustrates the issue. Although the UK officially emerged from recession in Q4, 2009, economic growth has been erratic and in Q4, 2011 entered a "double-dip" recession. Following three consecutive quarters of contraction, the Olympics and Paralympics provided a significant stimulus to the economy, which recorded a growth rate of 0.9 per cent in Q,3 2012, before returning to negative territory in the final quarter.

Figure 1: UK: Change in GDP, 2008-2012



Source: ONS.

The *Budget* (March 2013) noted that the UK economy "is recovering from the biggest financial crisis in generations, one of the deepest recessions of any major economy and a decade of growth built on unsustainable levels of debt" (p.1). In this context the Office for Budgetary Responsibility (OBR) revised its forecast for GDP growth in 2013 downwards from 1.2 per cent (in December 2012's Autumn Statement) to 0.6 per cent, and from 2.0 per cent to 1.8 per cent for 2014.

A number of key statistics from the Office of National Statistics (ONS) illustrate the enormous challenges facing the British economy over the coming three year period:

- UK retail sales were down 0.6 per cent in January 2013, following a 0.3 per cent decline in December.
- UK manufacturing output was down 3 per cent over the twelve months to January 2013.
- The real value of earnings has fallen back to 2003 levels following 30 years of growth.

In February 2013, the Bank of England warned that Britain would suffer low growth and a squeeze on incomes for at least another two years., and this is reflected in the most recent (February 2013) figures on mortgage lending issued by the British Bankers' Association, which showed that net lending by banks fell by £982m over the month, the largest net repayment on record.

In **Northern Ireland** the economic outlook remains bleak. The most recent overview of Northern Ireland's economy from PwC (*Northern Ireland Economic Outlook*, March 2013) notes that "Northern Ireland is slipping behind the rest of the UK in just about every measure of employment, growth and productivity" (p.1).

Northern Ireland's economy contracted in 2012 (-0.3%), but although PwC forecasts growth for 2013 (0.4%), this is the lowest of all the UK's 12 regions. Unemployment is expected to continue to rise and PwC notes underlying concerns about negative equity, rent arrears in the public sector and the impact of welfare reforms. New car registrations in Northern Ireland in 2012 (47,000) – often considered to be a bellwether of purchasing power, only rose by 0.6 per cent compared to 2011, and are still one-third lower than in 2007.

Northern Ireland's labour market

Employment, unemployment and worklessness are key labour market indicators which have a direct and powerful influence on the housing market. Rising levels of employment and household income were key factors in the buoyancy of Northern Ireland's housing market between the mid 1990s and the mid 2000s. Since late 2007, however, the deterioration in Northern Ireland's economy has been reflected in a significant rise in unemployment and worklessness.

Table 2: Key Labour Market Statistics for Northern Ireland, 2011-2012

	Q4, 2011 (%16-64)		Q4, 2012 (%16-64)		YoY Change
Employment (16+)	801,000	(67.5%)	799,000	(67.0%)	-2,000
Unemployment (16+)	62,000	(7.2%)	68,000	(7.8%)	+6,000
Economic Inactivity (16-64)	548,000	(27.2%)	555,000	(27.2%)	+7,000
Worklessness (16-64)	610,000	(34.4%)	623,000	(35.0%)	+13,000

Source: DoFPNI, Labour Market Statistics – February 2013 (Seasonally adjusted)

Table 2 sets out the key labour market statistics for Q4, 2011 and Q4, 2012. Over this twelve month period:

- Employment (including employees, self employed and those on government programmes) fell by 2,000 to 799,000.
- Unemployment increased (+6,000) to 68,000 (7.8%).
- The number of people who were aged at least 16 but were economically inactive rose by 7,000 to 555,000. The rate of working age inactivity, however, remained unchanged at 27.2%, compared to 22.3 per cent for the UK.
- The number of working age people who were workless (economically inactive plus unemployed) increased by 13,000 to 623,000 in Q4, 2012, bringing the proportion of the working population classified as workless to 35 per cent – the highest for any region in the UK.

Earnings

Northern Ireland continues to have a lower level of earnings than for the UK as a whole. In April 2012, median gross weekly earnings for all employees (full-time and part-time) were £360 (an increase of 1.6 per cent on the previous year); this figure was 89 per cent of the comparable figure for the UK as a whole (£405)[4].

[4] Source: Annual Survey of Hours and Earnings (ASHE), DoFPNI, *Labour Market Statistics – February 2013*

Demographic Trends

Census 2011

The Northern Ireland Census provides an invaluable and rich source of information for both understanding trends in the housing market and providing a robust starting point for population and household projections, which are vital to estimating future developments. The first statistics from the 2011 Census were published in July 2012.

Key points included:

- Northern Ireland's total population was approximately 1,811,000.
- Since 2001 the population has increased by 125,600 (7%), representing the fastest growth in population between consecutive Censuses since the 1960s.
- The age structure of the population has continued to become older since 2001, and the median age has increased from 34 to 37 years.
- The population aged 65 and over has increased by 40,400 (18%); the proportion of the population aged 85 and over has risen from 23,300 to 31,400 – an increase of 35 per cent.
- Conversely the number of children (people aged under 16) has declined from 398,100 to 379,300 (-5%).

The demographic structure of the population has continued to change since 2001:

- Average household size fell from 2.65 in 2001 to 2.54 in 2011.
- The number of households grew from 628,400 in 2001 to 703,300 in 2011 (although it is important to note from a housing market perspective that this actual 2011 figure was approximately 12,000 lower than that contained in the most recent 2008-based projections published before the census in 2010).
- The number of single person households grew from 172,000 (27.3%) in 2001 to 196,400 (28%) in 2011.

Household Projections

The rate of household formation is more important in relation to the housing market than the rate of increase in the overall population. The most recent household projections were published in 2010, on the basis of estimates of the number of households in Northern Ireland in 2008. While the 2011 Census showed that the 2008-based household projections were an over-estimate, the broad trends that they identified are still valid, although the actual number of households will change in the light of new projections to be undertaken using the 2011 Census as a starting point. In the absence of more up-to-date projections, the 2008-based figures indicate that the overall number of households is set to increase by 83,000 (12%) between 2008 and 2018, with average household size falling from 2.53 to 2.41 persons.

In the longer term over the period 2008 to 2023, household numbers are projected to increase by approximately 122,000 (18%), driven primarily by population growth (50%), but also by changing age structure (27%) and the trend towards smaller households (23%). The number of single person households in particular is set to increase significantly – by 34 per cent. Indeed, by 2023 an estimated 34 per cent of the total number of households will be single person (compared to 30 per cent in 2008). Conversely, the number and proportion of households with five or more persons will reduce considerably.

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

- The increasing number and proportion of one and two person households will have some impact on the size and design of dwellings, as households often require an extra bedroom as a place of work or recreation.
- The steady rise in the number and proportion of people of pensionable age, 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 housing support funding and care packages which are needed to enable older people to live independently in their own homes.

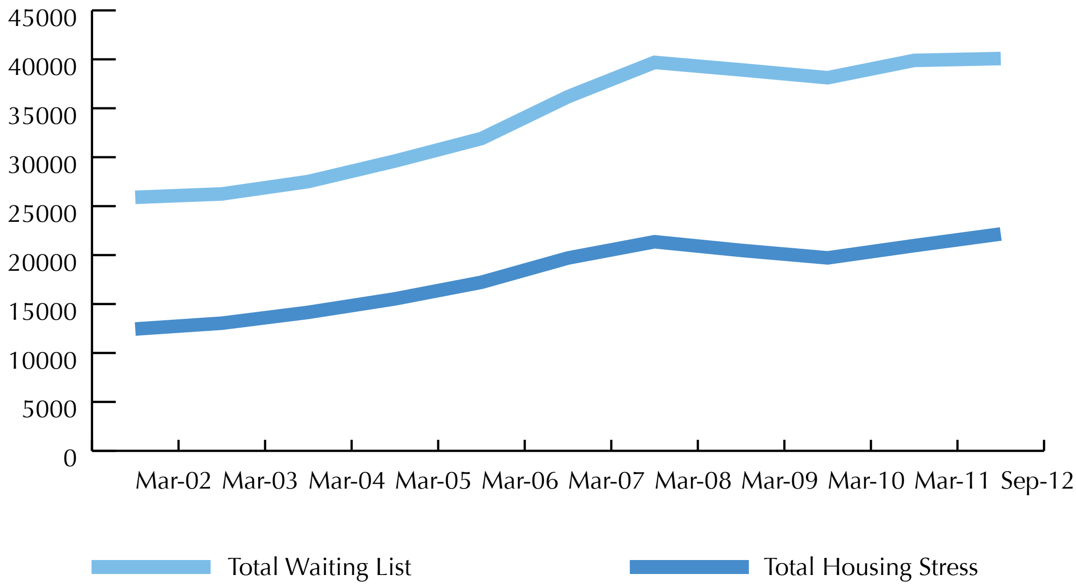
One of the key research projects to be undertaken in the coming months will be on *Demographic Trends and Future Housing Need in Northern Ireland.* The research project, which was last completed in 2004 using the 2001 Census, will provide a much more detailed analysis of the implications of the new statistics, not only in terms of overall numbers, but also in terms of demographic structure, including age profile and household composition, geography and migration.

The Need for Social Housing

The Waiting List for Social Housing

The Waiting List for social housing is a key source of information for understanding developments in Northern Ireland's housing market. It is a fundamental part of the evidence base which guides the Social Housing Development Programme in terms of the number of new social dwellings to be constructed and their location.

Figure 2: Trends in the Waiting List, 2002-2012



Source: NIHE

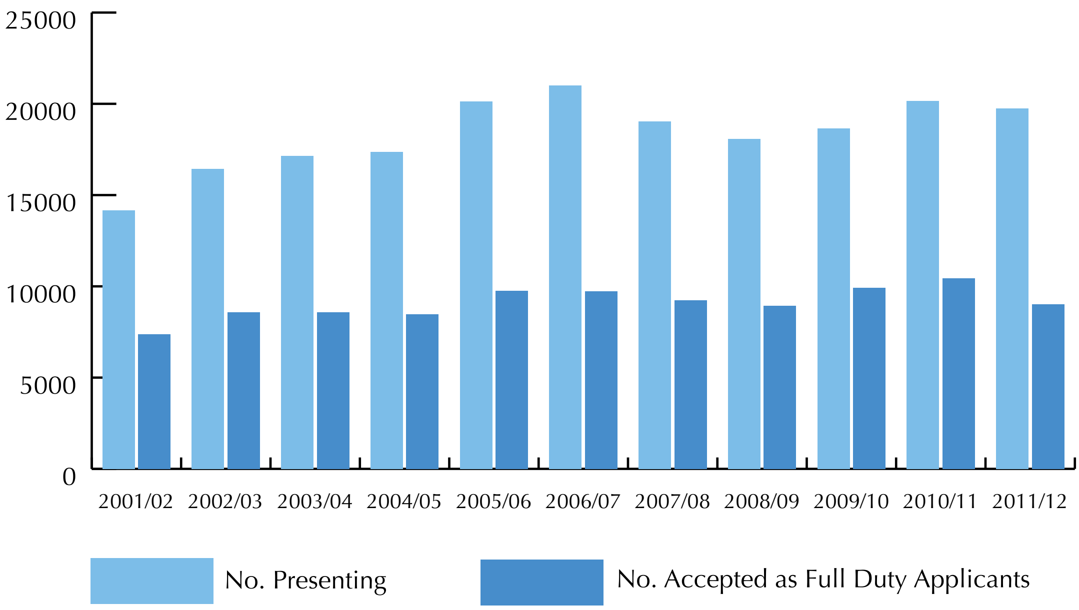
Figure 2 illustrates the overall trends in the waiting list for social housing between 2002 and 2012. An analysis of key figures from the waiting list shows that:

- The overall number of applicants increased substantially between March 2002, when it was approximately 25,900, and March 2008, when it was almost 39,700. However, between March 2008 and March 2010 the number of applicants decreased a little to 38,100 – probably as a result of a lower rate of household formation and an increase in the availability of dwellings in the private rented sector – before rising to an all-time peak of more than 40,000 in September 2012.
- A similar pattern is evident in the number of households in housing stress. Between March 2002 and March 2008 the number of applicants in housing stress rose from around 12,400 to 21,400. By March 2011, however, this number had fallen to approximately 19,700, before rising again to more than 22,100 in September 2012.

In terms of household composition, the waiting list has changed little in recent years. Single person households continue to be the single largest group (45%), with small families the next largest component of the waiting list (26%), followed by older households (15%). It is expected that future demand will come predominantly from these types of households.

Homelessness

Figure 3: Trends in Homelessness 2001-2012



Source: NIHE

Between 2001/02 and 2006/07 there was a fairly steady and substantial increase (48%) in the annual number of households presenting as homeless to more than 21,000. However, by 2008/09 the number of households presenting had fallen by 14 per cent to around 18,100 (see figure 3). As in the case of the waiting list as a whole, qualitative evidence would indicate that the two main reasons for this downward trend were: the impact of the deep economic recession on household formation and the availability of a growing number of good quality private rented sector dwellings. There was a commensurate fall in the number accepted as statutorily homeless between 2006/07 and 2008/09.

However, as figure 3 indicates, this trend was reversed over the next two years, with the number of households presenting as homeless rising to 20,158 in 2010/11 (a 12 per cent increase over two years) and the number accepted rising to a record 10,443 (17 per cent over the same period). It is very probable that, as with the overall waiting list, pent up demand could only be contained for so long and in the end found its expression in a rapid rise in homelessness. In 2011/12 there was only a slight reduction in the numbers presenting (19,737) and being accepted (9,021) as statutorily homeless.

The relative importance of the causal factors in homelessness has changed little. For those households accepted as statutorily homeless during 2011/12, the biggest single cause was 'accommodation not reasonable': 2,215 (25%) and in the main, related to the ongoing ageing of the tenant profile. Sharing breakdown/family dispute was the second most common cause: 2,149 (24% of the total). The third largest category continued to be loss of private rented accommodation: 988 (11%).

More than half (54%) of all households who presented in 2011/12 were single people, of whom 4,425 (22% of the overall total) were single males aged 26-59 years of age. Families with children accounted for around one third (6,268; 32 per cent) of those presenting.

Housing Executive

The Net Stock Model

The Net Stock Model estimates the need for new social housing at the Northern Ireland level and is a starting point for developing the Social Housing Development Programme. The model estimates the total extra number of new social dwellings required over a 10 year period based on a combination of demographic (e.g. household projections) and housing stock information (e.g. housing starts, demolitions and vacancy rates). The model assumes that the private sector will build dwellings at a similar rate as in the previous 10 years (thereby smoothing out the ups and downs of the business cycle) with the residual requirement being met by social housing. The most recent model[5] was produced in January 2013 based on the 2008-based household projections – modified to take account of 2011 Census information – and the most recent housing stock data (see Table 3).

Table 3: Net Stock Model 2008-2018

	Projected Households (000)
Extra Demand 2008-2018	
New Households	83.0
Concealed Households	5.0
Temporary Accommodation	1.4
Total Extra Demand	89.4
Extra Supply 2008-2018	
New Private Output	92.3
Less Net Demolitions, Conversions and Closures	(5.0)
Less 5% Second Homes	(4.6)
Less 11% Vacancy in New Private Housing	(4.6)
Total Extra Supply	78.1
Social Housing Needed 2008-2018	
Deficit	11.3
Plus 2% Vacancy in New Social	0.2
Total Needed	11.5
Total Rounded and Allowance for Other Factors	12.0
Total Per Annum	1.2

Source: Paris, January 2013

A significantly lower rate of new dwelling construction compared to the 2012 model is counteracted by a lower number of demolitions and a lower vacancy rate in new private housing to give an annual ongoing requirement for 1,200 new social dwellings for the period 2008-2018. Given the cumulative backlog of more than 7,000 which has developed since 2001, the low rate of private sector new build expected over the next three years and the continuing high levels of housing need identified from the waiting list for social housing (see page 34), it is considered appropriate to have an annual target of 2,000 new social dwellings for the next five year period.

[5] Paris, C. (2013) *Net Stock Model for 2008-2018,* Report to the Northern Ireland Housing Executive.

Characteristics and Condition

Headline results from the 2011 House Condition Survey which emerged in February 2012 provide the most recent picture of the characteristics and condition of Northern Ireland's housing stock. In 2011 there were approximately 760,000 dwellings in Northern Ireland – an increase of 20,000 (3%) over the period since 2009.

Dwelling Tenure

The proportion of the total stock which is in the owner occupied sector (and is occupied) has continued to fall (from 66.5 per cent in 2006, to 62.3 per cent in 2009 and to 61.7 per cent in 2011), but the number of owner-occupied dwellings has increased to almost 470,000.

The number of occupied private rented sector dwellings has continued to grow. More than 125,000 homes (16.5%) are now privately rented. However, if vacant properties, whose tenure when last occupied was private rented, are included, the figure rises to 144,500 (19.0%).

The number of tenanted social dwellings fell substantially between 2001 and 2006 as the Social Housing Development Programme only replaced approximately one third of the houses sold or demolished. However, since 2006 the figure declined only a little as the rate of dwelling sales to sitting tenants declined dramatically and since 2009 has risen a little to almost 111,000 in 2011.

Dwelling Age

The 2011 House Condition Survey confirmed that the number and proportion of homes built before 1919 has continued to decline: from 109,500 (16%) in 2006 to 87,700 (12% in 2011). Conversely, there has been a substantial increase in the number and proportion of dwellings built since 1980: in 2006, 210,000 (30%) properties had been built since 1980; by 2011 there were 300,700 (40%) homes built since 1980.

Dwelling Type

Northern Ireland's dwelling stock has traditionally been dominated by houses and bungalows. The 2011 House Condition Survey confirmed that terraced houses accounted for approximately 28 per cent of the stock, bungalows 21 per cent, detached houses 21 per cent and semi-detached houses 22 per cent. The number of flats/apartments has grown by approximately 6,000 since 2009 to 66,000 and now accounts for nine per cent of the stock.

Unfitness

In 2001, the rate of unfitness in Northern Ireland's housing stock was 4.9 per cent (equating to approximately 32,000 dwellings). By 2006 the rate of unfitness had fallen to 3.4 per cent and to only 2.4 per cent (17,500 dwellings) by 2009. The 2011 House Condition Survey shows that the rate of unfitness has actually risen once again. In 2011 approximately 35,000 properties (4.6 per cent of all properties) were deemed to be unfit. For statistical reasons it is important not to overemphasise that the number of unfit properties appears to have doubled within the space of two years. However, the survey does provide a clear signal: that it is important that adequate investment in housing takes place to ensure that the condition of the housing stock does not deteriorate.

Unfitness is concentrated in the private sector, and particularly in privately owned vacant properties. Out of a total of 35,200 unfit properties, approximately 28,000 (80%) were vacant: 18,700 (53%) were in the owner occupied sector when last occupied and 6,700 (19%) of them in the private rented sector.

Government Indicators

Modelling work being undertaken by the Building Research Establishment in partnership with the Housing Executive on the basis of the 2011 House Condition Survey has provided new figures on Government Indicators of housing quality:

Decent Homes Standard

In 2011, 11 per cent (86,600) of all dwellings failed the Decent Homes Standard. This represents a further improvement from the 15 per cent (112,000) which failed in 2009 and mainly reflects the large numbers of dwellings receiving more efficient oil or gas central heating. More than two-thirds (67%) of dwellings which failed the Decent Homes Standard did so on the basis of the thermal comfort criterion.

The rate of non-decency varied considerably by tenure:

- it was highest for vacant dwellings (57%; 38% in 2009);
- four per cent of social housing and 10 per cent of privately rented properties failed the Decent Homes Standard (compared to 15 per cent and 17 per cent respectively in 2009); and
- only eight per cent of owner-occupied properties failed the standard.

Housing Health and Safety Rating System

The Housing Health and Safety Rating was developed as a means of evaluating the potential effect of any design issues/faults on the health and safety of a property's occupants, visitors or neighbours. It emphasises the potential effect of hazards rather than the existence of faults, but allows faults to be recorded and assessed for their potential to cause harm.

In 2011, 10 per cent of all dwellings had Category 1 hazards, half the proportion (20%) in 2009. The proportions with Category 1 hazards were highest in vacant properties (55%) and in dwellings built before 1919 (36%). The proportions were lowest in social housing (2%) and in the most modern dwellings built since 1980 (2%).

Vacant Properties

The 2011 House Condition Survey confirmed that the number of vacant properties has continued to rise. In 2011 there were approximately 55,000 vacant properties at any one time in Northern Ireland, 7.2 per cent of the stock. This compares to a figure of 44,000 (5.9%) in 2009 and 40,000 (5.7%) in 2006. A high vacancy rate was particularly evident in the private rented sector, where some 19,000 properties (13%) were vacant: a rate which was almost double the rate for the stock as a whole. In the owner-occupied sector the vacancy rate was six per cent, while in the social sector it was lower still.

Energy Conservation and Fuel Poverty

The Housing Executive was designated as Northern Ireland's Home Energy Conservation Authority by the Home Energy Conservation Act (1995). The role requires the Housing Executive to identify practicable, cost-effective measures that can be applied to residential accommodation, with the aim of significantly improving the energy efficiency of the entire housing stock. The Housing Executive's key objective was defined as a 34 per cent reduction in the energy consumption of the dwelling stock that was in existence at 1st April 1996, with substantial progress expected within a 10-year time frame.

Findings from successive Northern Ireland House Condition Surveys have shown that:

- The energy efficiency of the stock improved by 20 per cent in the decade from 1996 and 2006; by 2011 the overall improvement was 22.5 per cent. The progress has been mainly due to fuel switching and insulation programmes. By 2011, more than 99 per cent of dwellings had full central heating; the most popular fuel sources were oil (68%, rising to 75% if homes with dual heating systems are included) and natural gas (17%).
- The average SAP (energy efficiency) rating for dwellings in 1996 was 35; it subsequently increased to 54 in 2006 and 57 in 2009. The most recent findings showed a further improvement in the energy efficiency of the stock: the mean SAP rating in 2011 was 60.
- Around one fifth (21%) of dwellings had no wall insulation in 2011. The proportion was significantly lower than in 1996 (52%), but virtually unchanged from 2006 (22%). Many of the dwellings that have no insulation are of solid wall construction and cannot avail of cavity wall insulation.
- The vast majority (97%) of dwellings that had lofts had loft insulation – up from 87 per cent in 1996 and 95 per cent in 2006. More than half (57%) of dwellings had up to 150 mm of loft insulation, while 40 per cent had more than 150 mm.
- In 1996, only 24 per cent of dwellings had full double glazing. By 2006, the proportion had increased to 68 per cent, while the latest (2011) figures showed that the majority (84%) of dwellings had full double glazing, and a further 12 per cent were partially double glazed.

Fuel Poverty

A household is considered to be in fuel poverty if, in order to maintain an acceptable level of temperature throughout the home (21°C in the living room and 18°C in other occupied rooms), more than 10 per cent of its income would have to be spent on all household fuel. The three main causes of fuel poverty are poor thermal efficiency of dwellings, low household income and high fuel prices.

The baseline figure for fuel poverty in Northern Ireland was calculated using 2001 House Condition Survey data. At that time, one third of households (33%; 203,250) were estimated to be in fuel poverty. The model was subsequently updated between 2001 and 2006. On the basis of this revised model, 226,000 households in Northern Ireland (34%) were found to be in fuel poverty in 2006, compared with a reworked figure of 27 per cent in 2001. The most recent figures, modelled using data from the 2011 House Condition Survey, showed that at 42 per cent (294,200 households) the overall rate of fuel poverty was higher in 2011 than in 2006, but slightly lower than in 2009, when it peaked at 44 per cent (302,300). The general increase in the rate of fuel poverty since 2006 has been mainly due to rising fuel prices, and would have been much more severe had it not been for improvements to the energy efficiency of the housing stock. The effects of investment in energy efficiency were most apparent in the social rented sector, in which both the number and proportion of households in fuel poverty fell substantially between 2009 and 2011 (from 56,500 to 43,900, and from 51% to 40% respectively).

Fuel Poverty Strategy

The Department for Social Development's updated fuel poverty strategy *Warmer, Healthier Homes* was published in 2011. With a core goal of eradicating fuel poverty, the strategy targets available resources on those vulnerable households most in need of help. The Warm Homes Scheme and boiler replacement grant are key parts of the strategy, which focuses strongly on removing energy inefficiency as a primary cause of fuel poverty.

The Warm Homes scheme supports owner occupiers and private landlords in the provision of insulation and heating measures to improve energy efficiency. In total, 7,287 insulation measures and 370 heating measures were carried out through the scheme in 2011/12 at a cost of almost £6.8 million. The boiler replacement scheme, which was introduced in September 2012, is open to owner occupiers with an annual income of less than £40,000 who have a boiler that is at least 15 years old. Up to £1,000 can be granted towards either:

- replacement of an inefficient boiler with a more energy-efficient condensing oil or gas boiler;
- switching from oil to gas; or
- switching to a wood pellet boiler.

Full details on the range of energy efficiency measures available to households in the owner occupied, private rented and social housing sectors are included in the Housing Executive's annual progress report on the Home Energy Conservation Strategy, which is available to download from the Housing Executive website (www.nihe.gov.uk).

Key Issues and Strategic Perspective

The world economy has entered a period of lower growth. There are signs that prospects for employment and output have improved in the USA over the last six months in response to a more relaxed credit regime, which in turn has stimulated a more active housing market. However, the Eurozone sovereign debt crisis still poses a very significant risk to the economies of the UK and the Republic of Ireland – and therefore for Northern Ireland too. In Northern Ireland lower levels of public expenditure, higher levels of indebtedness and benefit dependency, rising unemployment, more cautious lending practices and a subdued housing market will continue to impact negatively on household incomes and investor confidence.

Northern Ireland's demography is continuing to change. The 2011 Census confirmed that although the number of households is continuing to rise, the rate of household formation has slowed a little – at least partly in response to the economic environment. The trend towards more single person households and older households will continue, resulting in a sustained demand for accommodation and in particular for smaller units of accommodation and supported housing.

The numbers of applicants on the waiting list (more than 40,000) and those in "housing stress" (more than 22,000) continues to rise. The Net Stock Model indicates an ongoing annual requirement of 1,200 new social dwellings for the period 2008-2018. However, the annual requirement has been set at 2,000 to reflect a significant backlog which has developed since 2001, as well as the very challenging market conditions, which make it unlikely that there will be a significant upturn in the rate of construction by the private sector in the near future.

Northern Ireland's housing stock continued to grow steadily between 2009 and 2011, with approximately 20,000 additional homes being added to the stock. However, for the first time, the rate of unfitness has increased: from 2.4 per cent in 2009 to 4.6 per cent in 2011. This undoubtedly reflects the reduction in real household incomes and investor confidence, but also to a certain extent the substantial reduction in funding for home improvement grants.

Although the rate of fuel poverty in Northern Ireland reduced between 2009 and 2011 to 42 per cent, reducing it further remains a very difficult challenge in the short term, given that energy prices are to remain high and real household incomes are falling. Improving the fabric of dwellings can ameliorate the impact of fuel poverty significantly, but cannot eradicate it altogether.

Chapter 2

The Owner Occupied Sector

"The proportion of households living in owner occupied properties in Northern Ireland has fallen to approximately 67 per cent"

Housing Executive

Housing Executive

The Owner-Occupied Sector: Key Figures

	2001	2006	2009	2011
TOTAL STOCK	432,300	468,900	461,800	469,100
Urban	272,200 (63%)	307,600 (66%)	294,200 (64%)	314,230 (67%)
Rural	160,100 (37%)	161,300 (34%)	167,600 (36%)	154,800 (33%)
DWELLING AGE				
Pre-1919	78,800 (18%)	69,500 (15%)	64,800 (14%)	46,700 (10%)
1919-1980	234,100 (54%)	255,400 (54%)	231,500 (50%)	377,627 (47%)
Post-1980	121,400 (28%)	143,900 (31%)	165,500 (36%)	219,100 (43%)
HOUSING CONDITIONS				
Unfitness (rate)	12,000 (2.8%)	7,500 (1.6%)	4,400 (1.0%)	4,600 (1.0%)
Non-Decent Homes (rate)	101,100 (23%)	95,700 (20%)	58,000 (13%)	38,300 (8%)
Fuel Poverty (rate)	97,900 (23%)	148,000 (32%)	178,000 (39%)	190,000 (41%)
New housing construction	10,418	13,955	5,493	5,913
Average house price (£)	86,754	174,178	160,855	139,800
Median advance:income ratio (FTBs)	2.36	3.19	3.26	3.20
Proportion of sales to FTBs	60	32	46	57
No. of NIHE sales	5,555	2,522	272	249

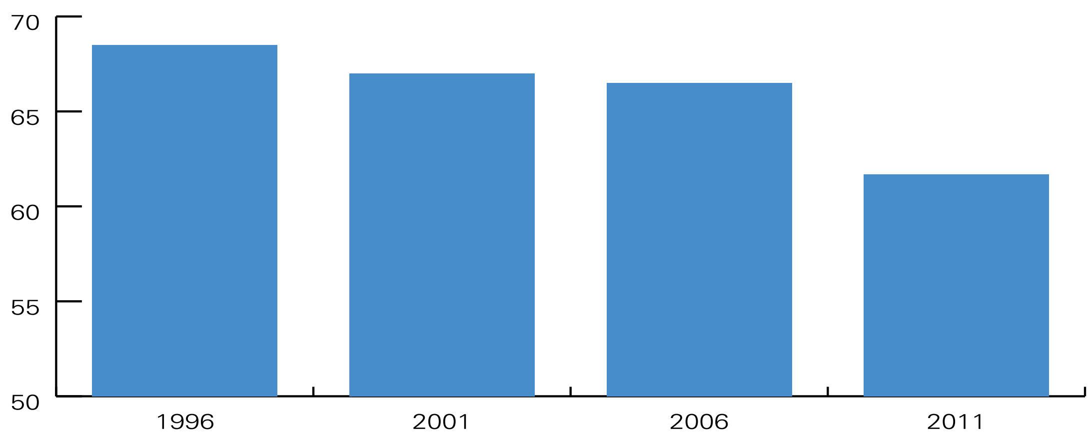
Introduction

The rapid growth of the owner occupied sector which characterised Northern Ireland's housing market during the early years of the new millennium came to an end in 2007.

A combination of a decline in the construction of new private sector dwellings, the increasing number of vacant properties, the sale of very few social dwellings and the growth of the private rented sector resulted in the owner occupied proportion of the total housing stock falling from 66 per cent (469,000) in 2006 to only 62 per cent (469,000) in 2011 (see figure 4). This turnaround after decades of growth reflected the effects of a combination of higher unemployment and continued uncertainty in the labour market, high levels of personal debt and the continuing reluctance of banks and building societies to significantly relax their lending criteria. First time buyers, in particular, found it increasingly difficult to purchase their first home, choosing instead either to remain in the parental home, return to the parental home (the so-called "boomerang kids") or to enter, or remain in, the private rented sector for longer periods. It is unlikely that these patterns of housing choice will change over the next three year period.

Northern Ireland is not exceptional in terms of having a falling proportion of its stock in the owner occupied sector. The most recent English Housing Survey also recorded a fall in the proportion of households living in owner occupied homes. From a peak of 71 per cent in 2003 (when the equivalent figure in Northern Ireland was 73 per cent), it fell to 66 per cent in 2010/11 (the proportion of households living in owner occupied properties in Northern Ireland in 2010/11 was approximately 67 per cent).

Figure 4: Proportion of Northern Ireland's Housing Stock in Owner Occupation

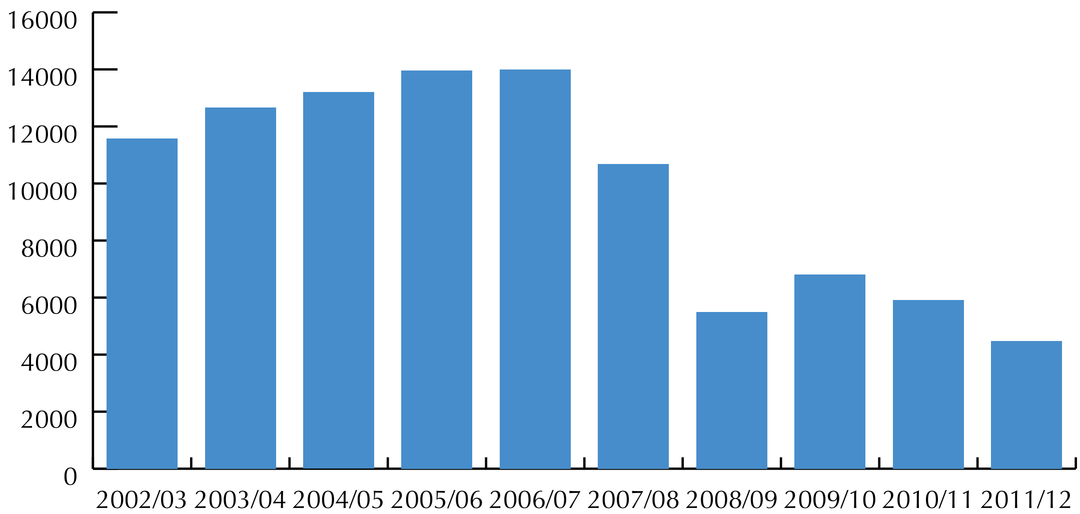


Source: NIHE, Northern Ireland House Condition Surveys

New Housing

Northern Ireland experienced a sharp downturn in the construction of new dwellings in the private sector from 2006/07 (almost 14,000 dwellings) to less than 5,500 in 2008/09. A small upturn in 2009/10 was followed by a further downturn to less than 4,500 in 2011/12 (see figure 5). Figures for the first six months of 2012/13 show that construction began on 2,564 new dwellings, approximately the same figure as for the equivalent period in 2011/12, indicating that the total figure for 2012/13 is unlikely to rise above 5,000.

Figure 5: New Housing Construction in the Private Sector 2002/03-2011/12



Source: DSD, Housing Statistics 2010/11 and Quarterly Housing Bulletin, Q2, 2012

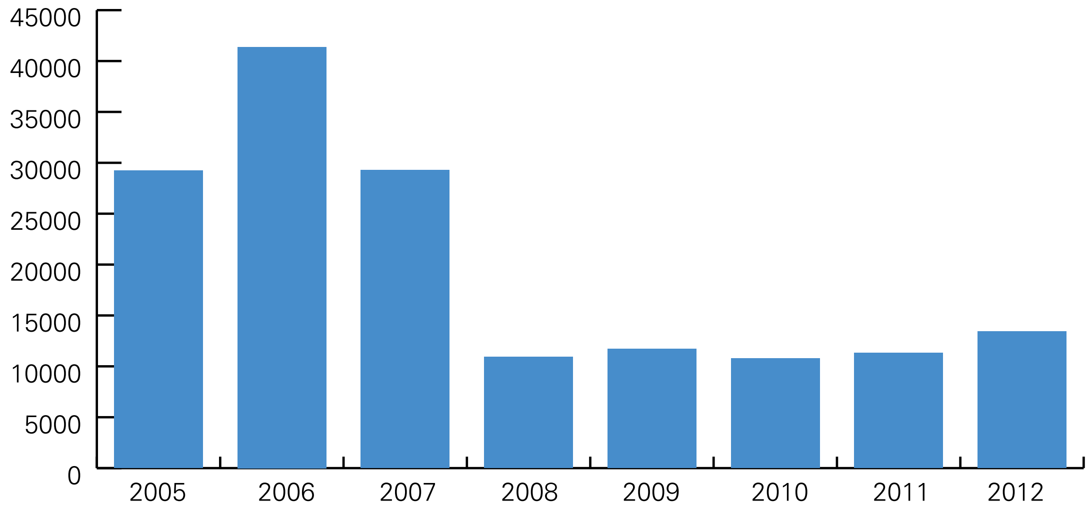
Transaction Rates

Underlying difficulties in the housing market are illustrated by the persistently low number of house sales completed. From a peak of more than 41,000 residential property sales in 2006 at the height of the boom, this figure fell steeply to approximately 11,000 in 2008. Figure 6 shows that between 2008 and 2011 the number varied only slightly (between 10,800 and 11,700). However, during 2012 13,445 houses were sold, a 19 per cent increase on 2011[6].

A similar indication of a reviving market emerges from the latest University of Ulster Quarterly House Price Index (for Quarter 4, 2012), which drew on a sample of 1,357 transactions, a figure which is 41 per cent higher than the equivalent quarter in 2012, and undoubtedly reflects a growing realisation among sellers that house prices are not going to increase significantly again for the foreseeable future.

[6] Land & Property Services: Northern Ireland Residential Property Price Index, October-December 2012

Figure 6: NI: Residential Property Sales: 2005-2012



Source: Land & Property Services

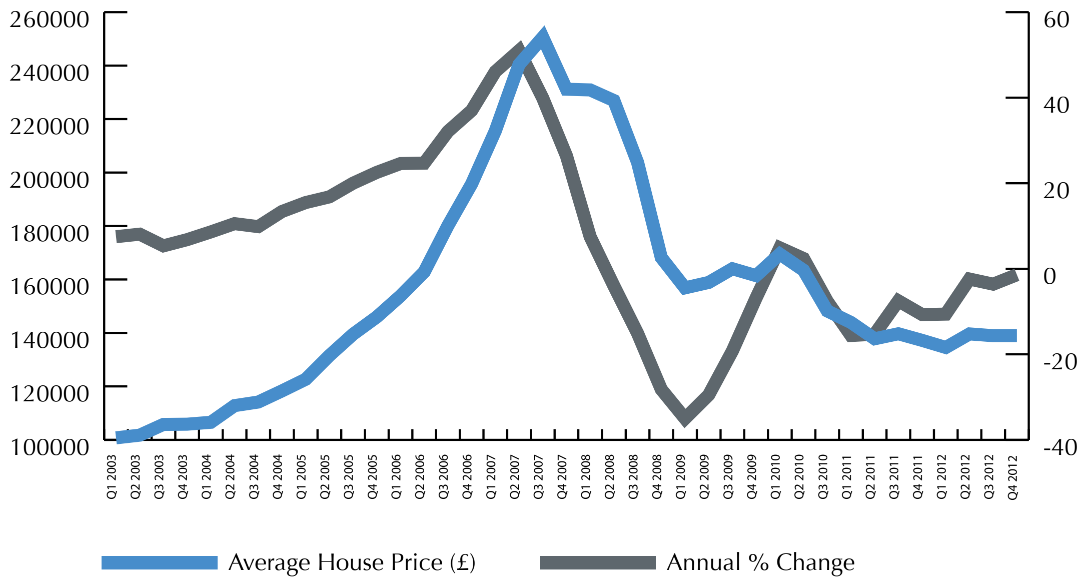
House Prices

Nationwide's house price index report for Q4, 2012 showed that the housing market for the UK as a whole has remained subdued. The average price for the UK in Q4, 2012 was £162,924, a reduction of 1.1 per cent over the year, but a 0.5 per cent increase compared with Q3, 2012. This overall average, however, masks some very marked regional differences. At one end of the regional scale, house prices increased over the year in London by 0.7 per cent to reach £300,361, whereas at the other end of the scale in Northern Ireland, the region with the lowest average house price, the comparable figure was £104,282, a reduction of 8.2 per cent. Wales and Scotland also saw falls in the average price of homes in the final quarter of 2.7 per cent and 3.3 per cent respectively. Nationwide's chief economist Robert Gardner has highlighted that within England "the North/South divide in property prices continued to widen, with the price of a typical home in the South now around £95,000 more than in the North, a new high and around 2% more than at the close of 2011"[7].

In Northern Ireland, the **University of Ulster's mix-adjusted analysis** of open market transactions gathered from a network of estate agents indicates an ongoing downward drift in average house prices. It shows that from a highpoint of £250,586 in Q3, 2007, the average house price in Northern Ireland fell to £156,857 in Q1, 2009 – a peak-to-trough decline of 37 per cent. During 2009 the average house price rose again to £161,429 in Q4, 2009, before dropping sharply again during 2010 to reach £149,795. During 2011 prices continued on a gradual downward trend to reach £137,219 in Q4, 2011 (an annual weighted decline of 10.7 per cent and a quarterly decline of 2.6 per cent). During 2012, prices have continued to drift downward, but at a much slower rate. In Q4, 2012 the average price was £138,969, a figure which was almost unchanged from the previous quarter, but which represented an annual decline in the weighted average of 1.4 per cent, and an overall peak-to-trough decline of almost 50 per cent (see figure 7).

[7] Nationwide House Price Index, Q4, 2012, p.1

Figure 7: NI Average House Price 2003-2012



Source: University of Ulster House Price Index

Analysis by property type reveals some significant differences in the rate of price change (see table 4). Terraced houses and semi-detached bungalows experienced an annual decline in average price of more than 10 per cent, the average price of detached homes rose by almost six per cent, and apartments, which the previous year had fallen in price by an average of more than 20 per cent, rose during 2012 by approximately two per cent.

Table 4: NI: Average House Prices by Property Type, Q4, 2011-Q4, 2012

Property Type	Q4, 2012 (£)	% Change (YoY)
Terraced Houses	84,971	-10.8
Semi-detached Houses	127,152	-5.7
Detached Houses	224,868	+5.7
Semi-detached Bungalows	104,686	-11.8
Detached Bungalows	157,283	-0.3
Apartments	103,539	+1.9

Source: University of Ulster, Quarterly House Price Index Report 113: Q4, 2012

Analysis by geographic region (see table 5) shows that, as in England, there were considerable regional disparities in house price movement between Q4, 2011 and Q4, 2012. At one end of the scale the average price in Belfast rose by six per cent and most regions actually showed a small increase. In contrast in Londonderry/ Strabane and in Mid Ulster the average price of a home actually decreased by more than 20 per cent over the twelve month period. It must be stressed that caution should be exercised in the interpretation of these regional figures due to the subdued nature of the housing market and the low number of sales recorded in some regions. However there is a fairly clear pattern, in that house prices in more peripheral regions of Northern Ireland – regions with significantly higher levels of unemployment and economic inactivity – recorded more significant declines.

Table 5: NI: Regional House Prices Q4, 2011- Q4, 2012

	Average Price Q4, 2011 (£)	Average Price Q4, 2012 (£)	% Change (YoY) (unwted)
Belfast	141,166	149,156	+5.7
North Down	161,613	167,581	+3.7
Lisburn	160,291	161,732	+0.9
East Antrim	146,411	126,974	-13.3
Londonderry/Strabane	120,594	86,986	-27.9
Antrim/Ballymena	121,220	124,769	+2.9
Coleraine/Limavady/North Coast	121,438	121,053	-0.3
Enniskillen/Fermanagh/S Tyrone	106,500	108,023	+1.4
Mid Ulster	131,888	102,400	-22.3
Mid and South Down	128,140	133,106	+3.9
Craigavon/Armagh	107,098	111,418	+4.0
Northern Ireland (unweighted)	137,219	138,969	+1.3

Source: University of Ulster, Quarterly House Price Index Report 113: Q4, 2012

Land & Property Services (LPS) Residential Property Price Index was launched in June 2012. The new index is based on a model which utilises stamp duty information on residential property sales from Her Majesty's Revenue & Customs (HMRC) to produce a standardised value which reflects pure price change. It provides a measure of change in the price of a residential property in Northern Ireland and is mix-adjusted to control for differences in properties sold, using key characteristics (type, size, location, etc.).

Key findings from the LPS figures for Q4, 2012 are as follows:

- Over the year to the end of December 2012, residential property prices fell by 13 per cent to a standardised price of £91,553.
- Prices are now less than half their peak value in Q3, 2007.

This headline price statistic (£91,553) is significantly different from the average price based on the University of Ulster analysis, but the broad patterns of change are very similar. The difference in the headline statistic is to be largely explained by the different methodological approaches and the fact the LPS figures include properties sold at auction, (including distressed properties), which are excluded by the University of Ulster's index on the basis that they are not open market transactions.

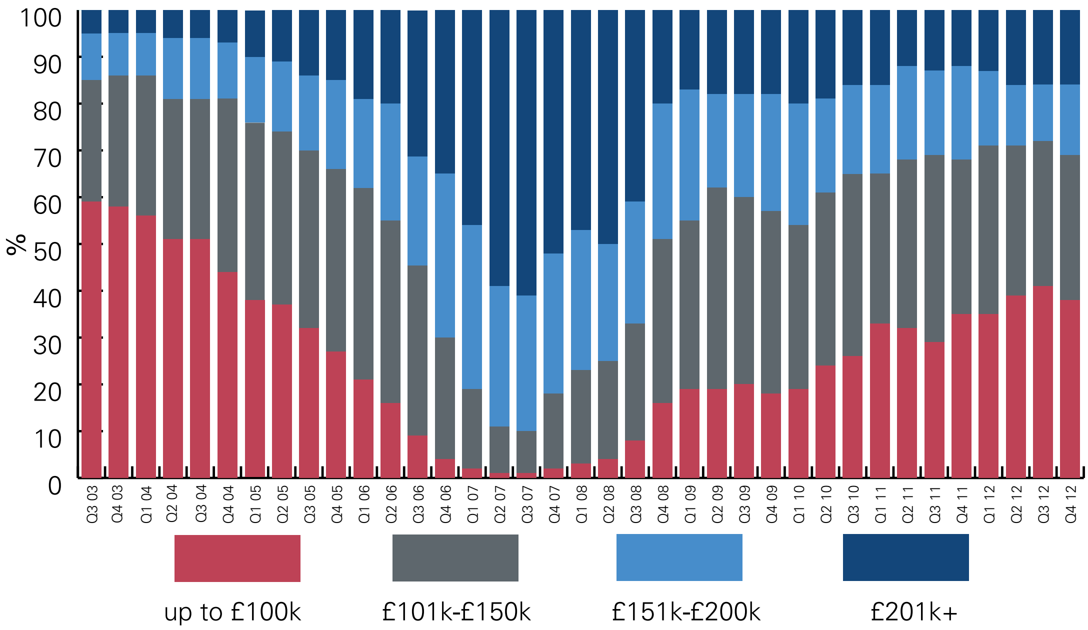
Forecasting the rate of house price change for a twelve month period accurately is always difficult. Last year's estimate in the *Review and Perspectives* of a downward drift of approximately 5 per cent was in the event broadly correct: prices drifted down by 1.4 per cent according the University of Ulster's index, by 13 per cent according to LPS and the most recent Office for National Statistics (ONS) analysis of house prices shows that the average price of dwellings in Northern Ireland fell by 5.7 per cent in 2012.

For 2013 the picture looks not dissimilar. The rising transaction rate bodes well for the market and anecdotal evidence indicates that many properties, which have been for sale for a considerable length of time, are finally being bought/sold. However, with ongoing labour market uncertainty and further reductions in public expenditure overall, the average price for a home in Northern Ireland is likely to drift downwards by up to five per cent over the course of the year. As always, this will disguise considerable regional differences, where there may well be a growing dichotomy between the trajectories of house prices in the BMA and its corridors and the more geographically peripheral areas of Northern Ireland.

Affordability in Northern Ireland

The most recent analysis shows that in terms of the traditional ***house price to income ratios,*** affordability is no longer a significant issue. Figure 8 shows the proportion of properties sold in each price band between 2003 and 2012. In 2003 almost 60 per cent of all homes were sold for less than £100,000. At the peak of the housing boom in 2007 this proportion had fallen to almost zero. However, since 2010 more than 30 per cent of all homes sold cost less than £100,000 and in Q4, 2012 the proportion was 38 per cent.

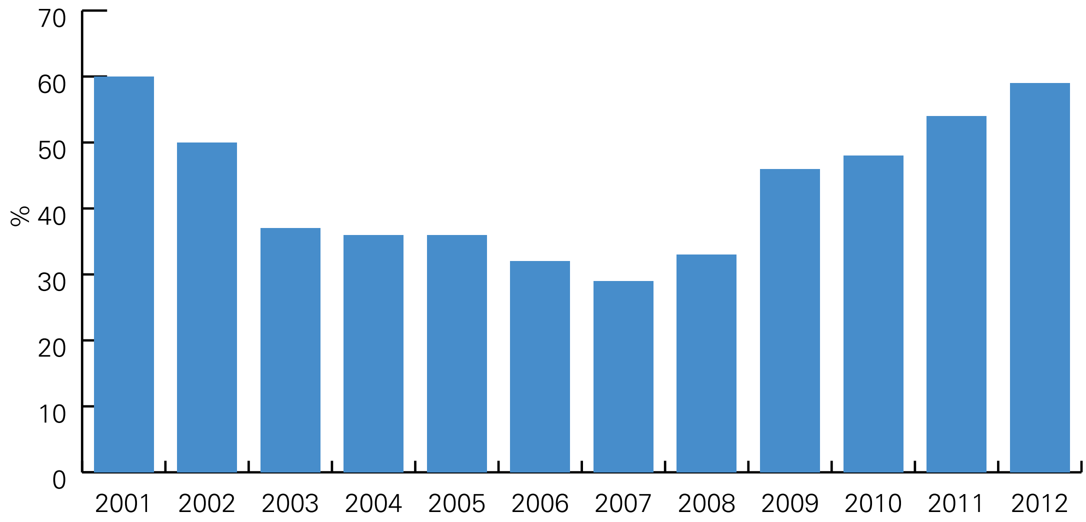
Figure 8: NI: Proportion of Transactions by Price Band, 2003–2012



Source: University of Ulster, Quarterly House Price Index.

The recent upturn in the **number and proportion of first-time buyers** (see figure 9) is also an indicator of higher levels of affordability. 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 2008 only 2,900 (33% of total sales) went to first time buyers. However, by 2010 there were 4,700 mortgage based sales to first time buyers (48 per cent of the total). Council of Mortgage Lenders (CML) figures released in March 2013 show that 2012 recorded the highest annual number of first-time buyers since 2007. A total of 5,100 first-time buyers entered the market in 2012, an increase of nine per cent compared to the 4,700 in 2011. The overall total of home loans advanced to home buyers remained the same in 2012 as in 2011 (8,700), but the proportion going to first-time buyers rose from 54 per cent to 59 per cent.

Figure 9: NI: Proportion of House Sales to First-Time Buyers, 2001-2012

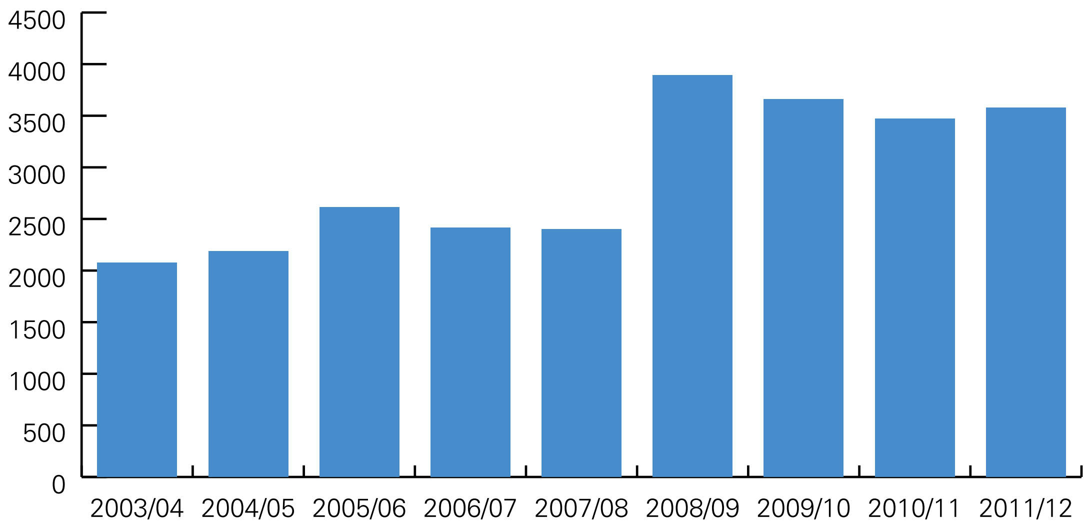


Source: Council of Mortgage Lenders

Repossessions

Data on repossessions also provides a useful insight into affordability for existing owner occupiers. The number of writs and originating summonses relating to mortgages rose sharply between 2007/08 and 2008/09 to 3,894 following the sharp downturn in the market. In the following three financial years the number remained fairly static at around 3,500 (see figure 10). While it is important to remember that only a very small proportion of homes subject to actions for possession end up re-possessed (in 2011/12 there were 1,769 possession orders and even at this stage only a proportion of these end in actual re-possession), it is nevertheless an indicator of continuing stress in the housing market.

Figure 10: NI: Actions for Repossession, 2003/04-2011/12

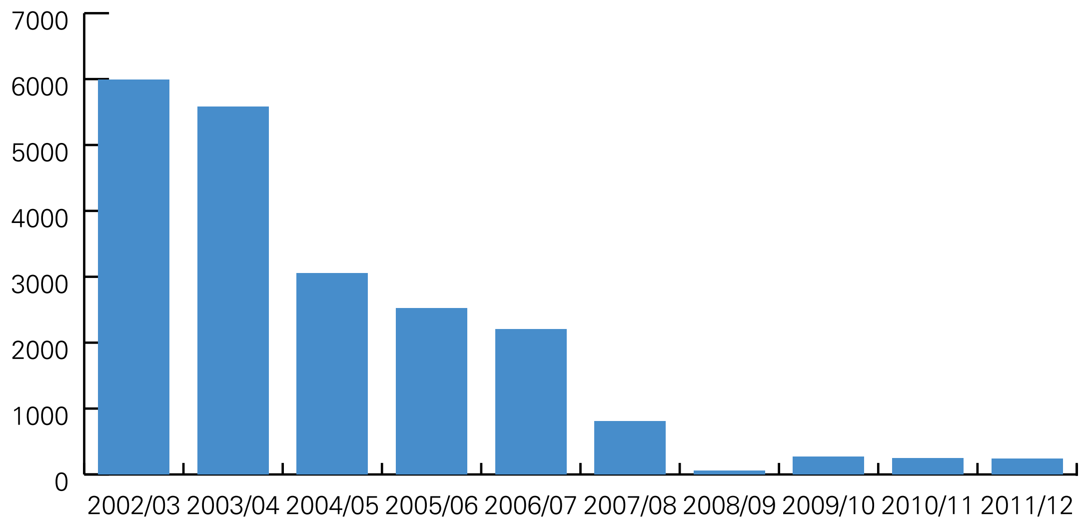


Source: DSD: Housing Statistics 2010/11; Quarterly Housing Bulletins, 2012

The Sale of Housing Executive Dwellings

Since 1979 the Housing Executive has sold more than 117,000 dwellings to sitting tenants. These dwellings now account for approximately 15 per cent of the housing market as a whole. Figure 11 shows that in 2002/03 almost 6,000 Housing Executive dwellings were sold to sitting tenants. There followed a dramatic reduction in the number sold, reflecting the introduction of major revisions to the House Sales Scheme, in particular the reduction of the maximum discount to £24,000 and the substantial increases in house prices between 2004 and 2007. In 2008/09 only 54 were sold. Since then the annual volume of house sales has been fairly consistent at around 250. The average valuation of a typical Housing Executive home has likewise reduced very significantly since 2007 in line with the overall market. However, the volume of house sales is likely to remain low, reflecting both ongoing labour market uncertainty and the ongoing squeeze on disposable incomes of households on lower incomes. In the current financial year 241 had been sold by the end of January 2013.

Figure 11: Housing Executive Sales Completed, 2002/03-2011/12



Source: NIHE

Annual research carried out by the University of Ulster in relation to sold Housing Executive dwellings contains the following key findings for 2011:

- Resold former Housing Executive dwellings made up approximately 14 per cent of all existing dwellings sold in 2011, a proportion that was fairly consistent with the longer term trend.
- Between 2010 and 2011 the average price of former Housing Executive properties declined from £78,971 to £67,412 (15%).

Longer term trends (1990-2011) indicate a nominal price increase of 14 per cent per annum compared with an increase of 19 per cent for the existing housing market as a whole.

Characteristics and Condition

Statistics from the 2011 House Condition Survey provide the most up to date insight into the characteristics and condition of the owner-occupied stock.

Dwelling Age

More than two-fifths (43%) of the owner-occupied stock had been built since 1980. The proportion of properties built before 1919 had declined from approximately 18 per cent in 2001 to 10 per cent in 2011.

Dwelling Type

More than one-quarter of the stock was detached houses (27%), 23 per cent bungalows, 24 per cent semi-detached and 22 per cent were terraced houses. Flats/apartments still only make up a very small proportion of this sector (3%).

Unfitness

The owner-occupied stock continues to remain in very good condition. In 2011 there were approximately 4,600 unfit properties that were owner occupied, representing an unfitness rate of 1.0 per cent. However, if the 18,700 unfit vacant properties in this sector are taken into account in addition to the 4,600 unfit occupied ones, the sector has an overall unfitness rate of 4.7 per cent, compared to 6.4 per cent in the private rented sector and 2.3 per cent in the social sector.

Government Indicators

Modelling work undertaken by the Building Research Establishment in partnership with the Housing Executive during 2012 provides an update to key Government indicators of housing quality.

Disrepair and the Decent Homes Standard

In 2011, 45 per cent (50% in 2009) of owner occupied dwellings had some element of fabric disrepair. This was below the average for the whole of the stock (49%). The average basic repair cost was £712 (£693 in 2009), which was well below the £2,123 for the stock as a whole, but higher than for the occupied stock (£654).

Only 8 per cent (38,300 dwellings) of owner occupied homes (13%; 58,000 in 2009) failed the Decent Homes Standard (compared to 11 per cent for the stock as a whole), but they accounted for more than two-fifths (44%) of all homes failing this standard in 2011.

Housing, Health and Safety Standard

Fewer than one in ten (7%) of all owner occupied homes also failed the Housing Health and Safety Standard, a slightly lower proportion than that for the stock as a whole (10%).

Fuel Poverty

In 2011 approximately two-fifths (41%) of all households in the owner occupied sector were in fuel poverty, a slight increase on the figure of 39 per cent in 2009 and very similar to the figure for all households (42%).

Grant Aid for the Owner Occupied Sector

Successive House Condition Surveys have confirmed the important role that home improvement grants have played in improving the condition of Northern Ireland's owner occupied stock – particularly in rural areas. However, in recent years, budgetary constraints and a change in policy emphasis have led to grants expenditure being focussed increasingly on mandatory Disabled Facilities Grants and Home Repair Grants rather than Renovation and Replacement Grants.

Table 6 shows how this has been reflected in the levels and patterns of grants activity and associated expenditure over the past five years.

Table 6: Home Improvement Grants: 2007/08 – 2011/12: Approvals and Expenditure

Year	Renovation	Replacement	Disabled Facilities	Repairs	HRA	HMO	Total Grants	Approved Expenditure (£)
2007/08	1,145	116	1,666	925	3,219	83	7,154	41.5m
2008/09	931	117	1,755	765	2,433	86	6,087	38.8m
2009/10	161	27	1,750	851	172	72	3,033	23.1m
2010/11	404	83	1,143	889	567	13	3,099	21.3m
2011/12	96	14	1,337	859	54	3	2,363	15.1m

Source: NIHE

The following key points emerge:

- Between 2007/08 and 2011/12 grants expenditure fell from over £40 million to approximately £15 million. There was a concomitant reduction in the number of grants approved from 7,154 to 2,363.
- The number of Renovation Grants approved in 2011/12 (96) declined significantly compared to the previous year's figure, and was much lower than the typical figure in the years up to and including 2007/08. Similarly, the number of Replacement Grants approved fell to only 14.
- The number of Disabled Facilities Grants approved in 2011/12 (1,337) was somewhat higher than in the previous year, and the number of Repairs Grants (859) remain broadly similar to the previous year. The number of Home Repair Assistance (HRA) Grants and the number of grants for Houses in Multiple Occupation (HMOs) has continued to fall dramatically.

Key Issues and Strategic Perspective

The health of the economy will always be the single most important underlying determinant of the owner-occupied sector of the housing market. Northern Ireland's economy is likely to experience only marginal growth over the coming three year period with the result that the labour market will remain stagnant, household incomes will continue to fall in real terms and, given the ongoing caution on the part of banks and building societies, it is unlikely that confidence in the housing market will improve significantly.

This rather gloomy economic outlook will impact on the owner-occupied sector of the market over the coming three-year period in a number of ways:

- The number of new dwellings being constructed in the private sector will continue to remain low at around 5,000 per annum.
- The number of existing dwellings entering or re-entering the owner-occupied sector (via the House Sales Scheme or by private landlords selling to owner occupiers) is also likely to continue to remain low.
- The combined effect of these estimates means that it is likely that the proportion of dwellings in the owner occupied sector will continue to decline.

Average house prices in Northern Ireland have now fallen by approximately 50 per cent from their peak in 2007 to much more sustainable levels, and for those who can secure a mortgage, owner occupation continues to be the most viable way for households to meet their housing needs. However, ongoing labour market uncertainty and further reductions in public expenditure would indicate that prices are likely to continue to drift downwards by up to five per cent during 2013.

Affordability in terms of the house price to income ratio for first time buyers is no longer a significant issue. However, continuing caution by lenders and the requirement to pay substantial deposits means that affordability – in a new form – remains a key issue. It is with this in mind that the Housing Executive is working with the University of Ulster to develop a new Affordability Index which will combine both aspects into a measure which is more meaningful in the context of today's housing market.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Chapter 3

The Private Rented Sector

"Affordability issues for first time buyers ensure that the Private Rented Sector continues to play an important role"

Housing Executive

Housing Executive

The Private Rented Sector: Key Figures

	2001	2006	2009	2011
TOTAL STOCK	49,400	80,800	124,600	125,400
Urban	35,400 (72%)	61,800 (76%)	90,300 (73%)	95,600 (76%)
Rural	14,000 (28%)	19,000 (24%)	34,300 (27%)	29,800 (24%)
DWELLING AGE				
Pre-1919	18,900 (38%)	22,300 (28%)	24,800 (20%)	18,300 (15%)
1919-1980	23,100 (47%)	38,500 (48%)	65,400 (52%)	56,200 (45%)
Post 1980	7,400 (15%)	21,100 (25%)	34,400 (28%)	50,900 (41%)
HOUSING CONDITIONS				
Unfitness (rate)	4,300 (8.7%)	2,200 (2.7%)	2,700 (2.2%)	2,500 (2%)
Non-Decent Homes (rate)	23,400 (47%)	21,400 (27%)	21,200 (17%)	12,800 (10%)
Fuel Poverty (rate)	21,400 (44%)	35,300 (44%)	67,800 (55%)	60,300 (49%)
BMA average mthly rents £	n/a	n/a	576	589

Introduction

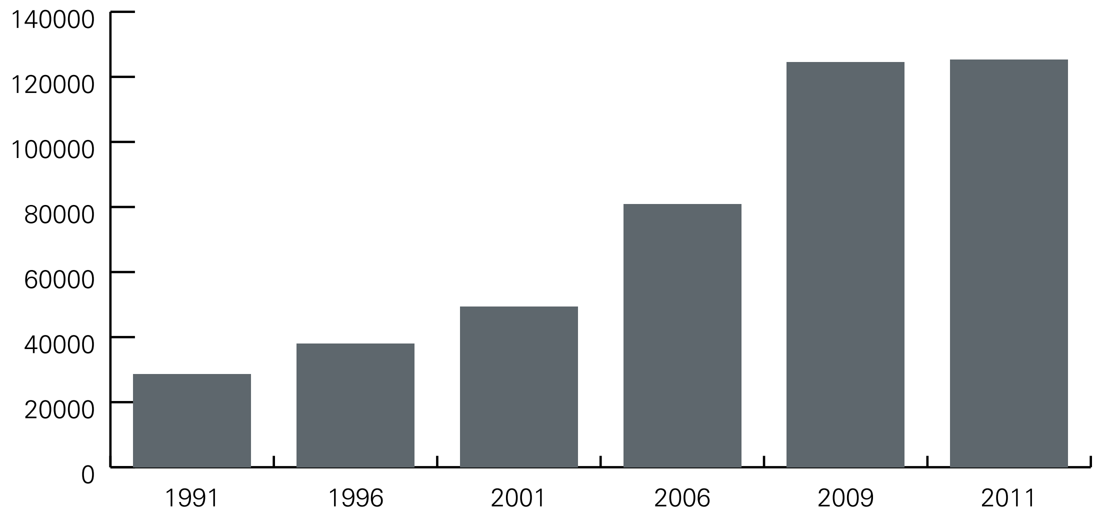
The private rented sector grew at an accelerated pace between 2001 and 2006.

There were approximately 81,000 dwellings in the private rented sector in 2006, accounting for 11.5 per cent of the total stock.

By 2009, the House Condition Survey indicated a further very substantial growth to 124,600 dwellings in the private rented sector (17% of the total stock). This growth was driven on the supply side by, in particular, an unprecedented investor-driven boom and a growing number of "accidental landlords" (owner occupiers unable to sell their home at a price at which they wished to sell) and on the demand side by potential first time buyers unable to purchase their first home and households on lower incomes unable to access a social dwelling in an area of their choice.

By 2011 the House Condition Survey estimated that there were more than 125,400 occupied dwellings in Northern Ireland's private rented sector (16.5% of the total stock), overall a substantial increase since 2006, although growth had clearly slowed between 2009 and 2011 (see figure 12). If vacant dwellings, classified according to their previous occupancy, are included in the 2011 count, almost one-fifth (19%; 144,500) of all properties are in the private rented sector. This is in line with the 2011 Northern Ireland Census tenure data, which suggests 18 per cent of all households in Northern Ireland are in privately rented accommodation (including 'Other privately rented' and 'Living rent free' tenure options).

Figure 12: The Growth of the Private Rented Sector 1991-2011



Source: NIHE: Northern Ireland House Condition Surveys, 1991-2011

The most recent figures emerging from the English Housing Survey (2010/11) also indicate a continuing growth in private renting. Approximately 16 per cent of all households in England live in the private rented sector, but this is still lower than the comparable figure in Northern Ireland (18%).

Housing Executive

Characteristics and Condition

The 2011 House Condition Survey provides the most up to date data on the characteristics and condition of privately rented homes in Northern Ireland.

Dwelling Age

The proportion of private rented dwellings built before 1919 has continued to decline (28% in 2006: 15% in 2011). Conversely, the proportion of private rented dwellings built after 1980 has increased from 25 per cent in 2006 to 41 per cent in 2011, reflecting further substantial investment in new build apartments, townhouses and semi-detached dwellings by buy-to-let investors.

Vacant Dwellings

The rate of vacancy continues to be significantly higher than in any other tenure. In 2011, the vacancy rate in the private rented sector was 13 per cent, compared with seven per cent for the stock as a whole. The number of vacant dwellings which when last occupied were in the sector has increased by approximately 1,500 since 2009.

Dwelling Type

The proportion of terraced houses in the private rented sector has remained relatively static (40% in 2001: 40% in 2011) and remains the most common house type in the sector. While the number of occupied privately rented flats/apartments increased from 7,000 in 2001 to 13,800 in 2011, the proportion has actually fallen from 14 per cent to 11 per cent.

Unfitness

The unfitness rate in the private rented sector has decreased substantially over the last 10 years (8.7% in 2001: 2.7% in 2006: 2% in 2011), reflecting the amount of (often grant aided) investment by private landlords and the expansion of buy-to-let in modern/new build properties. However, the rate of unfitness in the private rented sector remains higher than in other occupied tenures (1% in owner occupied stock and minimal unfitness in the social sector).

Government Indicators

Decent Homes Standard

There was a significant reduction in the proportion of privately rented homes that failed the Decent Homes Standard (10% in 2011: 17% in 2009). However, the rate of failure in 2011 was still the highest of the three occupied tenures.

Housing Health and Safety Rating System (HHSRS)

Analysis of the 2011 House Condition Survey data on the basis of the HHSRS revealed a considerable reduction in the proportion of privately rented dwellings with at least one Category 1 Hazard (8% in 2011: 15% in 2009). This proportion is now similar to that for the owner occupied sector (7% in 2011).

Fuel Poverty

In 2011, less than half (49%) of households in the private rented sector were in fuel poverty, which is a reduction compared to the 55 per cent of households in 2009, but remains higher than the comparable figure for all households (42%). This difference reflects the characteristics of the stock and the greater concentrations of low income households in the sector.

Research into the Private Rented Sector

Research into the private rented sector plays an important role in shaping the understanding of key players in the housing market and providing an evidence base for policy development. Some key findings from the latest research are summarised below:

Monitoring the Impact of Housing Benefit Reform and Local Housing Allowances on the private rented sector

The Department for Social Development in partnership with the Housing Executive secured a Northern Ireland strand in a UK-wide project being undertaken by the Centre for Regional Economic and Social Research in Sheffield. Phase one of the research was completed in October 2012, with a further phase to be completed in spring 2013. The research methodology combined quantitative and qualitative methods to assess behavioural change and the direct/indirect consequences for claimants and landlords of Housing Benefit reforms. Research was completed in three case study areas, Armagh, Greater Shankill and West Belfast. Some of the key findings are summarised below:

Claimants in receipt of Local Housing Allowance (LHA)

- The great majority of respondents were either unemployed (40%) or economically inactive (47%).
- The great majority of respondents had little or no knowledge of how the Housing Benefit scheme worked (86%). Respondents knew even less about the specific changes to LHA: one-third said they knew 'not very much' and six out of ten said they knew 'nothing at all'.
- Almost two-thirds (64%) of respondents had a shortfall in their rent, where the amount of LHA they received did not cover the rent.
- More than two-fifths (43%) of respondents reported that they found it difficult to afford the rent charged for their current accommodation. However the vast majority (92%) were up to date with their rent payments.
- In the event that their current accommodation became unaffordable in the future due to reductions in Housing Benefit, the most common likely responses were cutting back on essential spending (52%) and non-essential spending (43%). One-quarter said they would borrow money from family/friends; three out of ten said they would register on the waiting list for social housing and a quarter said they would apply for a Discretionary Housing Payment. Three out of ten also said that they would look at lower rent properties (but only in their local area) and one in ten said they would look at lower rent properties outside their local area.

Landlords

- Just over half (54%) of landlords interviewed preferred letting their properties to people in employment.
- Almost three-fifths (59%) of landlords had no preference for or against tenants in receipt of LHA.
- For the vast majority of landlords (84%) LHA lettings accounted for 50 per cent or more of their stock.
- Approximately one half (48%) of landlords letting to LHA tenants were aware of the general changes to LHA.
- More than one-third (35%) of landlords felt they had not been affected at all by the impact of LHA measures. Less than one-fifth (18%) felt the measures had affected them ‘a lot’ or ‘a fair amount’.
- Similar proportions of landlords noted a general increase in the number of prospective (33%) and current (31%) tenants asking for a reduction in rent.
- More than one-fifth (22%) of landlords were aware of tenants in arrears due to LHA measures.
- Seventeen per cent of landlords said they had evicted tenants or not renewed tenancies because of the effects of the LHA measures on tenants’ ability to afford the rent; these tended to be larger landlords and together they owned nearly half of the total stock held by landlords in the survey.
- Nearly one-fifth (18%) of landlords said they would consider or plan to reduce their HB/LHA lettings in the future: however the majority (87%) of landlords planned to continue letting to HB/LHA tenants in the next year.
- Qualitative interviews revealed that a key concern for landlords was the potential loss of direct payments in the future.

Research Projects Underway

Monitoring the Impact of HB Reform on the Private Rented Sector: Phase 2.

This is a follow-up survey to analyse the continuing impact of Housing Benefit reform on tenants/claimants and landlords. A final report is expected in spring 2013.

Living in the Private Rented Sector: Tenants Survey 2012

This research is based on House Condition Survey 2011 data and a follow-up survey of private rented sector tenants, focusing on affordability, tenure choice and landlord-tenant relationships. This analysis was previously completed in 2009. Fieldwork has been completed and analysis is underway. A final report is expected in autumn 2013.

An Affordability Index for the Private Rented Sector

This new measure is under development in partnership with University of Ulster and will be produced on an annual basis. The methodology will be based on analysis of the relationship between rents paid in the private rented sector and tenants’ income level. The first report is expected in March 2014 for the year 2013.

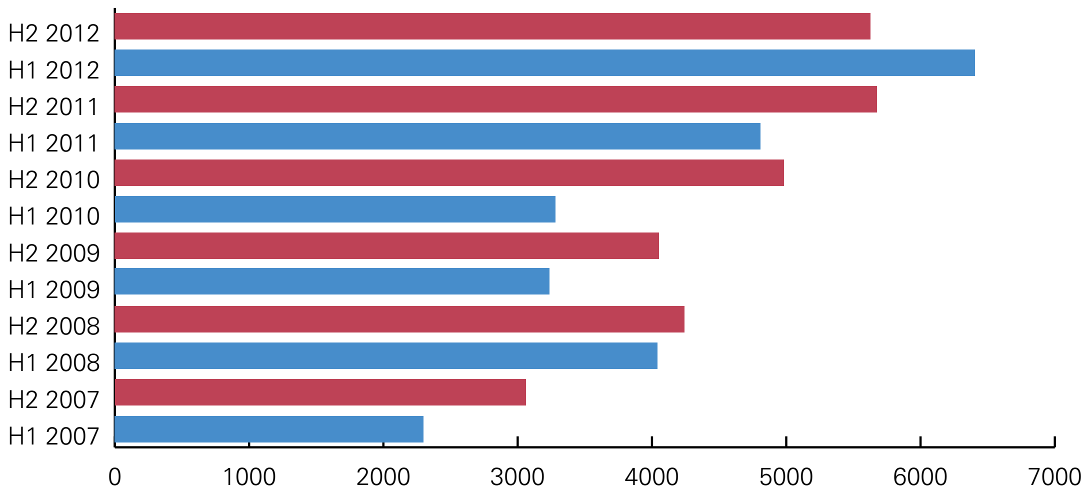
The Private Rented Sector Index

The private rented sector in Northern Ireland has traditionally been the most difficult sector of the housing market in which to undertake research. In particular there has been a lack of regular consistent information on rental and transactions levels. Since 2007, however, bi-annual reports have been produced from a research partnership comprising the Housing Executive, University of Ulster and PropertyNews.com. The reports provide information on average monthly rents and number of lettings within the Belfast Metropolitan Area (BMA), as well as analysis by location, property type and number of bedrooms.

Rental Levels and Transaction Levels

The first survey undertaken in 2007 showed that transaction levels in the BMA increased over the year from 2,298 in the first half (H1) to 3,060 in the second half (H2) of the year. This general upward trend has continued over the last six years, with a brief dip in transactions during 2009 and H1, 2010, most likely a reflection of the economic situation at the time. By H1, 2012 transactions levels reached a new high of 6,405. (see figure 13). However, within this trend there is a seasonal pattern of a higher level of lettings for the second half of the year, probably reflecting a surge in demand for student accommodation in the autumn. One exception to this is the second half of 2012, when transaction levels dropped from the H1 high of 6,405 to 5,628 transactions/lettings in H2, similar to H2, 2011 levels, representing a 12% drop in rental volume during 2012, which may reflect a pattern of more students remaining in the family home. However, overall the figures indicate a continuing and growing demand for rental properties in Northern Ireland, reinforcing the importance of the private rented sector in the local housing market.

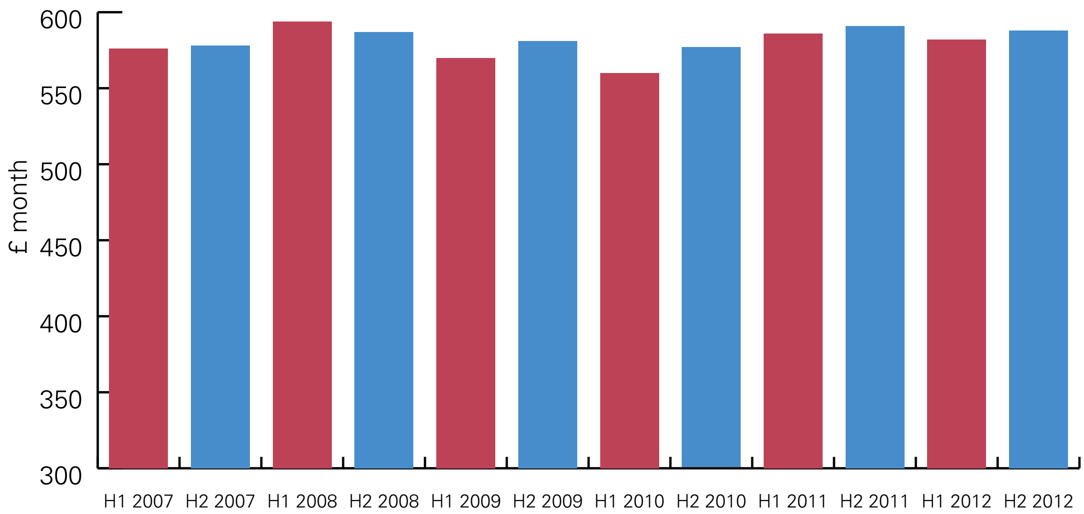
Figure 13: BMA: Transactions in the Private Rented Sector, 2007-2012



Source: PropertyNews.com

Since 2007 average rental levels have remained broadly consistent, fluctuating between £560 and £600 per month. The average rent in the Belfast Metropolitan Area for H2, 2012 was £588, only slightly lower than the previous highpoint of £594 for H1, 2008 (see figure 14). Overall there has been a slight decrease in the average rental level for 2012 when compared to 2011(-0.5%), however rental levels increased in H2, 2012 when compared to H1, 2012 (+1%).

Figure 14: BMA: Average Rent, 2007-2012



Source: PropertyNews.com

Private Rented Sector Strategy

The Department for Social Development launched *Building Sound Foundations: A Strategy for the Private Rented Sector* in 2010. The primary objective of the strategy is "to create the conditions in which the private rented sector contributes more fully to meeting our rapidly changing housing needs". It also highlights the role the private rented sector can play in supporting greater tenure choice, the need to promote more sustainable tenancies and the importance of a more balanced approach to the rights and responsibilities of both landlord and tenants.

An important recent contribution to meeting the objectives of the Strategy has been the development of a new 'Tenancy Deposit Scheme' for Northern Ireland by the Department for Social Development. The need for and advantages of a tenancy deposit scheme were highlighted by research undertaken by the Housing Executive and the University of Ulster. The new scheme was introduced in April 2013 with the following aims:

- Tenancy deposits are protected by a third party.
- The quick repayment of deposits.
- Free access to an independent dispute resolution service.
- Sanctions for non-compliance.
- Provision of information (between tenant and landlord).

Reform of Housing Benefit

Housing Benefit has played a key role in sustaining the private rented sector in Northern Ireland. In 2011/12 approximately 60,000 private tenants on Housing Benefit were supported by a budget of more than £250 million. For households on lower incomes, Housing Benefit has played a vital role in enabling them to find a home of the right quality, in the right location at an affordable price.

The changes to the Housing Benefit system introduced from April 2011 are reducing this level of support in a number of key ways:

- The weekly rate of HB is capped at a maximum of £400 for four bedroom accommodation, regardless of household size.
- Local Housing Allowances are now being calculated on the basis of the 30th percentile rather than the median (50th percentile); and adjusted in line with the Consumer Price Index (CPI).
- The ending of "excess payments" of up to £15, which the tenant was allowed to keep if the actual rent was lower than the Local Housing Allowance.

Since January 2012 the shared accommodation rate (Single Room Rent) has applied to single people up to the age of 35 instead of 25; this means that single claimants aged 25 to 35 in the private rented sector will now receive the shared accommodation rate irrespective of the property occupied.

Impact of the changes on the private rented sector

There has been very considerable debate amongst housing professionals about the impact of these changes on the sustainability of the private rented sector, and in particular on households on low incomes and on landlords, many of whom are now experiencing "negative equity". It is still too early to arrive at any definitive conclusions on the outcomes.

Phase 1 of the research undertaken by the Centre for Regional Economic and Social Research (CRESR) in Sheffield highlighted a number of potentially significant behavioural impacts (see pp.61-62). However, it is important to note that when this research was undertaken the new HB regulations on direct payment to landlords were to apply to Northern Ireland as well as the rest of the UK. In October 2012, however, the Minister for Social Development won a number of concessions from the Westminster Government: first, and most significantly, that even when Universal Credit is introduced (from April 2014 in Northern Ireland) that the housing element will still be paid directly to landlords; secondly, that UC can be split between two household members; and thirdly, that payments can be made fortnightly rather than monthly.

While not wanting to underestimate the impact of the reductions in HB payments on landlords and tenants alike, there is no doubt that these three concessions, and in particular the continuation of direct payment to landlords will have a significant positive impact on the longer term viability and sustainability of the sector.

Key Issues and Strategic Perspective

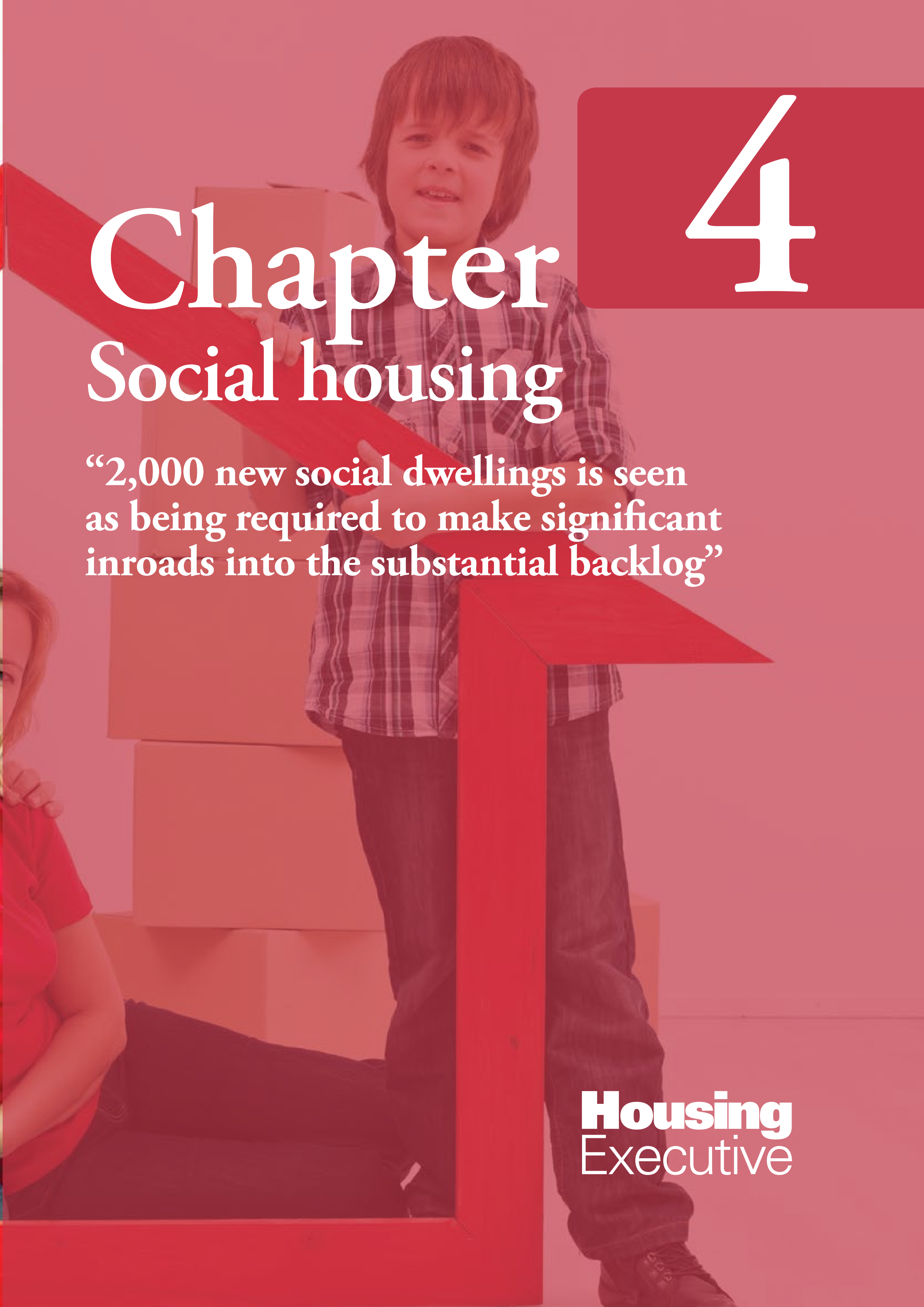
The private rented sector grew rapidly between 2006 and 2009 as a result of unprecedented investor activity. This investor-driven boom reflected the growing demand from lower income households who in the 1980s and 1990s would probably have found accommodation in the social sector, and from first-time buyers facing affordability issues as a result of ongoing labour market uncertainty and ongoing caution by lenders.

By 2011 the private rented sector accounted for approximately 125,000 dwellings (16.5% of the total stock). If vacant properties in the sector are included this figure rises to 144,500 (19%). The underlying drivers of demand (households on low incomes unable to access social dwellings in an area of choice and affordability problems for first time buyers) will ensure that in the coming years the private rented sector will continue to expand, although at a more measured pace than in the mid-2000s.

The condition of the occupied private rented sector is continuing to improve as increasing numbers of modern homes become part of the sector and the level of unfitness remains low.

Some investors – particularly those who bought at the height of the boom with high loan-to-value ratio mortgages – are leaving the sector. However, the risk of large-scale disinvestment continues to be seen as low and anecdotal evidence suggests a considerable number of cash-rich investors are buying up properties at what the market considers bargain prices. Evidence from the rental index for the Belfast Metropolitan Area would indicate that rents have remained fairly consistent over the past six years and, given ongoing demand, will continue to be so.

The private rented sector is currently underpinned by Housing Benefit payments totalling more than £250 million. The effects of the extension of the single room rate provision to 35 year old single people, the calculation of the Local Housing Allowance at the 30th percentile rather than the median and the introduction of Universal Credit will reduce the amount of Government subvention to the sector. However, the fact that – in contrast to Great Britain – direct payment to landlords will now continue in Northern Ireland must be seen as a major contributory factor to ensuring the longer term viability of the sector.



Chapter 4
Social housing

"2,000 new social dwellings is seen as being required to make significant inroads into the substantial backlog"

Housing Executive

Housing Executive

The Social Housing Sector: Key Figures

	2001	2006	2009	2011
SOCIAL STOCK*	**133,900**	**115,000**	**110,200**	**110,700**
Urban	112,000 (84%)	99,400 (86%)	98,700 (90%)	93,700 (85%)
Rural	21,900 (16%)	15,600 (14%)	11,500 (10%)	17,100 (15%)
Dwelling age				
Pre-1919	4,900 (4%)	4,300 (4%)	1,200 (1%)	---** (3%)
1919-1944	4,600 (3%)	4,600 (4%)	3,600 (3%)	---** (3%)
1945-1980	82,100 (61%)	69,600 (60%)	65,500 (60%)	70,000 (63%)
Post 1980	42,300 (32%)	36,500 (32%)	39,900 (36%)	34,900 (32%)
Housing conditions				
Unfitness (rate)	1,270 (0.9%)	590 (0.5%)	100 (0.1%)	---** (0.1%)
Non-Decent Homes (rate)	58,800 (44%)	25,000 (22%)	16,100 (14.7%)	---** (3.7%)
Fuel Poverty (rate)	47,800 (36%)	42,300 (37%)	56,500 (51%)	43,890 (40%)
Need for social housing***				
Total Waiting List (at March)	22,054	31,908	38,923	34,533
Housing Stress	10,639	17,223	20,481	20,211
Homeless: No. presented	12,694	20,121	18,076	19,737
Homeless: No. accepted	6,457	9,749	8,934	9,021
New Social Housing Required (minimum)	1,500	2,500	2,500	2,000

* Excluding vacant properties
** Small sample size means that numbers should be treated with caution and are not reported here.
*** Waiting list, homelessness and housing need figures are for 2011/12 or at 31st March 2012

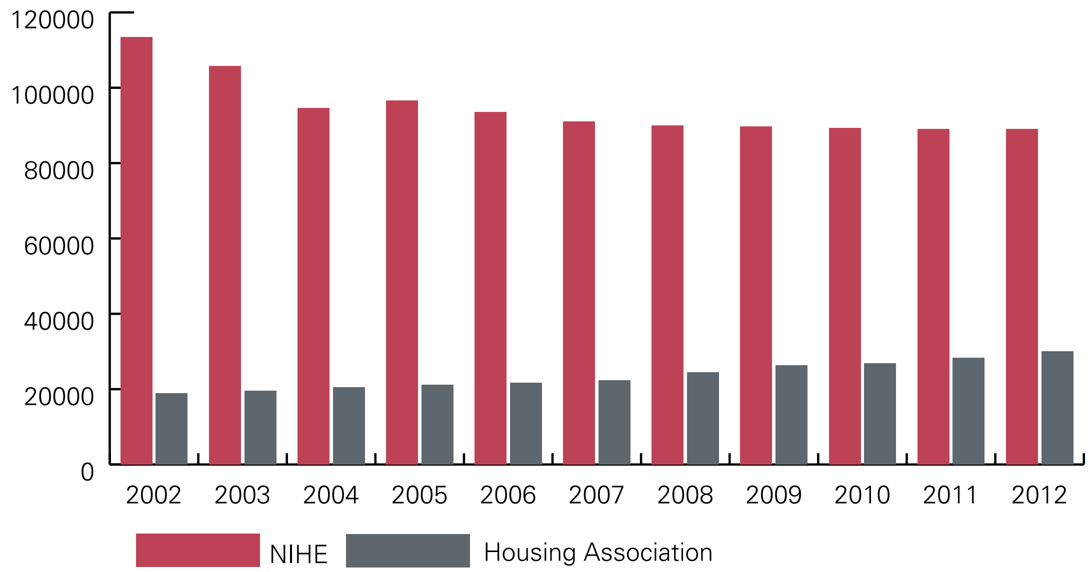
Introduction

In March 2012, there were 119,000 self-contained social rented sector dwellings in Northern Ireland, accounting for around 16 per cent of the region's total housing stock.

Approximately 89,000 of these dwellings were owned and managed by the Northern Ireland Housing Executive; figure 12 shows that this total has remained largely unchanged since 2008, while the number of occupied units owned by housing associations has risen steadily, and totalled more than 29,400 in March 2012. In addition, the housing associations also own and manage around 4,500 units of accommodation that are not fully self-contained.

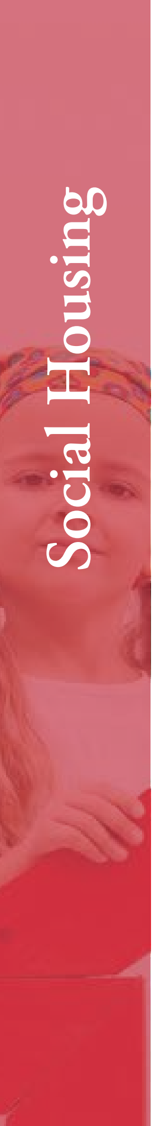
Both demolitions and sales of social dwellings remained at a low level during 2011/12, while around 1,400 dwellings were added to the social housing stock.

Figure 15: Housing Executive and Housing Association stock in Northern Ireland*, 2002-2012



Source: NIHE, DSD (Figures at March each year)

**Occupied, self contained dwellings*



Housing Executive

Characteristics and Condition

The Northern Ireland House Condition Survey provides information on the characteristics and quality of the social housing stock and the households who live in the sector. Findings from the 2011 survey showed that:

- The majority of the social housing stock (74%) was built after 1964, and around one third (32%) since 1980.
- Terraced dwellings were the most common property type, accounting for 39% of social sector stock, while flats/apartments and bungalows both accounted for around one quarter of the sector's stock (26% and 23% respectively).
- Only a minimal proportion of the social housing stock (<1%, excluding vacant dwellings) was estimated to be unfit, a figure that has remained unchanged since 2009.
- Only an estimated four per cent of social sector dwellings failed to meet the Decent Homes standard in 2011. This significant fall from the 22 per cent recorded in 2006 reflects, in particular, the ongoing investment in energy efficiency measures in the sector.
- Despite rising fuel prices, it was estimated that the headline rate of fuel poverty was slightly lower in 2011 (42%) than in 2009 (44%); the proportion of households living in the social sector who were experiencing fuel poverty also decreased from 51 per cent to 40 per cent (43,890).
- Social dwellings performed well when assessed using the Housing Health and Safety Rating System methodology. In 2011, the proportion estimated to have Category 1 hazards (2%) was lower than for the housing stock as a whole (10%).

Profile of social housing tenants, 2011

The 2011 House Condition Survey showed that:

- Just over one fifth (22%) of household reference persons living in the social rented sector were aged between 25 and 39, almost one third (32%) were aged 40-59, and 38% were aged 60 or more.
- Tenants of social housing were fairly evenly split across three main household types: adult-only households (34%), households with children (32%) and older households (35%).
- The majority (80%) of households living in social sector accommodation had an annual gross income of less than £15,000. Almost one third (30%) reported having annual incomes lower than £10,000, compared with 23 per cent of those living in private rented accommodation and 12 per cent of owner occupiers.
- More than one fifth (22%) of household reference persons living in social sector properties were working either full-time or part-time and around one third (34%) were retired.

Welfare Reform and Housing Benefit

As part of the Government's wider programme of welfare reform, significant changes to Housing Benefit for social housing tenants are being introduced. Universal Credit will begin to replace benefits for people of working age who are out of work and tax credits for people in work from autumn 2013 in England, Scotland and Wales and, subject to legislation, from April 2014 in Northern Ireland. Benefits that will be replaced by Universal Credit include Income Support, Job Seekers Allowance and Housing Benefit. Prior to the implementation of Universal Credit, two changes to Housing Benefit will be of particular importance to social housing:

- Working age tenants in the social sector will have their Housing Benefit reduced if they live in a home which has more bedrooms than they require. Analysis carried out by the Housing Executive suggests that approximately 26,000 working age social housing tenants will be affected by this change.
- The deductions applied for non-dependants living in a Housing Benefit claimant's household will increase significantly. This change will have the most significant impact on claimants whose household includes adult children in work.

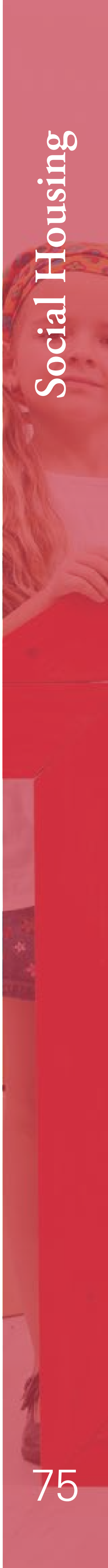
The Department of Work and Pensions has highlighted that the changes should incentivise mobility within the social sector and result in better use being made of the available housing stock. Other potential impacts include an increase in demand for smaller properties (which may not be available in some areas), a rise in social sector rent arrears and Housing Benefit overpayments, a rise in overcrowding, a rise in homelessness and increasing demand for social housing, and greater demand for discretionary housing payments.

Facing the Future: Draft Housing Strategy for Northern Ireland 2012-2017

The Minister for Social Development, Nelson McCausland, launched a consultation on his five-year vision for housing in Northern Ireland in autumn 2012. With a focus on ensuring that everyone has the opportunity to access good quality housing at a reasonable cost, the strategy includes measures for all tenures, which are set out under five broad themes. Some of the key proposals that relate specifically to the social housing sector are that:

- Government subsidy for new social housing development should continue, albeit at a lower level than before.
- The Department will explore alternative, innovative models for funding new social housing, such as entering into long-term leases with private sector developers or changing legislation to allow housing association grant to be paid to a wider range of bodies.
- The regulatory burden that currently exists in the construction of social housing should be reduced and standards harmonised with those used for private housing development.
- A developer contribution will be introduced in preparation for an upturn in the housing market.
- The existing House Sales Scheme will be maintained and enhanced to support tenants to enter other forms of affordable home ownership.

- The Department will develop innovative solutions for improving the worst Housing Executive stock, including the use of stock transfer, and will fund the installation of double-glazing in all Housing Executive homes which do not have it by March 2015.
- The Department will lead a fundamental review of social housing allocation policy; Cambridge University and the University of Ulster commenced research to inform the review in 2012.
- The Department will explore whether there are policy and operational flexibilities for delivering Welfare Reform in a way that best reflects circumstances in Northern Ireland, and will work with social housing landlords to support under-occupying tenants, who wish to move to smaller properties. (In October 2012, the Minister confirmed that he had secured changes to the way Universal Credit can be paid in Northern Ireland, to reflect the region's unique circumstances. The three key changes are that: the housing cost element of Universal Credit will be paid direct to landlords, rather than the customer; payment may be split between two parties in the household; and Universal Credit may be payable twice each month.)
- The Department will work with other departments, agencies and communities to improve housing and infrastructure within communities which are experiencing blight, decline or dereliction. It is proposed that housing interventions will be used as the driver to regenerate these areas and start to reverse community decline. The initial focus will be on bringing empty homes back into use.



The Housing Executive

The Housing Executive, which was established in 1971, is Northern Ireland's single comprehensive regional housing authority. It is a Non-Departmental Public Body, which reports to the Department for Social Development. In 2011/12, the Housing Executive had a gross budget of £656.6 million, of which just over one fifth (£139.8 million) was accounted for by funding for the Social Housing Development Programme, while £170.7 million was invested in improvements and repairs to Housing Executive stock.

Housing Executive stock

At April 2012, just over half (59%) of the Housing Executive's stock was in the form of traditional terraced or semi-detached houses, while bungalows and flats both accounted for one fifth (20%) of properties. Around one tenth of Housing Executive-owned dwellings had one bedroom and two fifths (39%) had two bedrooms, while almost half (48%) offered three or more bedrooms. The vast majority (97%) of dwellings had full central heating systems, of which 38% used natural gas as the heating source, while 43 per cent had oil-fired heating. Both the number (8,150) and proportion (nine per cent) of Housing Executive homes using solid fuel as their principal heat source had fallen in the year to April 2012, as investment in more efficient heating systems continued.

Household profile

The Housing Executive's Continuous Tenant Omnibus Survey (CTOS), based on 3,400 interviews with tenants throughout the calendar year, is an invaluable source of information on the socio-economic and demographic profiles of Housing Executive tenants.

The 2011 survey showed that, at 2.09 persons, the average size of households living in Housing Executive accommodation was smaller than for Northern Ireland's housing stock as a whole (2.49). More than two fifths (43%) of households consisted of only one person, while a slightly lower proportion of homes (35%) were occupied by one or two older people. 'Lone older' remained the single most common household type (25% of all households). The figures have remained largely unchanged in recent years.

Only 17 per cent of household reference persons (HRPs) were working (full time, part time or self-employed) in 2011, a proportion which was in line with the CTOS findings in previous years. People who had retired accounted for slightly less than one third (30%) of HRPs, and almost one fifth (19%) described themselves as permanently sick/disabled. Almost half (46%) of households had an annual gross household income of £10,400 or less. More than one in ten household members (13%) required some form of mobility aid (including a wheelchair).

Fundamental Review of the Northern Ireland Housing Executive

In 2010, the Department for Social Development commissioned PricewaterhouseCoopers (PwC) to carry out a fundamental review of the Housing Executive. PwC produced its final report in June 2011, setting out a vision for social housing in Northern Ireland, as well as a preferred option for the future role of the Housing Executive and its functions. The key elements of the preferred option were a new Housing Regulator for Northern Ireland, a new Strategic Housing Authority, and a new social enterprise landlord for existing Housing Executive stock.

The Minister for Social Development subsequently commissioned PwC to take forward a series of 'mature conversation' meetings to seek views on the report's findings and recommendations. There was a broad consensus of support for the strategic direction of travel, and PwC identified a continuum of options for the structures within the new housing system. As part of the draft housing strategy, the Department has proposed that it will put in place new structures to take forward the fundamental review of the Housing Executive by March 2015.

In January 2013, the Minister for Social Development made a written statement to the Northern Ireland Assembly on his proposals for a Social Housing Reform Programme. The statement emphasised that the existing Housing Executive model was not sustainable and set out the Minister's key proposals for future social housing delivery in Northern Ireland:

- The Department for Social Development will have responsibility for overall housing strategy, policy, legislation and funding, and an enhanced role in regulation and inspection.
- The Department will be supported in the delivery of strategy and policy by a regional housing body, which will carry out the existing non-landlord functions of the Northern Ireland Housing Executive.
- A new, non-public sector landlord function will be developed to assume ownership of the Housing Executive stock, enabling access to private funding for investment.

The Housing Associations

There were 30 registered[9] housing associations in Northern Ireland at March 2012, including the Northern Ireland Co-Ownership Housing Association (NICHA). The number of registered associations in Northern Ireland has decreased steadily in the last decade as associations have sought to improve efficiency and maximise economies of scale through mergers. Housing associations have been responsible for developing all new social dwellings in Northern Ireland for more than a decade. They operate within 'mixed funding' arrangements, obtaining loans from the private market; the private finance component now represents about one third of the cost of general-purpose development.

Excluding properties within the Co-Ownership scheme, but including vacant stock, registered housing associations owned almost 34,500 units of accommodation at March 2012. The majority of these units (87%; 30,000) were self-contained, while the remainder were bed spaces in shared accommodation. The nine largest housing associations, each of which had more than 1,000 units, owned more than three quarters (77%) of all housing association stock (see table 7).

Table 7: Housing Associations with 1,000+ Units of Rented Accommodation, March 2012

	Self-contained units	Bed spaces	Total Units
Helm	4,645	517	5,162
Fold	4,559	313	4,872
Oaklee	4,035	670	4,705
Apex	2,965	429	3,394
Clanmil	2,849	136	2,985
Habinteg	1,792	263	2,055
Trinity	1,845	103	1,948
Ulidia	733	295	1,028
South Ulster	1,004	0	1,004
Total (associations with 1,000+ units)	24,427	2,726	27,153
Total housing association stock	**30,024**	**4,424**	**34,448**

Around 2,100 housing association dwellings (1,200 self-contained units and more than 900 bed spaces in shared accommodation) were suitable for tenants who use a wheelchair, and more than one third of all stock owned by associations (36%; 10,800 units) was designed for older people.

[9] Housing associations registered with the Department for Social Development are eligible to receive Housing Association Grant, and operate within the Department's regulatory regime.

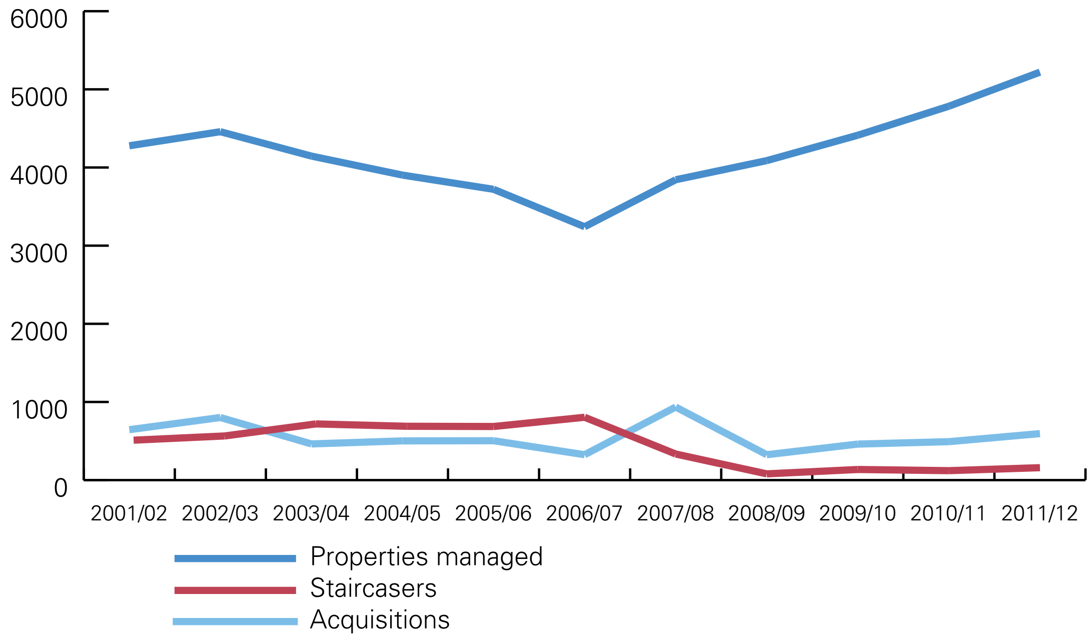
Co-Ownership Housing

The Northern Ireland Co-Ownership Housing Association (NICHA: generally known as Co-Ownership) was established in 1978. The do-it-yourself shared ownership scheme plays a key bridging role in the local housing market by enabling eligible households, whose resources would not otherwise allow them to purchase a home, to access owner-occupation through the open market.

More than 22,000 households have purchased their own homes through Co-Ownership since the scheme was set up, with 595 of these properties acquired between April 2011 and March 2012, at a value of £65.5 million. Overall, NICHA invested £29 million during 2011/12, the vast majority of which (£28.25 million) was in the form of Housing Association Grant. The average price of properties purchased through the scheme during the year was £117,675, compared with £122,775 in 2010/11. Figure 16 shows the annual total of properties managed by Co-Ownership, purchases through the scheme and households 'staircasing' to full ownership in the 10 years to 2011/12, and illustrates some of the impacts of changes in the housing market over the last decade:

- Having peaked at 935 in 2007/08, the annual number of purchases through the scheme has now returned to a level much more in line with the long-run average.
- By March 2012, almost 16,900 households had 'staircased' out to become full owners since the scheme began in 1978. However, there has been a clear downturn in the level of staircasing since 2006/07. Only 159 households fully staircased during 2011/12 and, reflecting the difficulties experienced by some households who have struggled to maintain home ownership in recent years, 83 of these full equity disposals (52%) were repossession sales. The average rate of depreciation from purchase price to resale for repossessed properties in 2011/12 was 60 per cent.
- The reduced rate of staircasing has contributed to ongoing growth, since 2007, in the number of properties managed by Co-Ownership; by March 2012 the total had increased to 5,220.
- Detached (10%) and semi-detached (46%) properties accounted for more than half of all purchases through the Co-Ownership scheme in 2011/12, and only eight per cent of properties purchased were apartments, compared with 23 per cent at the height of the housing market boom in 2006/07.

Figure 16: Co-Ownership: Annual Total Properties Managed, Purchasers and Staircasers, 2001/02 – 2011/12



Source: Co-Ownership

Despite some of the challenges presented by the current market, income generated through sales was slightly higher in 2011/12 (£5.7 million) than in 2010/11 (£5.4 million). Of the £5.7 million total, £3.2 million was repayable to the Department for Social Development.

Data collated by Co-Ownership provides an insight into the profile of purchasers during 2011/12:

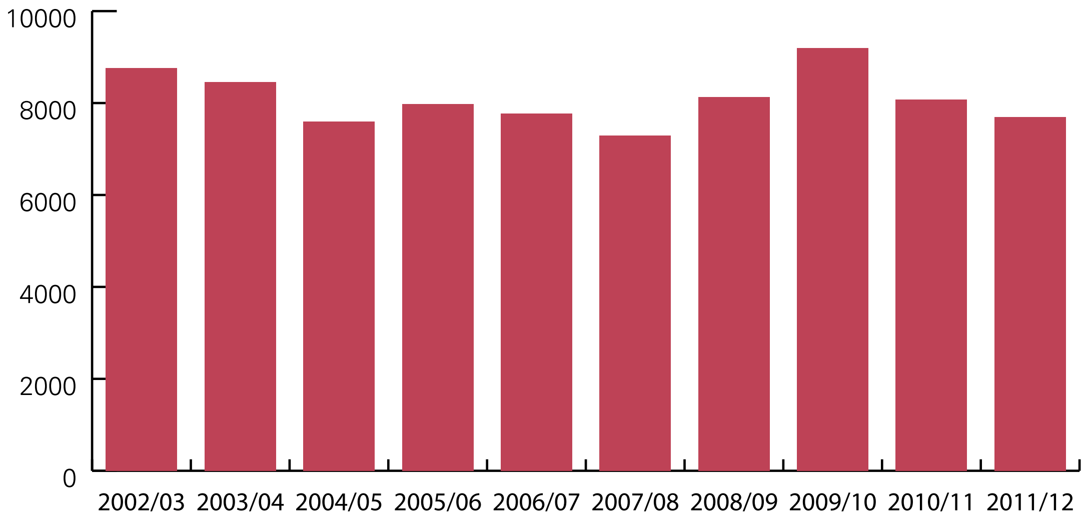
- Around two thirds (64%) of purchasing households had only one earner, and more than half (52%) were single person households; both figures were closely in line with the characteristics of purchasers in the previous year. Purchasers ranged in age from 19 to 53 and their average age was 27.
- The average annual household income of those purchasing through Co-Ownership was lower in 2011/12 (£21,396) than in 2010/11 (£24,636). At 5.4, purchasers' price to income rate in 2011/12 was in line with recent trends.

In 2009, Co-Ownership secured a three-year financing deal with Bank of Ireland and Barclays for £48 million, to deliver 1,500 affordable homes. With this target successfully met, NICHA announced in November 2012 that it had secured a further £50 million financing deal with the two lenders. Along with government grant totalling £100m over the four years from 2011/12, the new four-year arrangement is expected to help secure 2,500 affordable homes, bringing the total number of families and individuals assisted into home ownership since the inception of the scheme to 25,000 by 2018. Co-Ownership has projected that it will assist in the purchase of 700 homes each year from 2012/13 to 2014/15, and a further 450 in 2015/16.

New Social Housing

In the social rented sector, housing need is primarily met through the re-let of existing dwellings to new applicants. Figure 17 shows that the annual total number of re-lets and allocations (excluding transfers) has varied from year to year, with an annual average of around 8,100 since 2002/03. The 2011/12 total (7,691) was slightly lower than this average figure.

Figure 17: Social Housing Re-lets and Allocations (Excluding Transfers), 2002/03-2011/12



Source: NIHE

The Housing Executive is responsible for the management of the Social Housing Development Programme, which is guided by the Net Stock Model (see chapter 1) and takes account of local Housing Need Assessments (HNAs). The programme is distributed and reviewed within the overarching framework of agreed strategic guidelines. The strategic guidelines ensure an equitable geographical allocation of new build according to assessed housing need.

Table 8 shows the composition of the new build programme since 2005/06. In line with a reduction in the available budget for new social housing, the total number of recorded starts was lower in 2011/12 (1,410) than in 2010/11 (2,418), but met the budget-related target for the year (1,400 units). It should, however, be noted that the total fell short of the annual need determined by the Net Stock Model (2,000 dwellings). During 2011/12, contract starts for new dwellings totalled 1,259, of which 275 were "off the shelf" and 984 were new build. A further 109 "existing satisfactory" properties were acquired during the year and work started on the rehabilitation/re-improvement of 42 properties.

Table 8: Social Housing Development Programme Starts, 2005/06-2011/12

	Buy and develop sites: new build	Buy new homes "off the shelf"	Package deals (design & build)2[10]	Buy "existing satisfactory" homes	Rehabilitation/Re-improve-ment	Total Recorded Starts
2005/06	1,013	90	212	142	62	1,519
2006/07	604	48	174	180	26	1,032
2007/08	885	270	84	343	13	1,595
2008/09	476	299	131	223	7	1,136
2009/10	1,243	467	0	76	52	1,838
2010/11	1,752	400	0	93	173	2,418
2011/12	984	275	0	109	42	1,410

Source: NIHE

General needs schemes for families, couples and single people accounted for the vast majority of social housing starts during 2011/12 (1,167 units; 83% of starts), while almost one tenth (122 units; 9%) were in the form of accommodation for relatively fit elderly people. The remainder were schemes to meet more specialised needs such as those of people with a physical or learning disability and elderly people in need of housing with care. More than one tenth of starts (181 units; 13%) were located in rural areas. The number of social housing completions during 2011/12 (1,310) was slightly higher than in 2010/11 (1,267).

The Housing Executive, in partnership with housing associations, is working towards a target of 1,000 new units of general needs accommodation and a further 325 units of supported housing during 2012/13. The target for 2013/14 is slightly lower, comprising 1,275 units (1,000 general needs and 275 supported). It is anticipated that the year end target for general needs housing starts in 2012/13 will be met, but supported housing starts may fall short of the 325 target.

[10] Following consideration of case law in respect of European Union procurement directives, the Housing Executive stopped using negotiated "design and build" packages (whereby a developer who owned land would also build the dwellings) prior to commencement of the 2009/10 programme.

Improving and Maintaining Social Housing

The findings of the 2011 House Condition Survey showed that approximately four per cent of properties in the social sector failed to meet the Decent Homes Standard. The comparable figure in 2006 was 22 per cent. The significant reduction in the non-decency rate primarily reflects ongoing investment in new, more efficient heating systems and insulation in existing properties, and the high energy efficiency standards incorporated in new build dwellings; traditionally the vast majority of social dwellings failing to meet the decent homes standard have failed on the 'thermal comfort' criterion.

The Decent Homes Standard was introduced in Northern Ireland in 2004 to promote measurable improvements to housing in the region, with the aim that the entire social stock would meet the standard by 2010. While the proportion of social stock failing to meet the standard has declined in recent years, the original target was not achieved. The reduced availability of capital funding due to the collapse in income from capital receipts (land and house sales) has meant a serious reduction in the funding available to invest in improvements to Housing Executive stock.

While starts on heating replacement installations were well above target in 2011/12 (5,900 in total), there has been no funding for multi-element improvements since 2008/09, and there remains a residual group of Housing Executive properties in need of more extensive improvement work. Following a pilot scheme in Derry/Londonderry, the Housing Executive has worked with the Department for Social Development and Strategic Investment Board to develop appropriate processes for a selective stock transfer programme, which will see some dwellings transferred from the ownership of the Housing Executive to housing associations in order to facilitate the necessary improvement work. Following tenant consultation, a multi-element improvement transfer scheme in Bangor is expected to proceed in 2013, as a 'test case' for the new transfer protocol.

Due to the availability of additional funding in-year, external cyclical maintenance and kitchen replacement starts in 2011/12 (9,000 and 4,260 respectively) were both above the targets that had been set for the year. Targets of 3,800 kitchen replacements, external cyclical maintenance to 9,500 properties and 3,700 heating replacements were set for 2012/13 and, in line with commitments set out in the Programme for Government, the Housing Executive has set a target of 8,600 double glazing starts during the year.

Maintenance of Housing Association Stock

Registered housing associations are required to meet, from their rental income, the full cost of maintaining their homes over the whole of their useful lives. Overall expenditure figures are not available, but it is estimated that the associations spend £20 million per annum on maintenance and £18 million per annum on major repairs. In addition, they receive about £2 million per year to undertake adaptations for tenants with a disability.

Key Issues and Strategic Perspective

The number of social dwellings in Northern Ireland is likely to continue to grow over the next three years, but at a slower rate, as reduced funding for the Social Housing Development Programme will mean fewer additions to the social stock than in recent years.

Since 2001, the Social Housing Development Programme has failed to keep pace with the steadily rising need for social housing. The most recent model of the future need for social housing, produced in January 2013, estimates that there is an annual requirement for at least 1,200 additional new social dwellings to meet ongoing need. An overall figure of a minimum of 2,000 new social dwellings is seen as being required to make significant inroads into the substantial backlog which has developed since 2001 and to take account of the expected low rate of new private construction over the next three year period.

The effects of the Government's Welfare Reform programme will begin to be felt during 2013, when changes to Housing Benefit rules are introduced. A substantial number of social housing tenants in Northern Ireland are likely to be affected by the changes, in particular the reduction in Housing Benefit where the home is deemed to have more bedrooms than the household requires. The likely associated impacts include an increase in social sector rent arrears and increased demand for the limited stock of smaller properties. Housing Benefit will eventually be subsumed within Universal Credit, which is expected to begin replacing benefits and tax credits in Northern Ireland in 2014.

The Minister for Social Development's announcement on the Social Housing Reform Programme has set a broad direction of travel for significant change in Northern Ireland's social housing sector. Work to establish detailed plans and proposals has already commenced, and the Department aims to put in place new structures to take forward the fundamental review of the Housing Executive by March 2015.

Work on developer contributions to help fund the provision of social and low cost affordable housing needs to be finalised. It is recognised that in the current market conditions a policy on developer contributions would take some years before producing tangible results in the form of additional homes for social renting or low-cost home ownership. The introduction of developer contributions will, however, be a very important requirement in the longer term in the face of growing constraints on public expenditure.

The Co-Ownership scheme continues to play a very important bridging role in meeting the needs of lower income households wishing to access owner-occupancy. The public and private funding that has been committed to the scheme over the next three years will help the organisation continue to fulfil its invaluable role in the context of a very challenging market.

Conclusion

"the significant increase in the number of house sales is a positive sign that the process of stabilisation is accelerating."

Housing Executive

Housing Executive

Conclusion

Northern Ireland's housing market is still undergoing a period of stabilisation. Declining world economic growth, a still unresolved euro area sovereign debt crisis and a prolonged period of austerity provide the wider context for the next three year period. Northern Ireland's labour market remains uncertain and this is reflected in a more cautious approach by banks and building societies to prospective borrowers. Further public expenditure reductions may impact in a disproportionate way in Northern Ireland where approximately one third of all employment is in the public sector and two thirds of GDP is dependent on it.

During the next three years the number of new homes being completed for the private sector is likely to remain well below the recent historic trend. House prices are destined to remain flat, but on balance are more likely to continue to drift downwards, an estimate which unfortunately compounds first-time buyers' reluctance to enter owner occupancy, despite substantial improvements in the affordability ratio of house prices to incomes. However, the significant increase in the number of house sales is a positive sign that the process of stabilisation is accelerating.

The private rented sector has continued to play a vital role in meeting the needs of both younger households on lower incomes, who might in previous decades have become first-time buyers, and low income households who might previously have found suitable accommodation in the social sector. However, ongoing changes to the Housing Benefit system, and their impact on affordability for tenants and viability for landlords, have the potential to undermine this role to a certain extent.

Given the ongoing constraints on the public purse, resources for stimulating the housing market, for new social housing and undertaking improvements and repairs to existing social dwellings will be more limited, making effective housing policy interventions in the market more difficult than at any time in recent decades. Nevertheless it is important that these resources are maximised and used as effectively as possible to address the need for ongoing investment in new social housing, affordable housing through the Co-Ownership scheme, improvement and maintenance of existing stock and measures to address fuel poverty.