

Northern Ireland
Housing Market

Review & Perspectives 2012-2015

Housing
Executive



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Preface

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Preface



We are pleased to be able to present our annual publication *Northern Ireland Housing Market: Review and Perspectives, 2012-2015*. This strategic overview of key trends and issues provides a sound evidence base which guides our intervention in the housing market.

The next three year period will continue to be very challenging for a number of underlying reasons. Northern Ireland's economy is going through a difficult period as a result of wider developments in the global economy. The euro area sovereign debt crisis has compounded the difficulties of achieving the Government's deficit reduction plan and has meant that lower Government spending will penalise Northern Ireland disproportionately because of its dependency on public sector employment. Falling household incomes as a result of rising unemployment and increases in taxation, combined with a more cautious approach to mortgage lending by banks and building societies are reflected in a subdued housing market.

The 2011 House Condition Survey has confirmed the continuing growth of the private rented sector and the growing reliance on this sector by households on lower incomes, who in previous decades would have been first time buyers or would have found accommodation in the social sector. Housing Benefit has over the years played a key role in enabling low income households to access a good quality home in an area of choice as well as providing viable investment opportunities for landlords. The Housing Executive pays out more than £250 million to tenants on low incomes in the private rented sector. Most of this is paid directly to landlords, with the agreement of tenants. We are concerned that the changes to the Housing Benefit system currently being introduced as part of an overall package of welfare reform has the potential to undermine the invaluable role played by the private rented sector in the context of constraints on public expenditure.

The 2011 House Condition Survey also highlights that for the first time since before the Housing Executive was founded, the level of unfitness in Northern Ireland has increased. We are conscious of the difficulties facing the Northern Ireland Executive in allocating scarce resources to housing when faced by equally deserving claims from health and education, but once again would emphasise the important role that good housing can perform in supporting the improvement of standards in these spheres.

We welcome the Programme for Government's commitment to provide funding for 8,000 social and affordable homes, initiatives aimed at reducing fuel poverty and the commitment to ensure all Housing Executive homes have double glazing and hope that the Northern Ireland budget will provide adequate funding to meet these objectives.

Finally, we expect the next three year period to be one of major change in the governance of social housing in Northern Ireland, a period of change which may alter the shape of Northern Ireland's housing market significantly. We are looking forward to the Ministerial announcement which will herald the start of this process and to working with the Department for Social Development to ensure that the changes happen as smoothly and effectively as possible.



A handwritten signature in black ink, reading "John McPeake".


Dr John McPeake
Chief Executive



A handwritten signature in black ink, reading "Brian Rowntree".

Brian Rowntree
Chairman

Introduction



The “Northern Ireland Housing Market: Review and Perspectives” is a key strategic document which is 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 sixteenth consecutive year that the “Review and Perspectives” has been published. Its publication takes place against a background of major ongoing challenges for housing in Northern Ireland. The economic crisis and the concomitant labour market uncertainties have created significant pressures in the housing market, reflected in the difficulties faced by potential first-time buyers attempting to enter owner occupancy and lenders having the confidence to grant them new mortgages. The much tighter public expenditure environment will act to exert downward pressure on the already low levels of activity and the downward drift in house prices.

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 begins by looking at the Programme for Government and public expenditure on housing. It examines Northern Ireland’s economy in the context of important developments in the world economy, and particularly in the Eurozone. It also summarises the most recent socio-demographic data, which are often seen as having the most direct impact on trends in the housing market.

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

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



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 sixteenth 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. It begins by looking at the Programme for Government and the budgetary provision for housing in Northern Ireland.

Programme for Government and Housing Finance

Programme for Government 2011-15

The Northern Ireland Executive published its Programme for Government 2011-15 in March 2012. This document makes it clear that the most immediate challenges for Government lie in supporting economic recovery and tackling disadvantage, and in particular rebuilding the labour market following the impact of the global economic downturn, while simultaneously rebalancing the economy and increasing living standards.

A number of important housing commitments are embedded within the document, including:

- Delivering 8,000 social and affordable homes;
- Introducing and supporting a range of initiatives aimed at reducing fuel poverty across Northern Ireland;
- Improving the thermal efficiency of Housing Executive stock and ensuring full double glazing in its properties.

Northern Ireland's Budget 2011-2015

The Northern Ireland Executive issued its proposed spending plans for 2011-2015 in December 2010 against a background of a significant reduction in the level of funding from the UK Exchequer as a result of the Westminster Government's deficit reduction plan. The final budget was presented to the Assembly on 4th March 2011 after a short period of consultation and indicates that although levels of current expenditure by the Department for Social Development will rise gradually, the level of capital investment (net of receipts) is set to fall sharply: from £150m in 2011/12 to £99m in 2013/14.

The Regional Development Strategy

Northern Ireland's Regional Development Strategy (RDS), published in 2001, has played an important role in shaping its housing market. The Housing Growth Indicators (HGIs), in particular, were the subject of considerable debate. Following a Public Examination in 2006 a new total figure for Northern Ireland of 208,000 (1998-2015) was published. However, in June 2008 the Regional Development Minister announced a fundamental review of the Regional Development Strategy, highlighting that the housing figures had been seen by many as unnecessary and restrictive. A consultation document: *Regional Development Strategy (RDS) 2025* was published in January 2011. The new HGIs in this document are to be seen as guidelines only and in total the document envisages 189,500 new dwellings being built in Northern Ireland over the period 2008-2025. This implies an annual average of approximately 11,150, a smaller number than under the current RDS (12,235 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 Northern Ireland's housing market. In the first half of 2011 there were some signs that the world economy was stabilising. However the financial crisis and increasingly the deeper economic crisis – precipitated by the sovereign debt crisis in the Eurozone has engendered a somewhat bleaker perspective for global economic trends. The IMF's *World Economic Outlook* (January 2012) summarises the position in the following terms: "The global recovery is threatened by intensifying strains in the euro area and fragilities elsewhere. Financial conditions have deteriorated, growth prospects have dimmed, and downside risks have escalated".

The economy of the United States dominates the global economy. In 2011 it grew by 1.8 per cent and growth is expected to stay at approximately this rate in 2012. The unemployment rate has reduced a little to 8.5 per cent, but an estimated 24 million Americans remain unemployed following the 2007-2009 downturn and the US Government is struggling to address its accumulated debt of \$16 trillion. America's housing market remains sluggish. Average prices are continuing to decline (at an annual rate of 3.7 per cent) and new private sector housing starts have continued at a much lower level (a little over 600,000 for 2011, compared with more than two million annually in the early years of the new millennium).

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Developments in the euro area not only play a very important role in determining international economic trends, they have a direct bearing on Northern Ireland's economy. Overall the economy of the euro area grew by 1.8 per cent in 2011. However, this figure disguises some significant international differences, with growth in Germany (+3.0%) contrasting with almost zero growth in Italy and Spain, and a further significant fall (-7%) in GDP in Greece. Unemployment also remains stubbornly high for the euro area as a whole. In Spain the unemployment rate is 21 per cent (4.4 million claimants). In Greece, the prospect of immediate economic collapse has been averted following the bailout agreement in February 2012, which provided €130 billion to the Greek Government, to enable it to avoid bond default, on the basis that it will continue to reduce public expenditure and reduce the debt to GDP ratio from 160 per cent to 120 per cent by 2020.

The Economies of the United Kingdom and the Republic of Ireland

The UK economy

The economy of the UK officially emerged from a sharp recession in Q4, 2009. However, since then GDP growth has remained weak. GDP grew by an anaemic 0.9 per cent for 2011 as a whole compared with 2010 (when the economy grew by 2.1 per cent compared with 2009) and in Q4, 2011 output fell once again (by 0.2 per cent, quarter on quarter). Overall GDP remains at approximately 4.0 per cent less than in 2007 prior to the sharp economic downturn.

The Chancellor's Autumn Statement (November 2011) already recognised Britain's very difficult economic position. It estimated that growth would drop further to 0.7 per cent in 2012 and that unemployment would rise from 8.1 per cent to 8.7 per cent. Government's key priority of reducing the structural deficit has been delayed until 2015/16, when net Government debt is set to peak (at 78 per cent of GDP). Gross Government debt amounts to more than £1 trillion. Treasury figures show that the total austerity package now stands at £147 billion a year, leading inevitably to a very considerable reduction in purchasing power, including income available to meet housing needs or undertake improvements and maintenance work.

The decision by the Bank of England in February 2012 to provide a third tranche of "quantitative easing" worth £50 billion over a three month period (a total of £325 billion has now been pumped into the financial system since 2008) in the face of the continuing Euro area crisis and the ongoing austerity programme in the UK reflects the desire to keep interest rates low and the recognition of the difficult "headwinds" facing the British economy.

The ROI economy

Ireland had been forced to accept a European Union/International Monetary Fund bailout worth almost €70 billion in November 2010. However, in 2011, after three years of recession, the Republic of Ireland's economy experienced an export-led growth of approximately 1 per cent and the rate of unemployment fell from 14.8 per cent in December 2010 to 14.3 per cent in December 2011. Nevertheless, there are still approximately 435,000 unemployed and an estimated 70,000 people emigrated during 2011.

The housing market, continued to stagnate during 2011, when only 10,500 new homes were completed in the private sector, a 28 per cent reduction on 2010 and almost 90 per cent down on the number of completions during 2006 (93,400). House prices, too, continued to fall: during 2011 the average house price at the national level fell by approximately 15 per cent. In all there has been a 46 per cent reduction since the peak of the boom in 2007.

The Northern Ireland Economy

The most recent view of Northern Ireland's economy provided by PwC in November 2011 confirms the very challenging economic context for Northern Ireland's housing market over the coming three years. Northern Ireland's economy shrank by -4.5 per cent in 2009, before recovering to grow by 0.8 per cent in 2010 and an estimated 0.6 per cent, in 2011. In March 2012, PwC estimated that in 2012 too, growth is likely to be 0.2 per cent, approximately one third of the UK rate of 0.6 per cent. "The extremely fragile economic recovery in NI reflects, in part, the very weak UK recovery, the difficulties in the ROL market and a lack of critical mass in the NI private sector".

Unemployment declined (-5,000) to 62,000 in Q4, 2011 compared with the same quarter in 2010. At 7.2 per cent, Northern Ireland's unemployment rate (the proportion of those who are of working age and economically active but unemployed) was significantly lower than that for the UK as a whole (8.4%). The number of working age people who are workless (economically inactive plus unemployed) fell: from 393,000 in Q4, 2010 to 376,000 in Q4, 2011. Despite these falls in the numbers of unemployed and workless, however, approximately one third of the working age population was still classified as workless at the end of 2011 – the highest proportion for any region in the UK.

Demographic Profile

The most recent population projections for the period 2010 to 2020 indicate the following key trends:

- The population of Northern Ireland is set to increase by 6 per cent between 2010 and 2020 to 1,910,000. International migration which played such an important role in Northern Ireland's demography and housing market between 2004 and 2008 is expected to fall sharply and by 2015 out-migration and in-migration are estimated to be broadly in balance.
- The number and proportion of children under 16 is set to increase (5%) to 382,000.
- The number of people aged 16-64 is projected to increase (2%) to 1,183,000.
- The number of people aged 65 and over is projected to increase (9%) to 327,000.
- The number of people aged 75 and over is projected to increase substantially between 2010 and 2020: by 29,000 (25%) to 146,000.

The most recent household projections indicate the overall number of households is set to grow between 2008 and 2023 by 122,000 (18%), with average household size continuing to fall from 2.53 to 2.36. By 2023 approximately one third (34%) of all households will be single person households (compared with 30 per cent in 2008).

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

The Need for Social Housing

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

Following a lull in the upward trend in the waiting list for a period of two years, largely due to the opportunities presented by the private rented sector, the overall waiting list rose to an all-time peak of almost 40,000 in March 2011. Similarly, the number of applicants in housing stress rose to a peak of 21,000. It is difficult to ascertain the relative importance of the factors driving this sudden resurgence. However, the continuing stagnation of the housing market may have, for example, forced more landlords with negative equity to sell some properties or couples wanting to separate to take steps, such as applying for social housing, to meet their temporarily suppressed housing need.

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 2012 for the period 2008-2018. It was based on the 2008 based household projections and housing stock data from the 2006 and 2009 House Condition Surveys. The model indicated that a minimum of 1,100 new social dwellings will be required each year in order to meet the **ongoing** needs of the growing population and, in addition, a further 900 are needed to address both the backlog that has built up since 2001 and the expectation that rates of private sector new build will remain low over the next three year period, giving an overall annual requirement of a minimum 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 unfit 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 will emerge during the year as the modelling work is completed by the Building Research Establishment. However, the 2009 House Condition Survey indicated that 44 per cent of households were in fuel poverty. Given the substantial increases in fuel prices since then and more recently the fall in household incomes, the proportion in fuel poverty in 2011 is likely to be around 50 per cent.

Reducing the high rate of fuel poverty (at least 44%) in Northern Ireland remains a very difficult challenge in the short term, given that energy prices are to remain high and household incomes have started to fall. Improving the fabric of dwellings can ameliorate the impact of fuel poverty significantly, but cannot eradicate it altogether. The ongoing Government review of the definition of fuel poverty will help focus scarce resources on those most in need.

Key Issues and Strategic Perspectives

The world economy appears to have 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. 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 number of households is continuing to rise, although the 2011 House Condition Survey indicates that 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 (40,000) and those in “housing stress” (21,000) have risen sharply over the past year. The Net Stock Model indicates a lower ongoing annual requirement (1,100) for new social housing in the period 2008-2018 reflecting lower expected levels of household formation. However, the annual requirement has been set at a minimum of 2,000 to reflect a significant backlog which has developed since 2001 and the very challenging market conditions, which make it unlikely that there will be a significant upturn in the rates 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, reflecting, primarily the lower levels of disposable income available for improvements and repairs.

Reducing the level of fuel poverty in Northern Ireland in the context of high energy prices, falling disposable incomes and constraints on public expenditure will continue to be an exceptionally difficult challenge for policy makers.

Chapter 2

Owner Occupation

New Housing

The rapid growth of the owner occupied sector which characterised Northern Ireland's housing market during the first seven 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.

The construction of new dwellings in the private sector has remained at a much lower level than during the mid-noughties. In 2006/07 almost 14,000 new private sector dwellings were started. Following the sharp downturn in the market in 2007/08 this annual figure fell to less than half of that. In 2010/11 there were fewer than 6,000 new starts (40 per cent of the previous peak).

House Prices

House price figures indicate that the UK housing market remained generally flat during 2011, with higher price rises in London and the South East being counteracted by reductions in the North, Scotland and Northern Ireland. Northern Ireland now has the lowest average house price in the UK (31 per cent below the UK average).

The University of Ulster index recorded an annual weighted decline of -10.7 per cent between Q4, 2010 and Q4, 2011. However, this figure disguises significant regional variations and in addition there are signs that the transaction rate is rising again, particularly for first-time buyers who in the first six months of 2011 were responsible for almost three-fifths of all transactions.

Affordability

The most recent analysis of affordability in the Northern Ireland housing market is more encouraging for first time buyers. By the fourth quarter of 2011, house prices had returned to 2005 levels and the affordability index shows that, even in 2010, significantly lower house prices and slightly higher incomes meant that house price to household income ratios were much more sustainable.

However, continuing labour market uncertainty, fears that house prices may fall further still, the more cautious approach to mortgage lending being applied by banks and building societies (including lower loan-to-value ratios) and the relatively high incidence of negative equity in Northern Ireland all continue to militate against higher transaction rates and improved opportunities for first-time buyers and investors.

Sale of Housing Executive Dwellings

Since 1979 the Housing Executive has sold more than 117,000 dwellings to sitting tenants. They now account for 15 per cent of the market as a whole. Traditionally they have offered a low cost route into home ownership, both for tenants and upon resale

for first time buyers. In 2002/03 almost 6,000 were sold. However, a combination of much higher house prices and the capping of the maximum discount at £24,000 led to a sharp drop in the number: approximately 250 have been sold in each of the last two financial years. A similar number is expected to be sold in 2011/12.

Condition of the Stock and Grant Aid

Preliminary figures emerging from the 2011 House Condition Survey showed that housing conditions in the owner occupied sector had remained broadly unchanged since 2009. The rate of unfitness was one per cent (4,600 dwellings). However, the unfitness rate of vacant properties increased significantly and may well partly reflect the significant reduction in grant aid over the past two years.

Key Issues and Strategic Perspective

Given the ongoing labour market uncertainty, the downward pressure on household incomes, the more cautious approach to mortgage lending being applied by banks and building societies and the low levels of consumer and investor confidence which results from these factors, it is likely that the proportion of dwellings in the owner occupied sector will continue to decline over the next three years.

House prices have certainly returned to more sustainable levels and for those who can gain access to a mortgage, owner occupation continues to be the most viable way for households to meet their housing needs. However, given that effective demand from first time buyers will be constrained it is likely that the number of new dwellings constructed annually will remain low compared to the early and mid-noughties. It is estimated that an average of 7,000 new private sector dwellings will be constructed in each of the three years from 2012/13 to 2014/15.

During the three year period 2004-2007 Northern Ireland experienced an unprecedented investor driven boom which saw house prices increase by 51% between Q2, 2006 and Q2, 2007. The inevitable correction followed. Average house prices have now fallen by approximately 45 per cent from peak to trough. Ongoing labour market uncertainty and further reductions in public expenditure would indicate that prices are likely to drift downwards by around five per cent.

The substantial fall in house prices since 2007 has seen house prices return to their 2005 level. In terms of the house price to income ratio, therefore, affordability for first time buyers is no longer such an issue. The Affordability Index shows that with regard to house price to income ratios, the housing market is now much more affordable in comparison to 2008. Nevertheless, continuing caution by lenders and the requirement to pay more substantial deposits mean that affordability remains a key issue.

The 2011 House Condition Survey indicates that, for the first time, the level of unfitness in the owner-occupied stock has not reduced, indeed, if vacant properties in the sector are included, it has increased. Rising rates of unfitness reflect not only lower household incomes, but also to a certain extent the sharp reduction in the budget for home improvement grants since 2008/09.

Chapter 3

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.

A Profile of the Private Rented Sector

The 2011 House Condition Survey confirmed that the profile of the stock is continuing to change. In 2006 the sector still had a relatively high proportion of pre-1919 dwellings (28%); 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 continued to fall: in 2006 it stood at 2.7 per cent, but by 2011 this had fallen to 2.0 per cent. However, this rate of unfitness is still higher than for the remainder of the occupied stock and there has been significant growth in the number of vacant properties in this sector which failed the Fitness Standard.

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 more than £250bn and unlike in Great Britain – most of this was still being paid directly into the accounts of private landlords.

A number of key changes to the Housing Benefit system will reduce this level of support: in particular Local Housing Allowances calculated on the basis of the 30th percentile rather than the median (50th percentile); and the shared accommodation rate applied to single people up to the age of 35 instead of 25. It is too early to estimate specific effects of these changes, but it is important to highlight a number of potential issues in terms of the housing market:

- An estimated £15 million direct subvention to landlords and tenants will be removed from the sector in Northern Ireland, with potentially significant effects on the viability of investments.
- Landlords unable to accept lower rents may respond by evicting or not renewing tenancies for households on low incomes, who cannot afford to pay the difference between the new lower Housing Benefit payment and the market rent, leading to a rise in arrears, homelessness and greater pressure on the social housing sector.
- A growing (income-based) segregation in the private rented sector, with lower income households more concentrated in poorer quality housing and an increase in overcrowding.

Research into the Private Rented Sector

In 2006, the Housing Executive launched a further phase of research into the private rented sector in partnership with the University of Ulster. This has provided further useful information on affordability, landlord-tenant relationships and a landlord perspective.

Living in the Private Rented Sector: The Experience of Tenants (2009)

- ➔ More than one-third (35%) of tenants indicated that an inability to access other tenures was their main reason for living in the private rented sector.
- ➔ Two-fifths (41%) of respondents paid a deposit for their current accommodation, paying on average £294.
- ➔ Overall sixty per cent of respondents were in receipt of Housing Benefit. Of these, the majority (68%) had to pay a shortfall between the Housing Benefit they received and the total rent payable. The average shortfall that tenants had to pay was £20 per week.
- ➔ The majority (89%) had a good relationship with their landlord/letting agent and almost three-quarters (72%) were satisfied or very satisfied with the overall service provided.

The Private Rented Sector: The Landlord Perspective (2010)

- ➔ Northern Ireland's private rented sector remains a "cottage industry"; the majority of landlords operate on a small scale, although typical portfolio sizes have increased in the last five years.
- ➔ One quarter (25%) of landlords had entered the sector in the previous five years. The main reason for more than one third (35%) was to part-fund their retirement, for 20 per cent it was to benefit from a rental income, and a further 15 per cent were "accidental" landlords.
- ➔ The portfolio of the majority of landlords (69%) is financed mainly through mortgages or loans: 38 per cent with Buy to Let Mortgages and 24 per cent with Interest Only Mortgages. More than one third (38%) of those who had outstanding mortgages/loans had loan-to-value ratios of 76 per cent or more.

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. However, the number of lettings has tended to increase, reflecting rising demand for, and increasing turnover in, this type of accommodation.

Houses in Multiple Occupation (HMOs)

There are more than 10,000 HMOs in Northern Ireland. They continue to play an important role in meeting the housing needs of people who are single, who have temporary employment, students, low income households and, more recently, migrant workers. The Housing Executive's HMO strategy seeks to ensure that physical standards are improved, that appropriate advice and information is available, that HMOs are well managed and that the adverse effects of concentrations of HMOs are reduced. An important element of this strategy is the implementation of the registration of HMOs. So far more than 4,000 have been registered.

A Strategy for the Private Rented Sector in Northern Ireland

The Department for Social Development launched its *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 landlords and tenants.

Key points from the strategy include:

- The introduction of mandatory registration of all private landlords and agents acting on their behalf, including details of all properties available for rent.
- An improved management framework, which will provide greater security of tenure in the future. In the interim, notice to quit periods will be increased to a minimum of eight weeks for households who have been a tenant for between five and ten years and to 12 weeks for those who have been tenants for more than 10 years.
- All private rented accommodation should meet an enhanced standard similar to the Decent Homes Standard.
- The introduction of a Northern Ireland Rent Deposit Scheme providing better protection for tenants' deposits and a means for resolving landlord / tenant disputes in this field.

Key Issues and Strategic Perspective

The private rented sector continued to grow rapidly between 2006 and 2009. Following a lull in activity after the autumn of 2007 when the housing bubble burst, substantial falls in house prices re-activated investors' interest in the market. The sector continued to grow between 2009 and 2011 to reach a total of 125,000 (16.5% of the total stock). If vacant properties in the sector are included this figure rises to 144,500 (19%).

Rising waiting lists for social housing and affordability issues for first time buyers as a result of ongoing labour market uncertainty and caution by lenders will ensure that the private rented sector continues to play an important role in Northern Ireland's housing market, and indeed will increasingly meet the needs of lower income households, who in the 1980s and 1990s may have had their housing needs met by the social sector.

Some investors – particularly those who bought at the height of the boom with the help of a high loan-to-value ratio mortgage – are leaving the sector. However, given the expected continued demand for private renting from first-time buyers unable to afford their first home, and the continuing pressure on the social housing budget, the risk of large-scale disinvestment is seen as low.

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, the increase in non-dependant deductions and, in the longer term, the ending of direct payment to landlords in consequence of the introduction of Universal Credit could significantly undermine the viability of the sector for a significant number of investors.

Since 2007 average rental levels in the Belfast Metropolitan Area have remained broadly consistent and the number of lettings has tended to increase. This level of demand is set to continue.

The condition of the occupied private rented stock is continuing to improve as more and more modern houses become part of the sector, and the level of unfitness is now low. However, the number of unfit vacant properties in the sector has risen significantly. Addressing this issue at a time of severe financial constraints will prove challenging for Government.

Houses in Multiple Occupation (HMOs) will continue to play an important role in housing single person households including students, young professionals and migrant workers.

The implementation of the Department for Social Development's strategy for the private rented sector will help address a number of important issues, including awareness of rights and responsibilities, security of tenure, housing quality, management standards and the resolution of landlord tenant disputes, including those concerning deposits.

Chapter 4

Social Housing

In 2009 Northern Ireland's social housing sector consisted of approximately 117,400 dwellings (17% of the total stock). The Housing Executive owned and managed some 89,000 dwellings and registered housing associations a further 29,200 self-contained rented units. The housing stock remains in very good condition. The 2011 House Condition Survey confirmed that only a very small proportion (<1%) of dwellings fail the Fitness Standard. Nevertheless there is a significant amount of ongoing improvement and replacement work to be carried out, with 15 per cent of Housing Executive homes failing the Decent Homes Standard in 2009.

The Continuous Tenant Omnibus Survey (2010) confirmed the growing residualisation of the Housing Executive's stock, characterised by a growing concentration of low income households. Only 15 per cent of household reference persons were working and more than half (51%) of households had incomes of less than £10,400 a year.

Co-ownership Housing

The Northern Ireland Co-ownership Housing Association continues to play a vital role in facilitating the access of low income households to owner occupancy at a time of ongoing affordability problems for first time buyers. In 2010/11 a further 492 properties were bought through the Co-ownership scheme, a slightly higher figure than in the previous year (461) at a total cost of almost £60 million (£26m from NICHA). The increased funding commitment of £10 million annually from the Northern Ireland Executive for each of the next three years, along with the continued support of the banks and building societies will enable an additional 600 homes to be purchased annually through Co-ownership.

The Social Housing Development Programme

A target of 2,000 new social dwellings had been set for 2010/11. Actual outturn of 2,418 exceeded this target. Reduced funding availability meant that a target of 1,400 has been set for the financial year 2011/12. Meeting this target is proving to be a very challenging task.

Improvement and Maintenance Programmes

The need for adequate funds for maintenance and improvement of the social housing stock continues to be of great importance. A significant number of Housing Executive dwellings still require improvement works to bring them up to modern day standards. Approximately 15,000 dwellings still require heating replacement schemes to ensure they meet the Decent Homes Standard and although only very few Housing Executive dwellings fail this standard on the modernisation criteria, there is an ongoing need for kitchen and bathroom replacements to ensure that this position does not deteriorate. In line with a Programme for Government commitment, the Housing Executive is putting a programme in place which will ensure all tenants have double glazing by 2015.

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 2012, estimates that there is an annual requirement for at least 1,100 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.

Work on developer contributions to help fund the provision of social and low cost affordable housing needs to be finalised. While 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 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. More sustainable funding arrangements, including the greater use of private finance, will help the organisation continue to fulfil its invaluable role in the context of a very challenging market.

Ongoing constraints on the finance available for Housing Executive improvement and maintenance programmes will delay the attainment of the Decent Homes Standard for social housing in Northern Ireland.

A ministerial announcement regarding the recommendations made by PwC in its Fundamental Review of the Northern Ireland Housing Executive has the potential to lead to significant changes in the ownership and management of Northern Ireland's social housing stock in the longer term.

Conclusion

Developments during 2011 indicate that Northern Ireland's housing market is still undergoing a period of adjustment. 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 will 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.

House prices are destined to remain at best flat, but on balance are more likely to continue to drift downwards during 2012, 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. Co-Ownership has continued to play an invaluable bridging role in enabling approximately 500 households on low incomes each year to become home owners.

The private rented sector has also played a valuable role in recent years in meeting the needs of younger households on lower incomes, who might in previous decades have become first-time buyers. It also continues to play an important role in meeting the housing needs of 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.

The 2011 House Condition Survey indicates that conditions in the private sector, and particularly in vacant properties, have deteriorated over the last two years. This is not surprising given the budgetary pressures on households and landlords, but may also partly reflect reduced availability of home improvement grants.

The most recent estimates of housing need based on the Net Stock Model and analysis of the waiting list for social housing indicate the need for a minimum annual programme of 2,000 additional social dwellings, although resources will only be available for a significantly lower number. The proposals to reduce Housing Benefit to tenants in the social sector if they occupy more bedrooms than deemed necessary and the substantial increase in non-dependant deductions may add to the stress on social housing providers, who may have to deal with rising homelessness, an increasing demand for social housing and rising arrears.

The Programme for Government confirms that resources for stimulating the housing market, for new social housing and undertaking improvements and repairs to existing social dwellings will be more constrained, making effective housing policy interventions in the market more difficult than at any time in recent decades. The new Housing Strategy for Northern Ireland to be launched by the Minister for Social Development later this year will undoubtedly throw new light on how to address these very challenging housing market conditions.



1

Chapter

The Strategic Context

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%)	n/a
Rural	212,900 (33%)	211,200 (30%)	231,500 (31%)	n/a
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%)	35,000 (4.6%)
Non-Decent Home (rate)	205,800 (31.8%)	162,100 (23.0%)	112,000 (15.1%)	n/a
Fuel Poverty (rate)	167,100 (27.3%)	225,600 (34.2%)	302,300 (43.7%)	n/a
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 – March 2001	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 (minimum)	1,500	2,500	3,000	2,500

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

Programme for Government and Resources for Housing

Programme for Government 2011-15

The Northern Ireland Executive published its Programme for Government 2011-15 in March 2012.



The document makes it clear that the most immediate challenges for Government lie in supporting economic recovery and tackling disadvantage, and in particular rebuilding the labour market following the impact of the global economic downturn, while simultaneously rebalancing the economy and increasing living standards.

The Programme for Government (PfG) therefore highlights five priorities:

1. Growing a sustainable community and investing in the future;
2. Creating opportunities, tackling disadvantage and improving health and well-being;
3. Protecting our people, the environment and creating safer communities;
4. Building a strong and shared community;
5. Delivering high quality and efficient public services.

A number of important housing commitments are embedded within the Programme for Government, including:

- ➔ Delivering 8,000 social and affordable homes;
- ➔ Introducing and supporting a range of initiatives aimed at reducing fuel poverty;
- ➔ Improving the thermal efficiency of Housing Executive stock and ensuring full double glazing in its properties.

However, the PfG itself recognises the challenges resulting from the “significant financial constraints due to a substantial reduction in the block grant” (p.13).

Northern Ireland's Budget 2011-2015

The Northern Ireland Executive issued its proposed spending plans for 2011-2015 in December 2010 against a background of a significant reduction in the level of funding from the UK Exchequer as a result of the Westminster Government's deficit reduction plan. The final budget was presented to the Assembly on 4th March 2011 after a short period of consultation and indicates that current expenditure by the Department for Social Development will rise gradually up to 2013/14 before declining again. For capital investment (net of receipts), however, expenditure falls sharply from £150m in 2011/12 to £99m in 2013/14. It is expected that new budget figures will be published during the course of 2012 to reflect the agreed Programme for Government.

The Regional Development Strategy

The Regional Development Strategy (2001) has played a very significant role in shaping Northern Ireland's housing market. It has provided a spatial planning framework that guides physical development, and in particular housing, in Northern Ireland and emphasises the importance of decent housing, including the availability of affordable and special needs housing and the need for balanced and integrated development.

The original Regional Development Strategy (RDS) envisaged a requirement for 160,000 additional dwellings during the period 1998-2015. Housing Growth Indicators (HGIs) were established which reflected demand and potential for growth for each of the district council areas outside the BMA. New demographic and housing figures which became available from the 2001 Census and the 2001 House Condition Survey underpinned revised estimates in relation to household formation, vacancy rates and the demand for second homes. This resulted in a requirement for an estimated additional 40,000 homes by 2015, bringing the overall total required to 200,000. Following a Public Examination in February 2006 the independent panel broadly endorsed the methodology used to calculate the HGIs, but recommended that the figure for Northern Ireland as a whole should be increased by 8,000 to 208,000 to take account of more recent (2004 based) population projections and in particular the growing number of migrant workers.

In June 2008, the then Minister for Regional Development, emphasising the need for change, announced a fundamental review of the RDS. In particular, he noted the criticism of the HGIs in the RDS, which had been seen by many as unnecessary and restrictive in terms of forward planning, and signalled that housing indicators should be more reflective of local need and the growth potential of particular areas.

In response to this the Department for Regional Development published a consultation document: Regional Development Strategy (RDS) 2025. It provides a spatial framework and strategic guidelines which aim to provide long term policy directions from a strategic spatial perspective. The concept of sustainable development provides a central focus for the document and managing housing growth is seen as a key element of this. The new Housing Growth Indicators are "not to be seen as a rigid framework, but as guidelines for local planning based on predicted growth patterns"².

The consultation document envisages that a total of 189,500 new dwellings will be required over the 17 year period from 2008 to 2025. This represents an average annual requirement of approximately 11,150, a smaller number than in the current RDS (12,235 per annum), and reflects the projected decline in the rate of household formation. The period for consultation ended in August 2011. The revised RDS is due to be published in March 2012.

² DRD (2011) *Regional Development Strategy (RDS) 2025*, Belfast: Department for Regional Development, p.112.

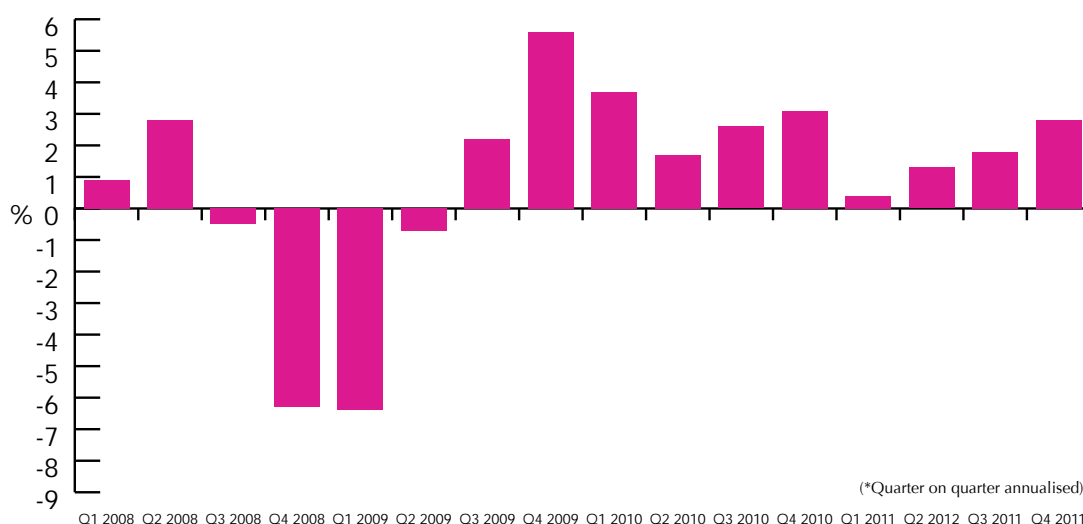
The Economic Context

The World Economy

The world economy is an important underlying determinant of Northern Ireland's housing market.

In the first half of 2011 there were some signs that the world economy was stabilising. However the financial crisis – and increasingly the economic crisis – precipitated by the sovereign debt crisis in the Eurozone has engendered a somewhat bleaker perspective for global economic trends. The IMF's *World Economic Outlook* (January 2012) summarises the position in the following terms: "The global recovery is threatened by intensifying strains in the euro area and fragilities elsewhere. Financial conditions have deteriorated, growth prospects have dimmed, and downside risks have escalated. Global output is expected to expand by 3.25 per cent in 2012 – a downward revision of about 0.75 percentage points relative to the September 2011 *World Economic Outlook*"³. The IMF attributes this downward revision to the expected mild recession in the Euro area as a result of the sovereign debt crisis, the impact of banks "deleveraging" on the wider economy and the impact of further "fiscal consolidation". Growth in developing and emerging countries is also expected to slow as a result of weakening internal demand and greater difficulties in the global economy as a whole.

Figure 1: USA: Change in GDP*, 2008-2011



Source: U.S. Bureau of Economic Analysis

USA

The economy of the United States dominates the global economy. In 2011 it grew by 1.8 per cent, but over the year the growth rate accelerated to reach 2.8 per cent (annualised quarterly rate) in Q4, 2011 (See figure 1).

³ IMF (January 2012) *World Economic Outlook Update*
(<http://www.imf.org/external/pubs/ft/weo/2012/update/01/index.htm>)

However, a significant proportion of this growth came from the build up of inventories and the rate is expected to fall back to under 2.0 per cent in 2012. The unemployment rate has reduced a little to 8.5 per cent, but an estimated 24 million Americans remain unemployed following the 2007-2009 downturn and the US Government is struggling to address its accumulated debt of \$16 trillion.

America's housing market remains sluggish. The most recent figures from the leading Case-Shiller index (November 2011) indicate that average prices are continuing to decline (at an annual rate of 3.7 per cent), bringing house prices back to their 2002 level. New private sector housing starts have continued at a much lower level (a little over 600,000 for 2011) compared to the more than two million in the early years of the new millennium.

Euro Area

Developments in the euro area not only play a very important role in determining international economic trends, they have a direct bearing on Northern Ireland's economy. In 2010/11 the European Union (including the Republic of Ireland) accounted for almost half of Northern Ireland's exports. Overall the economy of the euro area grew by 1.8 per cent in 2011. However, this figure disguises some significant international differences: growth in Germany (+3.0%) contrasts with almost zero growth in Italy and Spain, and a further significant fall (-7%) in GDP in Greece. Unemployment also remains stubbornly high for the euro area as a whole, despite falling to its lowest level (6.8%) in Germany for more than two decades. In Spain the unemployment rate is 21 per cent (4.4 million claimants), with youth unemployment at 46 per cent.

In Greece, the prospect of immediate economic collapse has been averted following the bail out agreement in March 2012, which provides €130 billion to the Greek Government, to enable it to avoid bond default, on the basis that it will continue to reduce public expenditure and reduce the debt to GDP ratio from 160 per cent to 120 per cent by 2020. As in Spain, high levels of unemployment (more than 20 per cent; including more than 40 per cent youth unemployment) make it unlikely that the Greek economy will return to growth in the foreseeable future. The knock-on effects of a potential Greek withdrawal from the euro area on the European Union, including Britain and Ireland, should not be underestimated.

The Economies of the United Kingdom and the Republic of Ireland

The UK economy

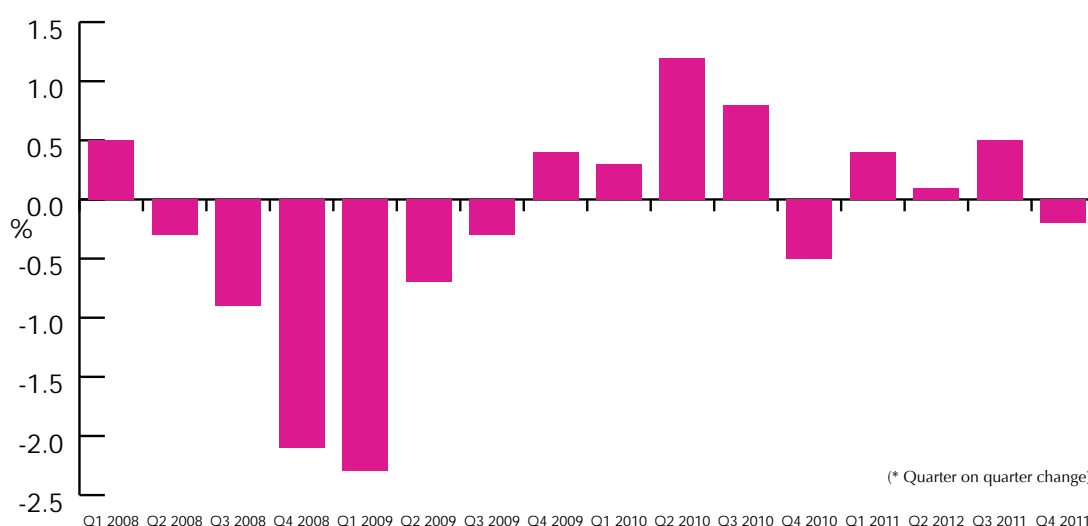
The economy of the UK officially emerged from a sharp recession in Q4, 2009. However, figure 2 shows that since then GDP growth has remained weak. GDP grew by an anaemic 0.9 per cent for 2011 as a whole compared with 2010 (when the economy grew by 2.1 per cent compared with 2009) and in Q4, 2011 output fell once again (by 0.2 per cent, quarter on quarter). Overall GDP remains at approximately 4.0 per cent less than in 2007 prior to the sharp downturn.

The Chancellor's Autumn Statement (November 2011) already recognised Britain's very difficult economic position. It estimated that growth would drop further to 0.7 per

cent in 2012 and that unemployment would rise from 8.1 per cent to 8.7 per cent in 2012, before dropping back to 6.7 per cent in 2015/16. Government's key priority of reducing the structural deficit was delayed until 2015/16, when net Government debt is set to peak (at 78 per cent of GDP). Gross Government debt amounts to more than £1 trillion.

In order to address this rising deficit, the Autumn Statement envisaged a range of measures, including ongoing pay restraint in the public sector, (with pay rises to be capped at one per cent for two years after the current freeze ends in 2013), and savings of approximately £1 billion a year from reductions in Child Tax Credit and £280 million a year from working tax credits. Treasury figures show that the total austerity package now stands at £147 billion a year, up from the £126 billion in the March budget, leading inevitably to a very considerable reduction in purchasing power, including income available to meet housing needs or undertake improvements and maintenance work.

Figure 2: UK: Change in GDP*, 2008-2011



Source: Office for National Statistics

The enormous challenges facing the British economy are borne out by the most recent statistics:

- ➔ Unemployment stood at 2.67 million (8.4%) for Q4, 2011, an increase of 48,000 on the previous quarter. The number of people working part-time, who want to work full time rose to a new record of 1.35 million (an increase of 83,000 on the previous quarter and the highest figure since comparable records began in 1992).
- ➔ The downturn in consumer purchasing power and confidence is reflected in a slump in new car sales: in 2011 only 1.94 million new cars were sold, a decline of 4.4 per cent on 2010.
- ➔ Sales volumes rose 1.1 per cent between Q3, 2011 and Q4, 2011, but this reflected heavy discounting, rather than an upturn in consumer confidence.

The number of mortgage approvals for house purchase (Bank of England figures) remained flat at approximately 53,000 for December 2011 – still well below the 75,000 for December 2007 at the start of the recession and a huge reduction from the

113,000 that were made in July 2007 at the peak of the housing market boom. There is the additional concern that the December figure reflects first time buyers trying to beat the March deadline when the first-time buyer exemption on stamp duty for dwellings up to £250,000 will cease.

In February 2012 the Bank of England took the decision to provide a third tranche of “quantitative easing” worth £50 billion over a three month period, bringing the total pumped into the financial system since 2008 to £325 billion. In the face of the continuing euro area crisis and the ongoing austerity programme in the UK, this course of action reflects the desire to keep interest rates low and the recognition of the difficult “headwinds” facing the British economy. It brings with it, however, further difficulties for pension funds and savers. Pensioners who rely on savings for a significant proportion of their income will be disproportionately affected.

The RoI economy

Ireland had been forced to accept a European Union / International Monetary Fund bailout worth almost €70 billion in November 2010. This, together with an emergency budget in December 2010, aimed to rehabilitate Ireland’s debt ridden banks and reduce the Government’s huge budgetary deficit by €15 billion. In 2011 after three years of recession, the Republic of Ireland’s economy experienced an export-led growth of approximately one per cent, with a record level of investment by foreign companies creating a total of 13,000 jobs.

The rate of unemployment had fallen from 14.8 per cent in December 2010 to 14.3 per cent by December 2011. However, there were still approximately 435,000 unemployed and an estimated 70,000 people emigrated during 2011 – the majority of these were in their twenties and were seeking employment. Youth unemployment has declined, but long-term unemployment increased significantly during 2011 (by 16%) to reach 181,000.

The Republic of Ireland’s housing market, has continued to stagnate during 2011. Only 10,500 new homes were completed in the private sector, a 28 per cent reduction on 2010 and almost 90 per cent down on the completions during 2006 (93,400). House prices, too, continued to fall: during 2011 average house price at the national level fell by approximately 15 per cent. In all, there has been a 46 per cent reduction since the peak of the boom in 2007.

The Northern Ireland Economy

The most recent view of Northern Ireland’s economy provided by PwC in November 2011 confirms the very challenging economic context for Northern Ireland’s housing market over the coming three years. Northern Ireland’s economy shrank by -4.5 per cent during 2009, before recovering in 2010 to grow by 0.8 per cent and an estimated 0.6 per cent in 2011. In March 2012 PwC estimated that in 2012, growth is likely to be 0.2 per cent, approximately one third of the UK rate of 0.6 per cent. “The extremely fragile economic recovery in NI reflects, in part, the very weak UK recovery, the difficulties in the RoI market and a lack of critical mass in the NI private sector”⁴.

⁴ PwC, *Northern Ireland Economic Outlook, November 2011*, p. 1.

Northern Ireland's labour market

Employment, unemployment and worklessness are key labour market indicators which impact on the health of the housing market. The increasing level of employment and rising household incomes were key factors in the buoyancy of Northern Ireland's housing market since 1996. Since late 2007, however, the deterioration in Northern Ireland's economy has been reflected in a significant rise in unemployment and worklessness. During 2011 there were signs of some improvement in labour market conditions, but the level of unemployment has remained much higher than in 2007.

Table 1 sets out the key labour market statistics for Q4, 2010 and Q4, 2011:

Table 1: Key Labour Market Statistics for Northern Ireland, 2010-2011

	Q4, 2010	Q4, 2011	YoY Change
Employment	774,000 (71.7%)	800,000 (72.8%)	+26,000
Unemployment	67,000 (8.0%)	62,000 (7.2%)	-5,000
Economic Inactivity	326,000 (28.3%)	314,000 (27.2%)	-12,000
Worklessness (18 – 59/64)	393,000 (34.1%)	376,000 (32.5%)	-17,000

Source: DETNI, *Monthly Labour Market Report, February 2012 (Seasonally adjusted)*

- ➔ Employment (including employees, self employed and those on government programmes) rose by 26,000 between Q4, 2010 and Q4, 2011, to 800,000.
- ➔ Unemployment declined (-5,000) to 62,000 in Q4, 2011 compared with the same quarter in 2010. Northern Ireland's unemployment rate (the proportion of those who are of working age and economically active but unemployed) was 7.2 per cent and was significantly lower than that for the UK as a whole (8.4%).
- ➔ There were 314,000 (27.2%) economically inactive people of working age in Northern Ireland in Q4,2011. This figure had also fallen over the previous 12 months by 12,000.
- ➔ The number of working age people who were workless (those who are economically inactive plus those who are unemployed) had also fallen: from 393,000 in Q4, 2010 to 376,000 in Q4, 2011. However, approximately one third of the working age population was classified as workless – the highest rate for any region in the UK.
- ➔ An estimated 91 per cent of those who were of working age but economically inactive did not want employment; the remaining 9 per cent (50,000) did want to work but did not satisfy the job search criteria. However, when this group of 50,000 was combined with the 62,000 who met the criteria it effectively meant that in Q4,2011 Northern Ireland had approximately 112,000 people who were unemployed.

Northern Ireland continues to have a lower level of earnings than for the UK as a whole. Average gross weekly household income in Northern Ireland (2007-2009) was £602, compared to £685 for the UK as a whole⁵.

⁵ DSD, *Housing Statistics, 2010/11*, Table 6.8

Economic outlook for Northern Ireland

The outlook for the Northern Ireland economy for the next three years must be seen as extremely challenging. Northern Ireland's economy has to a certain extent remained insulated because of the high level of public sector employment – approximately one-third of all employees are in the public sector and almost two-thirds of regional GDP is funded directly or indirectly by Government. However, the effects of constraints on growth in public expenditure, together with high levels of indebtedness, high energy costs and increases in taxation will continue to militate against an economic upturn in the short term.

Demographic Trends

Population growth and the rate of future household formation are key drivers of Northern Ireland's housing market. Predicting the rate of population growth is relatively straightforward. However, estimating the rate of household formation – the more important indicator of the future need and demand for housing – is more challenging because it is much more dependent on economic factors. In recent years NISRA has provided bi-annual projections of both population and households, but emphasises that these are projections based on extrapolation of past trends. Significant adjustments had to be made in the 2004 based population projections to take account of the unexpectedly large in-migration of migrant workers from Eastern Europe. Projections of household formation, however, have so far not been adjusted to take into account the hiatus in the Northern Ireland economy which was precipitated by the slump in its housing market in 2007/08 and the subsequent continuing economic malaise since. The number of households in Northern Ireland has continued to increase: the 2011 House Condition Survey indicated that between 2009 and 2011 the number of households in Northern Ireland increased from approximately 692,000 to 705,000. However, until the Census figures for 2011 are published and new projections based on this are undertaken, the latest projections of household formation must be treated with some caution.

Population Projections

The Office for National Statistics published its 2010 based population projections for Northern Ireland in October 2011. The projections indicate a number of important changes in Northern Ireland's demography over the 10 year period to 2020:

- ➔ The population is projected to increase (6%) from 1,799,000 in 2010 to 1,910,000 in 2020.
- ➔ The net projected increase of 111,000 is almost wholly attributable to a natural increase (the difference between the numbers of births and deaths) of 106,000. Net inward migration accounts for the remaining 5,000 but will decline and from 2015 onwards out-migration and in-migration are projected to be broadly in balance.
- ➔ The number of children aged under 16 is projected to increase (5%) from 382,000 in 2010 to 400,000 in 2020.
- ➔ The number of adults aged 16-64 is projected to increase (2%) from 1,157,000 in 2010 to 1,183,000 by 2020. However the proportion of the population in this age group is set to fall from 64 per cent to 62 per cent.
- ➔ The number of people aged 65 and over is projected to increase (9%) from 260,000 in 2010 to 327,000 by 2020. However, the number of people aged 75 and over is projected to increase by 29,000 (25%) from 117,000 in 2010 to 146,000 in 2020.

Household Projections

The most recent (2008 based) household projections were published in 2010. They show 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 per

household. The rate of projected growth in the number of households is largest in the West and South of Northern Ireland compared to Greater Belfast and the North of Northern Ireland – a projection which seems to be somewhat counter-intuitive given that much of the growth in employment in more recent years has been in the Greater Belfast area.

Table 2: Household Projections by Size of Household, 2008-2023

	2008 No (% of Total)		2023 No (% of Total)		% +/- in number
1 Person	204,500	(30%)	273,800	(34%)	+34%
2 Person	197,300	(29%)	242,300	(30%)	+23%
3 Person	109,100	(16%)	116,500	(14%)	+7%
4 Person	101,400	(15%)	108,100	(13%)	+7%
5+ Person	76,400	(11%)	69,800	(9%)	-9%
TOTAL	688,700	100%	810,400	100%	+18%
Average household size	2.53		2.36		

Source: NISRA, *Household Projections, 2008*

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%). Table 2 shows that the number of single person households in particular is set to increase significantly – by 34 per cent. Indeed by 2023, 34 per cent of the total number of households will be single person (compared with 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:

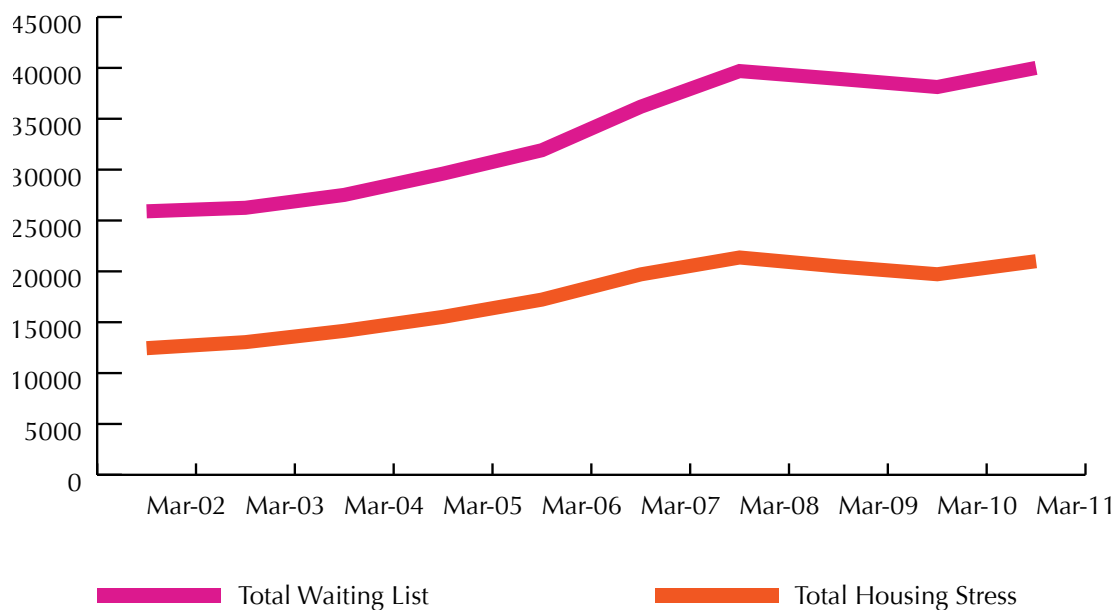
- The increasing number and proportion of one and two person households will have some impact on the size and design of dwellings as households often require an extra bedroom as a place of work or recreation.
- The steady rise in the number and proportion of people of pensionable age, and in particular 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. Meeting the housing and support needs of older people is a key challenge facing the housing profession and policy makers at a time of downward pressure on income from pensions and savings.

The Need for Social Housing

The Waiting List for Social Housing

The Waiting List for social housing is a very important source of information for understanding 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 3: Trends in the Waiting List, 2002-2011



Source: NIHE

Figure 3 illustrates the overall trends in the Waiting List between 2002 and 2011. An analysis of these figures 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 overall list decreased a little to 38,120, before rising to an all-time peak of almost 40,000 in March 2011.
- ➔ 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 2010, however, this number fell to approximately 19,700, before rising again to almost 21,000 in March 2011.
- ➔ It is difficult to ascertain the relative importance of the factors driving this pattern of change. There can be little doubt that the effects of a deep recession on the rate of household formation and the burgeoning private rented sector, as well as a higher rate of new construction of social dwellings, all played an important role in the two year decline between 2008 and 2010. However, it is also clear that the pent up demand for social housing which developed during this time and was then

expressed in the rapid rise in the Waiting List between March 2010 and March 2011 reflects the continuing stagnation of the housing market, forcing, for example, more landlords with negative equity to sell some properties and some couples, who were wanting to separate, to take steps, such as applying for social housing, to meet their temporarily suppressed housing need.

In terms of household composition, the Waiting List has changed little in recent years. Single person households continue to be the single largest group (46%). Small families continue to be the next largest component of the Waiting List (26%), followed by older people (16%). It is expected that future demand will come predominantly from these types of households.

Geography of the Demand for Social Housing

Analysis of the geographic distribution of trends in the Waiting List shows that the pattern is by no means uniform. Table 3 shows the six housing management districts with the highest percentage increases (at least 40 per cent) in housing stress over the five year period from March 2006 to March 2011. It also shows the four districts with the lowest percentage growth – including in the case of two districts (Fermanagh and Limavady) where the number in housing stress has declined.

It is difficult to generalise about the Districts experiencing the most rapid increase in housing stress: two housing management districts in Derry City have experienced exceptionally high growth as has Lisburn Dairy Farm (dominated by the Twinbrook and Poleglass housing estates). Accessibility to Belfast is probably an important factor in the case of Newtownards, Lurgan and Cookstown. Conversely, in the case of housing management districts where the waiting list has declined, peripherality may well be an important factor (Fermanagh and Limavady).

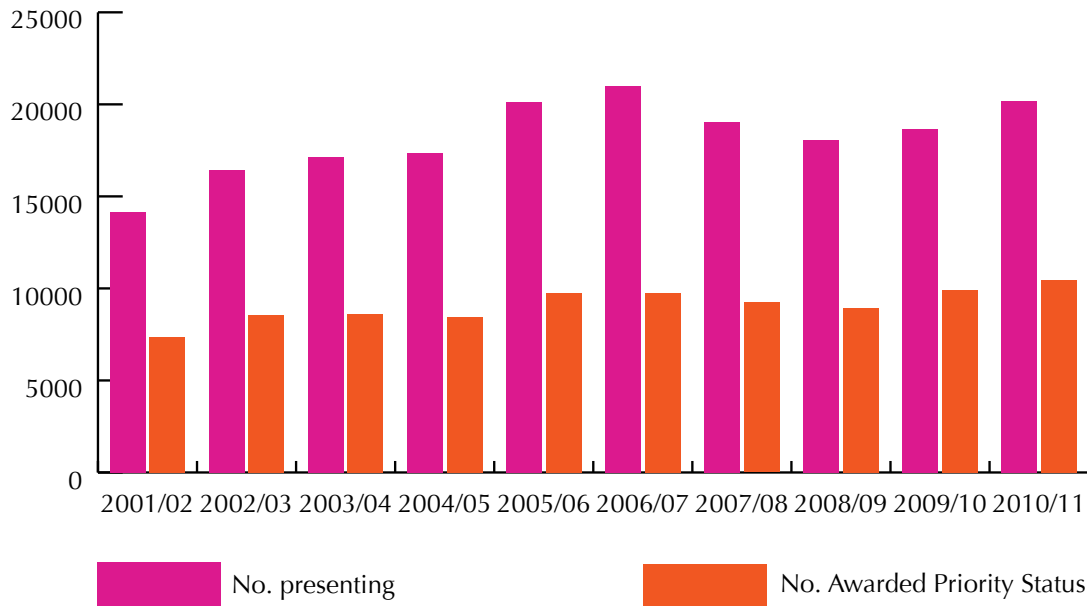
Table 3: Housing Stress: Change 2006-2011

Housing Management District	Housing Stress March 2006	Housing Stress March 2011	Change 2006–2011	% Change 2006–2011
Waterside	231	446	235	111
Collon Terrace	377	683	268	65
Lisburn Dairy Farm	353	460	158	52
Newtownards	680	1092	351	47
Lurgan	295	470	144	44
Cookstown	117	180	52	41
Fermanagh	517	346	-171	-33
Limavady	200	188	-12	-6
Antrim	470	477	7	1
Newry	924	960	36	4
Northern Ireland	14,629	19,958	5329	36

Source: NIHE

Homelessness

Figure 4: Trends in Homelessness, 2001/02 - 2010/11



Source: NIHE

Between April 2000 and March 2007 there was a fairly steady and substantial increase in the annual number of households presenting as homeless, from 12,694 to 21,013 (66%). However, in the financial years 2007/08 and 2008/09 the number of households presenting fell by 14 per cent to 18,076 (see figure 4). 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.

Figure 4 indicates that during this period there was a commensurate decline in the number of households accepted as statutorily homeless: from 9,744 in 2006/07 to 9,234 in 2007/08, and again to 8,934 in 2008/09 (a total reduction of 8 per cent).

However, as Figure 4 also 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.

The relative importance of the causal factors in homelessness has changed little. The dominant factor in relation to those presenting as homeless remains sharing breakdown/family dispute: 4,696 (23%) of those presenting in 2010/11 did so for this reason.

Housing Executive

The other key factors remain marital/relationship breakdown (2,502; 12%); accommodation not reasonable (3,013; 15%) and loss of rented accommodation 2,646 (13%). It is worth noting that there has been a sharp increase (22%) in the number of presenters stating loss of rented accommodation as the cause of their homelessness (from 2,161 in 2009/10); reflecting affordability issues in the private rented sector, for both tenants and landlords (see Chapter 3).

In the case of those households who have been accepted as statutorily homeless during 2010/11 a somewhat different picture emerges:

- The biggest single cause is 'accommodation not reasonable': 2,644 (25%) and is related to the ongoing ageing of the population, with many older people finding it increasingly difficult to live independently in their current home.
- Sharing breakdown/family dispute is the second most important cause: 1,995 (19% of the total).
- The third largest category was loss of rented accommodation: 1,200 (11%); again this represented a significant increase from 2009/10 (991; 10 per cent of the total number of households accepted as homeless).

More than half (53%) of all households who presented in 2010/11 were single people, of whom 4,690 (23 per cent of the overall total) were single males aged 26-59 years of age. Families with children accounted for around one third (6,454; 34 per cent) of those presenting.

The Net Stock Model

Analysis of the waiting list for social housing provides clear evidence of the ongoing need for new social dwellings. Since 1994 the Housing Executive has also used a 'top down' Net Stock Model to estimate the need for new social housing at the Northern Ireland level and as a starting point for 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 data (e.g. household projections) and housing stock information (e.g. housing starts, demolitions and vacancy rates). The model assumes that over this period the private sector will continue to build dwellings at a rate which equates to the number of homes built by it 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 model⁶ was produced in January 2012, based on the 2008 household projections and the most recent housing stock data. (See table 4).

⁶ Paris, C. (2012) *Net Stock Model for 2008-2018*, Report to the Northern Ireland Housing Executive.

Table 4: Net Stock Model 2008-2018

	Projected Households (000)
Extra Demand 2008-2018	
New Households	83.3
Concealed Households	5.0
Temporary Accommodation	1.6
<i>Total Extra Demand</i>	<i>89.9</i>
Extra Supply 2008-2018	
New Private Output	106.4
Less Net Demolitions, Conversions and Closures	(10.0)
Less 5% Second Homes	(5.3)
Less 11% Vacancy in New Private Housing	(11.7)
<i>Total Extra Supply</i>	<i>79.4</i>
Social Housing Needed 2008-2018	
Deficit	10.5
Plus 2% Vacancy in New Social	0.2
Total Needed	10.7
Total Rounded and Allowance for Other Factors	11.0
Total Per Annum	1.1

Source: Paris, January 2012

A significantly lower rate of household formation and demolitions compared to the 2010 model for the period 2006-2016 is partly counteracted by a higher number in temporary accommodation and a lower rate of private sector output to give an annual requirement for 1,100 new social dwellings to meet newly arising need for the period 2008-2018. Given the cumulative backlog of approximately 5,000 which has developed since the most recent Census of 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 earlier sections of Chapter 1) it is considered appropriate to have an annual target of a minimum of 2,000 new social dwellings for the next five year period.

Characteristics and Condition of the Housing Stock

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

Table 5: Northern Ireland's Dwelling Stock by Tenure⁷, 2001 - 2011

	2001 (%)		2006 (%)		2009 (%)		2011 (%)	
Owner Occupied	432,300	66.8	468,800	66.5	461,800	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	24,600	3.3	24,800	3.3
Vacant Dwellings	31,900	4.9	40,300	5.7	43,400	5.9	54,700	7.2
TOTAL	647,500	100	705,000	100	740,000	100	760,000	100.0

Source: NIHCS

Table 6 provides the key tenure related information:

- Although 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 62.4 per cent in 2009, to 61.7 per cent in 2011), the number of owner-occupied dwellings has increased to approximately 469,000.
- The number of occupied private rented sector dwellings has continued to grow to a new record of more than 125,000, although the proportion of the overall stock in the private rented sector has remained approximately the same. 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 (133,900; 20.7%) and 2006 (115,000; 16.4%) as the Social Housing Development Programme only replaced approximately one third of the houses sold or demolished. However, between 2006 and 2009, the figure declined only a little to 110,200 as the rate of dwelling sales to sitting tenants declined dramatically. Indeed the 2011 survey confirms that the number of occupied social dwellings has increased again a little (to nearly 111,000), due to the much higher number of new social dwellings constructed in 2009/10 and 2010/11.

⁷ It should be noted that minor apparent inconsistencies in data trends can be accounted for by sample error.

Dwelling Age

The 2011 House Condition Survey confirmed that the number and proportion of homes built before 1919 has continued to decline: from 116,400 (18%) in 2001 to 113,800 (16%) in 2006, and 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 that had been 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, despite the greater number of flats/apartments built in recent years, this picture has not really changed, except that a slightly smaller proportion of the stock is bungalows.

Each of the following dwelling types comprised approximately one fifth of the total housing stock: bungalows (21%), detached houses (21%) and semi-detached houses (22%). Terraced houses accounted for approximately 28 per cent of the stock. 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 it fell again to only 2.4 per cent (17,500 dwellings) by 2009. The 2011 House Condition Survey, however, 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 has doubled within the space of two years. However, the survey does provide a clear signal: that the long period of steadily improving housing conditions in Northern Ireland has come to an end.

More detailed analysis of the underlying pattern of unfitness will be carried out over the coming months. However, even at this early stage, it is clear that once again it is concentrated in the private sector, and particularly in privately owned vacant properties. Out of a total of 35,200 unfit properties, approximately 18,700 (53%) were in the owner occupied sector when last occupied and 6,700 (19%) of them in the private rented sector.

Evidence of clear causal relationships to explain developments in a complex housing market are difficult to establish. However, the deteriorating state of Northern Ireland's economy, including rising unemployment and declining average household disposable income over the past two years will have meant that both owner occupiers and many private landlords will have spent less on the maintenance and improvement of their homes.

Government Indicators

Modelling work being undertaken by the Housing Executive in partnership with the Building Research Establishment will provide more up to date figures on Government indicators of housing conditions during the course of 2012. The most recent figures, therefore, are from the 2009 House Condition Survey.

Decent Homes Standard

In 2009, 15 per cent (112,000) of all dwellings failed the Decent Homes Standard. This represented a further improvement from the 23 per cent (162,000) which failed in 2006 and mainly reflects the large numbers of dwellings receiving more efficient oil or gas central heating. More than two-thirds (68%) 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 (38%; 50% in 2006);
- fifteen per cent of social housing and 17% of privately rented properties failed the Decent Homes Standard (compared to 22% and 26% respectively in 2006); and
- only 13 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. The measure differentiates between minor hazards and those where there is a high risk of serious harm or even death.

In 2009, almost one-fifth (19.5%) of all dwellings had Category 1 hazards; this proportion remained almost unchanged since 2006. The proportions with Category 1 hazards were highest in vacant properties (40%) and in dwellings built before 1919 (36%). The proportions were lowest in social housing (9%) and in the most modern dwellings built since 1980 (9%).

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 in Northern Ireland at any one time, 7.2 per cent of the stock, compared with 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 5.9 per cent, while in the social sector it was lower still (5.2%).

Energy Conservation and Fuel Poverty

The Housing Executive was designated as Northern Ireland's sole 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.

The 2009 House Condition Survey (the most recent survey from which energy-related findings are available) showed that:

- ➔ The energy efficiency of the stock improved by 21 per cent between 1996 and 2009, mainly due to fuel switching and insulation programmes: 99 per cent of dwellings across all tenures had full central heating, up from 87 per cent in 1996.
- ➔ The average SAP (energy efficiency) rating for dwellings increased from 35 in 1996 to 52 in 2006 and 57 in 2009.
- ➔ More than two thirds (68%) of homes in Northern Ireland had oil fired central heating in 2009, by comparison with around one third (36%) in 1996.
- ➔ In 2009, approximately 114,000 homes (15%) were heated using mains gas systems, by comparison with around 84,000 in 2006 and none in 1996.
- ➔ By 2009, only five per cent of properties had solid fuel heating systems, compared with around one third (30%) in 1996.
- ➔ The proportion of the housing stock with no wall insulation declined from 52 per cent in 1996 to 21 per cent in 2009. Many of the 154,000 dwellings with no wall insulation are of solid wall construction, and cannot avail of cavity wall insulation.
- ➔ In 2009, the vast majority (96%) of dwellings in Northern Ireland that had lofts also had loft insulation. In 1996, the equivalent proportion was 87 per cent.
- ➔ More than three quarters (77%) of properties had full double glazing in 2009. The proportion had increased since 2006 (68%) and was considerably higher than in 1996 (24%).

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 fuel poverty model developed by the Building Research Establishment (BRE) on behalf of Government to estimate the level of fuel poverty, therefore, includes the costs of water heating, cooking, lighting and household appliances, and encompasses more than simply the ability to pay heating bills.

There are three main causes of fuel poverty:

- ➔ poor thermal efficiency in dwellings;
- ➔ low household income; and
- ➔ high fuel prices.

Housing Executive

The baseline figure for fuel poverty in Northern Ireland used 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 2009 House Condition Survey, showed that the rate of fuel poverty had increased further – to 44 per cent (302,300 households) by 2009. The escalation in the rate of fuel poverty between 2006 and 2009 was mainly due to rising fuel prices, and would have been even more severe had it not been for improvements to the energy efficiency of the housing stock. BRE has now begun work on producing fuel poverty figures for 2011. Given recent increases in fuel prices, and the reduction in household incomes, it is likely that the 2011 figure will be around 50 per cent.

In 2011, the University of Ulster carried out a review of the current definition of fuel poverty. It concluded that whilst the current definition remains strong, a local threshold reflecting regional circumstances should be introduced to allow better targeting of those in severe fuel poverty, who spend more than 20 per cent of their income on household fuel.

Fuel Poverty Strategy

The Department for Social Development published its new fuel poverty strategy in March 2011. *Warmer, Healthier Homes* builds on the work carried out since the last strategy was published in 2004. The earlier strategy, produced at a time of relatively low fuel prices, had included a target to eradicate fuel poverty by 2016 and eradication remains a core goal of the new strategy, which aims to target available resources on those vulnerable households most in need of help. The new strategy has a strong focus on using partnership approaches with other departments and agencies to help remove energy efficiency as a cause of fuel poverty. At a time of economic recession, rising unemployment, cuts in welfare expenditure and rising energy costs, however, energy efficiency improvements will need to be accompanied by higher household incomes if the problems of those in extreme fuel poverty are to be addressed.

Energy Brokering

In 2011, legislation permitting social landlords to broker discounted energy on behalf of tenants was passed. The Housing Executive is developing a scheme to do this and hopes to be in a position to test the market in relation to electricity by the end of March 2012.

Implementation of energy efficiency measures

In its own stock, the Housing Executive has sought to improve energy efficiency in a number of ways, including the replacement of inefficient solid fuel and electrical heating systems with natural gas and oil, the provision of insulation as part of ongoing maintenance programmes, funding the provision of energy advice for tenants through the Heatsmart scheme, and carrying out field trials on new and emerging technologies.

In the private sector, the Department for Social Development's Warm Homes Scheme supports both owner occupiers and private landlords in the provision of insulation and heating measures to improve energy efficiency; more than £10 million was invested through the Scheme during 2010/11.

Key Issues and Strategic Perspective

The world economy appears to have entered a period of lower growth. Although there are signs that prospects for employment and output have improved in the USA over the last six months, 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 restrictive 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 number of households is continuing to rise, although the 2011 House Condition Survey indicates that 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. Meeting the housing and support needs of older people is a key challenge facing the housing profession and policy makers at a time of limited public resources and downward pressure on income from pensions and savings.

The numbers of applicants on the waiting list (40,000) and those in "housing stress" (21,000) have risen sharply over the past year. The Net Stock Model indicates a lower ongoing annual requirement (1,100) for new social housing in the period 2008-2018 reflecting lower expected levels of household formation. However, the annual requirement has been set at a minimum of 2,000 to reflect a significant backlog which has developed since 2001 and the very challenging market conditions, which make it unlikely that there will be a significant upturn in the rates 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, reflecting primarily the lower levels of disposable income available for improvements and repairs.

Reducing the high rate of fuel poverty in Northern Ireland (at least 44%) remains a very difficult challenge in the short term, given that energy prices are to remain high and household incomes have started to fall. Improving the fabric of dwellings can ameliorate the impact of fuel poverty significantly, but cannot eradicate it altogether. The ongoing Government review of the definition of fuel poverty will help focus scarce resources on those most in need.





2

Chapter

The Owner Occupied Sector

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%)	n/a
Rural	160,100 (37%)	161,300 (34%)	167,600 (36%)	n/a
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%)	n/a
Fuel Poverty (rate)	97,900 (23%)	148,000 (32%)	178,000 (39%)	n/a
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 (First Time Buyers)	2.36	3.19	3.26	3.20
Proportion of sales to (First Time Buyers)	60	32	46	57
No. of NIHE sales	5,555	2,522	272	249

Introduction

Owner occupation grew steadily in Northern Ireland in the second half of the twentieth century with the assistance of a number of government policies:



Tax relief on mortgage interest, reductions in “bricks and mortar” subsidies for the construction of new social dwellings, rent increases in the social sector and in particular, after 1979, the generous discounts to tenants in the social sector wanting to purchase their home.

Owner occupation continued to grow during the early years of the new millennium. Low interest rates helped to counteract the growing chasm between the typical income of first-time buyers and rising house prices. However, since 2007 the combined effects of the ‘credit crunch’, the deepening economic crisis and the concomitant growth of the private rented sector have led to a significant decline in the proportion of households now living in owner-occupation.

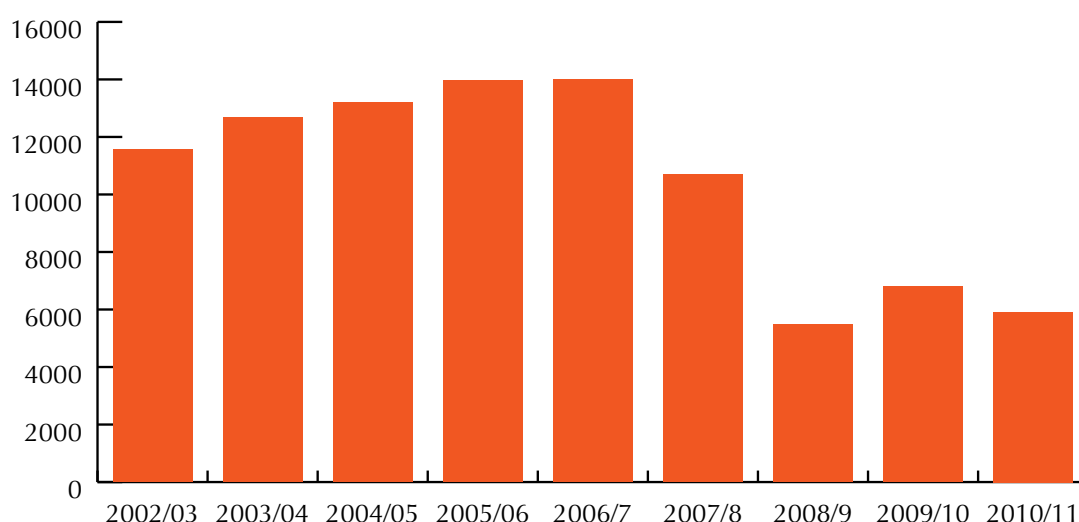
In 2001 there were some 432,000 owner occupied dwellings in Northern Ireland (67% of the total stock). By 2006 this figure had grown to 469,000, but the proportion had remained approximately the same. In 2011, there were still approximately 469,000. However, the proportion of owner occupied stock had fallen to 62 per cent, reflecting 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, therefore, are finding it increasingly difficult to purchase their first home and are therefore choosing 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 this underlying context 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), the rate of owner occupation in England had fallen 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.

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 in 2010/11 to approximately 5,900 (see figure 5). New private housing starts over the past three years have therefore been running at around 40% of their peak in the mid-noughties. Figures for the first six months of 2011/12 show that approximately 2,600 new private homes were started, a 32 per cent reduction compared with the first six months in 2010/11.

Figure 5: New Housing Construction in the Private Sector, 2002/03-2010/11



Source: DSD, *Housing Statistics 2010/11*

NHBC figures⁸ would indicate that less than 20 per cent of all new housing starts are flats/apartments. District Council areas with the highest level of new private housing starts in 2010/11 were Fermanagh (584) Dungannon (463) and Lisburn (401).

⁸ Source: DSD, *NI Housing Bulletin*, 1 July – 30 September 2009. NHBC covers approximately one quarter of all new private housing starts.

House Prices

House Prices in the UK

House price figures (Nationwide) for Q4, 2011 indicated that there was little change in the UK's housing market during 2011: at £164,785 the overall average house price for the UK was 1.1 per cent higher than a year earlier. However, Table 6 shows that this overall average conceals some significant regional variation in trends, with the highest annual increases recorded in London (5.4%) and Outer Metropolitan (3.6%). This more buoyant market contrasts sharply with the annual decline in average house prices in more peripheral regions: North (-1.0%), North West (-1.2%), Scotland (-0.8) and above all in Northern Ireland, which recorded another significant fall in the average price of the homes purchased with the help of a Nationwide mortgage: 8.9 per cent.

The regional pattern of quarterly change is not dissimilar, with Northern Ireland recording the largest fall in average prices: -2.6 per cent. The average price for homes sold in Northern Ireland in Q4, 2011 was £113,614 (31% below the figure for the UK as a whole) making Northern Ireland the region with the lowest average house price – a position it has not occupied since before the upward surge in house prices in 2005.

Table 6: UK: Regional House Price Change, Q4, 2011

Region	Quarterly % Change	Annual % change	Average house price Q4 2011 (£)
North	-0.4	-1.0	115,716
Yorks/Humberside	-0.8	1.6	134,467
North West	0.2	-1.2	135,427
East Midlands	0.5	0.6	139,669
West Midlands	0.5	0.3	146,109
East Anglia	1.2	1.5	167,900
Outer South East	1.6	1.6	198,363
Outer Metropolitan	0.4	3.6	247,058
London	2.6	5.4	298,216
South West	0.1	0.6	184,316
Wales	-0.9	1.5	135,308
Scotland	0.0	-0.8	136,347
Northern Ireland	-2.6	-8.9	113,614
UK	0.3	1.1	164,785

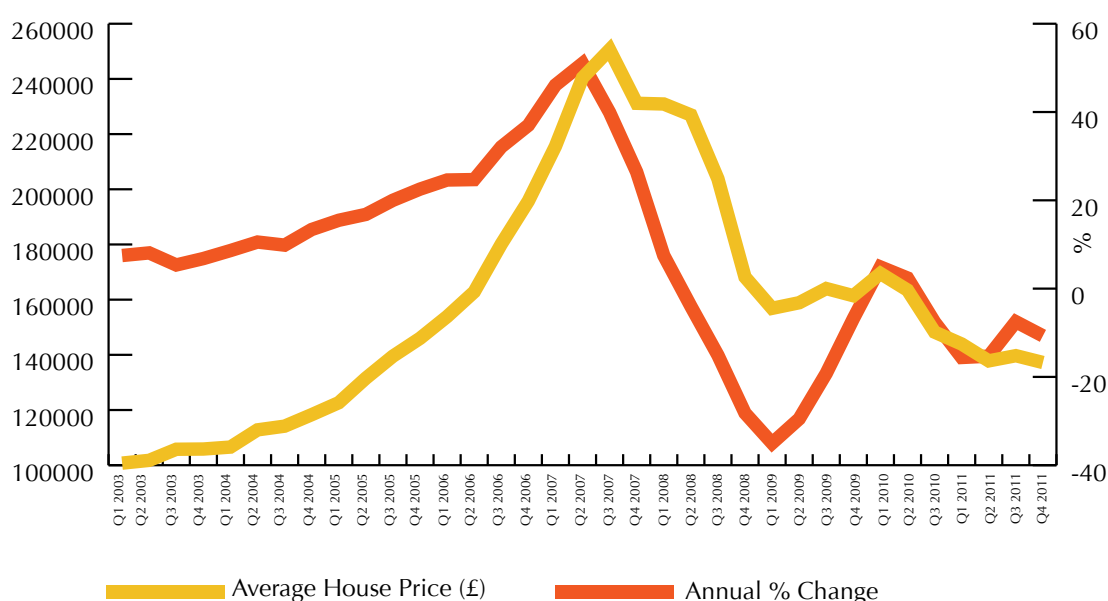
Source: www.nationwide.co.uk/hpi

House Prices in Northern Ireland

The University of Ulster's more comprehensive, mix-adjusted analysis of open market transactions gathered from a network of estate agents shows a similar picture: an ongoing downward drift in average house prices in Northern Ireland.

The University of Ulster's index showed that from a highpoint in Q3, 2007 (£250,586) 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 to reach £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 (see figure 5) and a quarterly decline of 2.6 per cent) – (see figure 6). Overall the peak to trough decline stood at 45 per cent by the end of 2011.

Figure 6: NI: Average House Price, 2003-2011



Source: University of Ulster, House Price Index

Analysis of the Q4, 2011 figures by property type (see table 7) reveals some significant differences in the rate of price change. Apartments experienced an annual decline in average price of almost 24 per cent, while the average price of a semi-detached bungalow actually rose by 6.7 per cent over the same period.

Table 7: NI: Average House Prices by Property Type, Q4, 2010-Q4, 2011

Property Type	Q4, 2011 (£)	% Change (YoY)
Terraced Houses	95,207	-3.4
SD Houses	134,845	-2.6
Detached Houses	212,744	-15.3
SD Bungalows	118,649	+6.7
Detached Bungalows	157,740	-16.4
Apartments	101,650	-23.8

Source: University of Ulster, Quarterly House Price Index Report 109: Q4, 2011

Analysis by geographic region (see Table 8) shows that there were considerable inter-regional differences in the movement of house prices movement of between Q4, 2010 and Q4, 2011. At one end of the scale the average price in Lisburn rose by 8 per cent. However, in Enniskillen/Fermanagh/South Tyrone the average price of a home actually decreased by approximately 27 per cent over the twelve month period. Almost all regions showed reductions in average house prices. Some caution must be exercised in the interpretation of these regional figures due to the still subdued nature of the housing market, but there is a fairly clear pattern in that house prices in more peripheral regions of Northern Ireland recorded more significant declines.

Table 8: NI: Regional House Prices, Q4, 2011

	Average Price Q4, 2011 (£)	% Change (YoY) (unweighted)
Belfast	141,166	-10.5
North Down	161,613	-3.9
Lisburn	160,291	+8.0
East Antrim	146,411	+1.6
Londonderry/Strabane	120,594	-23.8
Antrim/Ballymena	121,220	-14.5
Coleraine/Limavady/North Coast	121,438	-24.1
Enniskillen/Fermanagh/South Tyrone	106,500	-26.6
Mid Ulster	131,888	-4.8
Mid and South Down	128,140	-0.6
Craigavon/Armagh	107,098	-13.4
Northern Ireland	137,219	-8.4

Source: University of Ulster, Quarterly House Price Index Report 109: Q4, 2011

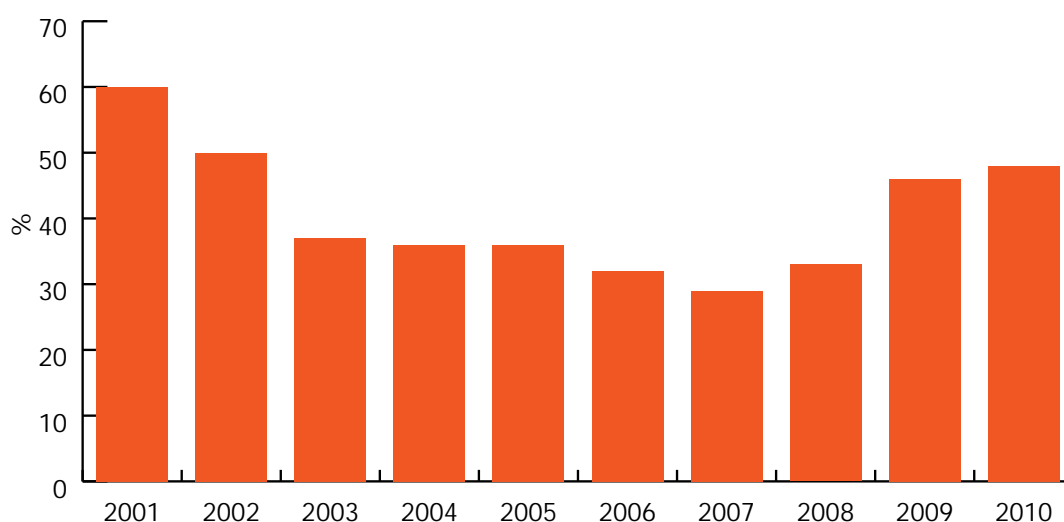
Forecasting the rate of house price change for a twelve month period accurately is always difficult. Last year's estimate of a flat market was in the event on the optimistic side, as prices drifted down by approximately 10 per cent. For 2012 the picture looks not dissimilar with ongoing labour market uncertainty and further reductions in public expenditure indicating that prices are likely to drift downwards by around five per cent.

Affordability in Northern Ireland

Research commissioned by the Housing Executive in 2000 and published the following year⁹ indicated that although affordability at that time was not an immediate or widespread problem – due primarily to the low interest rate environment and the availability of a more flexible range of mortgage products – there were signs that it was an emerging problem for first time buyers, particularly in Belfast and its commuter belt. Since then the Housing Executive has used data from the Council of Mortgage Lenders (CML) and developed an Affordability Index in partnership with University of Ulster and University of Birmingham to track the problem of affordability for first time buyers:

- Analysis of CML data provides a number of indicators of the growing difficulties for first time buyers: *The ratio of median income to median advance for first time buyers*. The CML figure for 2001 was 2.36. This ratio rose to a peak of 3.51 in 2007 before falling back a little to 3.26 in 2009. It rose again in 2010 to 3.35, before falling back to 3.20 in the first six months (H1), of 2011.
- *The number and proportion of first time buyers* (see figure 7). In 2001, purchases by 18,200 first time buyers in Northern Ireland accounted for 60 per cent of house sales in Northern Ireland. By 2006 this figure had fallen to 8,700 (32% of total sales) and in 2008 only 2,900 purchases (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) and during H1, 2011 this proportion rose to 57 per cent, albeit relative to a small number of overall sales.

Figure 7: NI: Proportion of House Sales to First-Time Buyers, 2001-2010

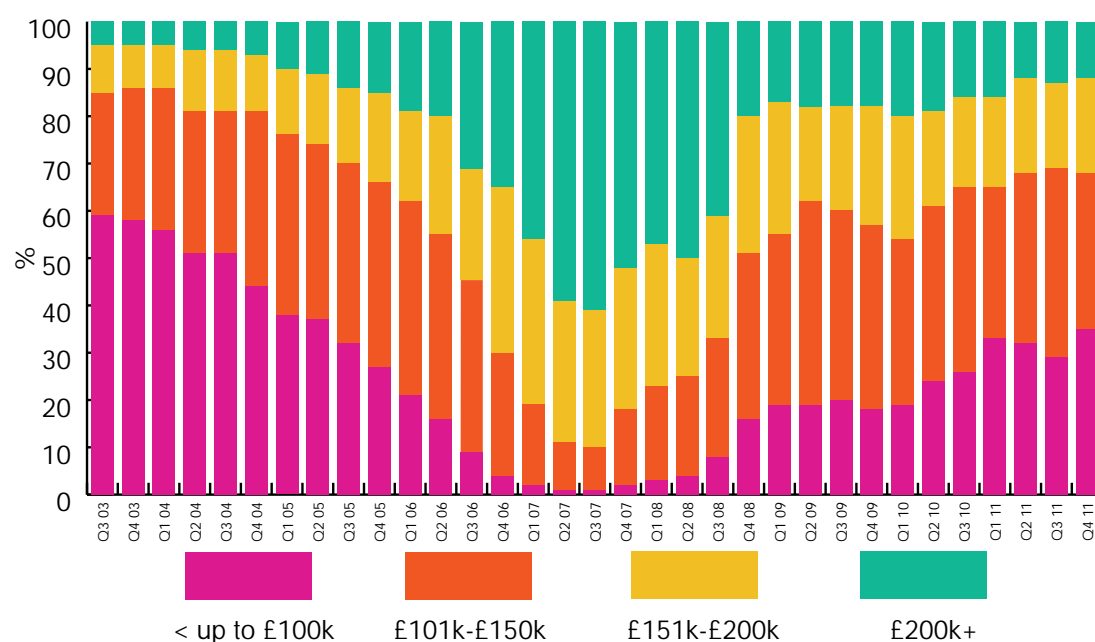


Source: Council of Mortgage Lenders

- *The proportion of lower priced homes* (see figure 8). 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, during 2011 approximately one third of all homes sold cost less than £100,000.

⁹ McGreal, S., Murie, A. & Berry, J. (2001) *Affordable Housing in Northern Ireland*, Belfast,: NIHE

Figure 8: NI: Proportion of Transactions by Price Band, 2003–2011



Modelling Affordability

The Housing Executive's Affordability Index¹⁰ uses a typical Bank/Building Society annuity formula to calculate the maximum price a household with a median household income can afford to pay, assuming a typical interest rate, a 90% mortgage (loan to value ratio) and a 25 year repayment period. Thirty-five per cent is considered the maximum reasonable proportion of household income which should be used to service mortgage payments. This figure is compared with what is considered to be a typical affordable house: a house priced at the first quartile of house prices (25th percentile). The resultant model provides a useful indicator of the degree of difficulty experienced by first time buyers purchasing a property with a ten per cent deposit.

The most recent modelling exercise was run for 2010. The key findings were as follows:

- ➔ In 2010, households on a median income (£21,000) were able to service mortgage payments for a house costing approximately £147,000.
- ➔ The difference between the price of an average affordable home and median income households' capacity to service mortgage payments meant that there was a 'positive' affordability gap of £47,000 in 2010.
- ➔ The position in 2010 contrasted significantly with that in 2008, when households on a median income were only able to afford a home priced at £97,000. The lower price of an 'affordable' home in 2008 reflected both the lower household incomes and higher loan-to-value ratios at that time, and resulted in a negative affordability gap of -£53,000.
- ➔ The significant shift in the relationship between house prices and incomes between 2008 and 2010 is also reflected in the proportion of homes sold at

¹⁰ Developed in partnership with the University of Ulster and University of Birmingham

or below the 'affordable' price. In 2008, only three per cent of homes sold in Northern Ireland were considered to be at an affordable price, but by 2010 the proportion had increased to 58 per cent.

- ➔ The overall picture at Northern Ireland level is reflected to varying degrees at District Council level. In 2008, only Larne had a positive affordability gap. All other District Councils had negative gaps, some of which were very large (for example, Banbridge: -£70,600; Down: -£84,800; Belfast: -£81,100). By 2010, however, only Castlereagh recorded a negative affordability gap.
- ➔ In 2010, two District Council areas – Coleraine and North Down – stood out as having high affordable prices *and* much higher than average positive affordability gaps. It is notable that at £35,000 and £32,000 respectively, the median income in these District Council areas was much higher than for Northern Ireland as a whole. The result was that although house prices in these areas remained at the higher end of the scale, they continued to remain 'affordable' for the higher-earning households living there.

The picture emerging from the most recent analysis of affordability in the Northern Ireland housing market is encouraging for first time buyers. By the fourth quarter of 2011, house prices had returned to their 2005 levels and the Affordability Index shows that, even in 2010, significantly lower house prices and slightly higher incomes meant that median income households were in a much better position to meet the mortgage costs on an affordable home. House price to income ratios indicated that the housing market is now much more affordable.

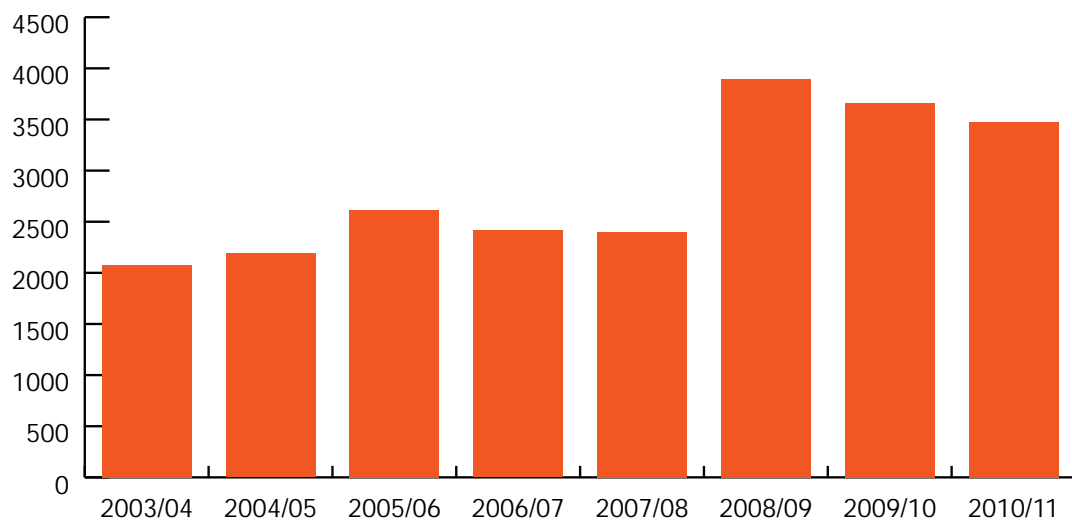
However, continuing labour market uncertainty, fears that house prices may fall further still, the more cautious approach to mortgage lending being applied by banks and building societies (including lower loan-to-value ratios) and the relatively high incidence of negative equity in Northern Ireland¹¹ all continue to militate against higher transaction rates and improved opportunities for first-time buyers and investors.

Repossessions

Statistics on repossessions provide a useful indicator of affordability (see figure 9). The number of writs and originating summonses relating to mortgages rose rapidly to 3,894 between 2007/08 and 2008/09, following the sharp downturn in the market. In the following two financial years the number declined a little, although figures for the first six months of 2011/12 indicate the numbers are rising again (2,002 compared with 1,792 for H1, 2010/11). While it is important to remember that only a proportion of homes subject to actions for possession are ultimately repossessed (in 2010/11 there were 1,776 actual possession orders) a rising number of actions is nevertheless an indicator of continuing stress in the housing market.

¹¹ CML estimated that in 2011 approximately 23,000 households were in "negative equity", where the estimated market price of the property is lower than the outstanding amount to be repaid.

Figure 9: NI: Actions for Repossession, 2003/04-2010/11

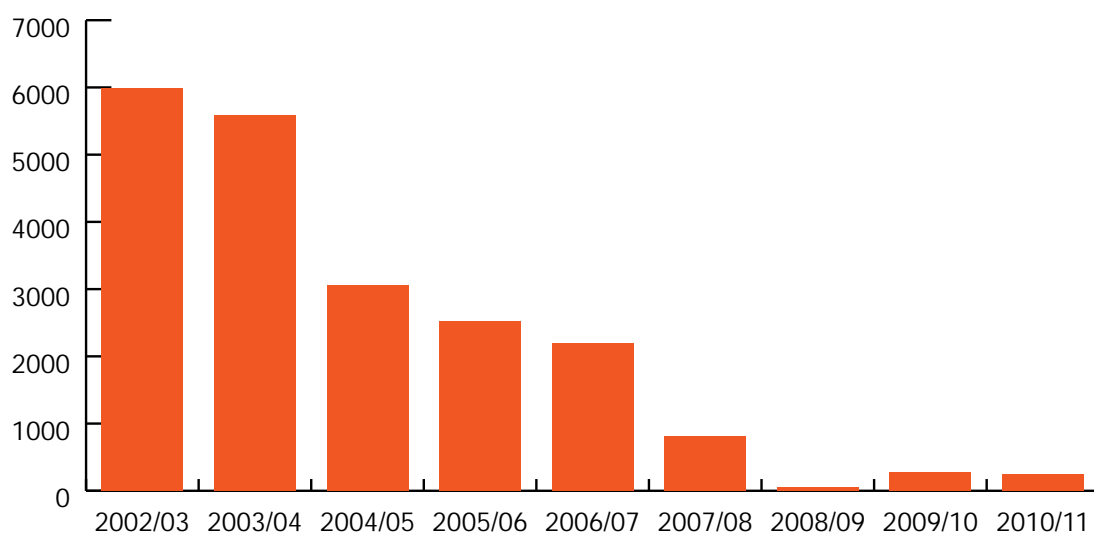


Source: DSD: Housing Statistics 2010/11

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 10 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 Housing Executive dwellings were sold. In 2009/10 the volume of sales increased again a little and in 2010/11 almost 250 were sold. The volume of house sales is likely to remain low reflecting both ongoing labour market uncertainty and the overall state of the housing market. In the 2011/12 financial year almost 200 homes had been sold by the end of January 2012.

Figure 10: Housing Executive Sales Completed, 2002/03-2010/11



Source: NIHE

Annual research carried out by the University of Ulster in relation to sold Housing Executive dwellings contains the following key findings for 2010:

- Resold former Housing Executive dwellings made up approximately 15 per cent of all existing dwellings sold in 2010, an increase from the eight per cent recorded in 2009.
- Between 2009 and 2010 the average price of former Housing Executive properties declined from £88,138 to £78,971 (10%).
- Longer term trends (1990-2010) indicate a nominal price increase of 17 per cent per annum compared to an increase of 23 per cent for the existing housing market as a whole.

Characteristics and Condition

Preliminary findings emerging from the 2011 House Condition Survey provide an insight into the characteristics and condition of the owner-occupied stock.

Dwelling Age

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

Dwelling Type

There has been little change in the dwelling types dominating the owner occupied sector since 2001. In 2011 more than one-quarter of the stock was detached houses (26%), 23 per cent bungalows, 22 per cent semi-detached and 26 per cent were terraced houses. Flats/apartments still only make up a very small proportion of this sector (2%).

Unfitness

The 2011 House Condition Survey confirms that the owner-occupied stock continues to remain in very good condition. In 2009 there were approximately 4,400 unfit properties that were owner occupied, representing an unfitness rate of 0.9 per cent. This remained almost unchanged in 2011 (4,600; 1.0%). However, if vacant properties which were in the owner occupied sector when last occupied are taken into account, a different picture emerges. There were 18,700 vacant properties in this sector which were unfit in addition to the 4,600 occupied ones. Together they account for two-thirds (66%) of all the unfit homes in Northern Ireland (an 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 being undertaken by the Housing Executive in partnership with the Building Research Establishment will provide more up to date figures on Government indicators of housing conditions during the course of 2012. The most recent figures therefore are from the 2009 House Condition Survey.

Disrepair and the Decent Homes Standard

The 2009 House Condition Survey found that 50 per cent (48% in 2006) of owner occupied dwellings had some element of fabric disrepair. This was below the average for the whole of the stock (52%). The main type of disrepair was to the external fabric (43% of the total owner occupied stock). The average basic repair cost was £693 (£940 in 2006), which was well below the £938 for the stock as a whole.

Only 13 per cent (58,000 dwellings) of owner occupied homes (20%; 95,700 in 2006) failed the Decent Homes Standard (compared to 15 per cent for the stock as a whole), but they accounted for more than half (52%) of all homes failing this standard in 2009.

Housing, Health and Safety Standard

Approximately one fifth (21%; 20 % in 2006) of all owner occupied homes also failed the Housing Health and Safety Standard, a similar proportion to that for the stock as a whole.

**These percentages all include unfit vacant properties and therefore differ from the headline rates of unfitness for each tenure.*

Grant Aid for the Owner Occupied Sector

Successive House Condition Surveys have confirmed the positive role that home improvement grants have played in improving the condition of Northern Ireland's owner occupied stock – particularly in rural areas.

However, in recent years, in the context of stringent financial constraints and significant improvements in the quality of Northern Ireland's housing stock, grants expenditure has focussed increasingly on mandatory Disabled Facilities Grants and Home Repair Grants rather than Renovation and Replacement Grants. The previous section in this chapter highlighted the first increase in the rate of unfitness in owner-occupied stock ever recorded by House Condition Surveys in Northern Ireland. There can be little doubt that part of the explanation for this is the very considerable reduction in the availability of grants designed to address unfitness and major disrepair since 2008/09.

Table 9 shows grants activity and associated expenditure over the past five years.

Table 9: Home Improvement Grants: 2006/07 – 2010/11: Approvals and Expenditure

Year	Renovation	Replacement	Disabled Facilities	Repairs	HRA	HMO	Total Grants	Approved Expenditure (£)
2006/07	1,125	136	1,710	981	2,927	146	7,025	43.4m
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

Source: NIHE

The following key points emerge:

- ➔ Between 2006/07 and 2007/08 grants expenditure remained at over £40 million. In each of these years more than 7,000 grants were approved. By 2010/11, however, severe budgetary pressures resulted in the number of approvals falling to almost 3,000 and expenditure likewise to approximately £21 million.
- ➔ The number of Renovation Grants approved in 2010/11 (404) increased significantly compared to the previous year's figure, but was much lower than the typical figure in the years up to and including 2007/08. Similarly, the number of Replacement Grants approved increased to 83 but was much lower than in earlier years.
- ➔ The number of Disabled Facilities Grants approved in 2010/11 (1,143) was significantly lower than in the previous year, enabling the number of Repairs Grants (889) to remain broadly similar to the previous year and the number of Home Repairs Assistance (HRA) Grants to rise significantly to 567.
- ➔ The number of grants for Houses in Multiple Occupation (HMOs) has continued to fall dramatically. Only 13 were approved in 2010/11.

Key Issues and Strategic Perspective

Given the ongoing labour market uncertainty, the downward pressure on household incomes, the more cautious approach to mortgage lending being applied by banks and building societies and the low levels of consumer and investor confidence which results from these factors, it is likely that the proportion of dwellings in the owner occupied sector will continue to decline over the next three years.

House prices have certainly returned to more sustainable levels and for those who can gain access to a mortgage, owner occupation continues to be the most viable way for households to meet their housing needs. However, given that effective demand from first time buyers will be constrained it is likely that the number of new dwellings constructed annually will remain low compared to the early and mid-noughties. It is estimated that an average of 7,000 new private sector dwellings will be constructed in each of the three years from 2012/13 to 2014/15.

During the three year period 2004/-2007 Northern Ireland experienced an unprecedented investor driven boom which saw house prices increase by 51 per cent between Q2, 2006 and Q2, 2007. The inevitable correction followed. Average house prices have now fallen by approximately 45 per cent from peak to trough. Ongoing labour market uncertainty and further reductions in public expenditure would indicate that prices are likely to drift downwards by around five per cent during 2012.

The substantial fall in house prices since 2007 has seen house prices return to their 2005 level. In terms of the house price to income ratio therefore, affordability for first time buyers is no longer such an issue. The Affordability Index shows that with regard to house price to income ratios, the housing market is now much more affordable in comparison to 2008. Nevertheless continuing caution by lenders and the requirement for most first time buyers to pay more substantial deposits mean that affordability remains a key issue.

The 2011 House Condition Survey indicates that for the first time the level of unfitnes in the owner-occupied stock has not reduced, indeed if vacant properties are included, it has increased. Rising rates of unfitnes reflect not only lower household incomes, but also to a certain extent the sharp reduction in the budget for home improvement grants since 2008/09.



3

Chapter

The Private Rented Sector

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%)	n/a
Rural	14,000 (28%)	19,000 (24%)	34,300 (27%)	n/a
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%)	n/a
Fuel Poverty (rate)	21,400 (44%)	35,300 (44%)	67,800 (55%)	n/a
BMA average mthly rents £	n/a	n/a	576	589

Background



Northern Ireland's private rented sector declined for most of the twentieth century in response to a combination of the effects of rent control, the steady growth in owner occupation and large scale redevelopment.

In 1991 there remained only 30,000 privately rented homes in Northern Ireland. During the 1990s, however, the private rented sector grew steadily. By 2001 there were almost 50,000 dwellings in this sector (see Figure 11).

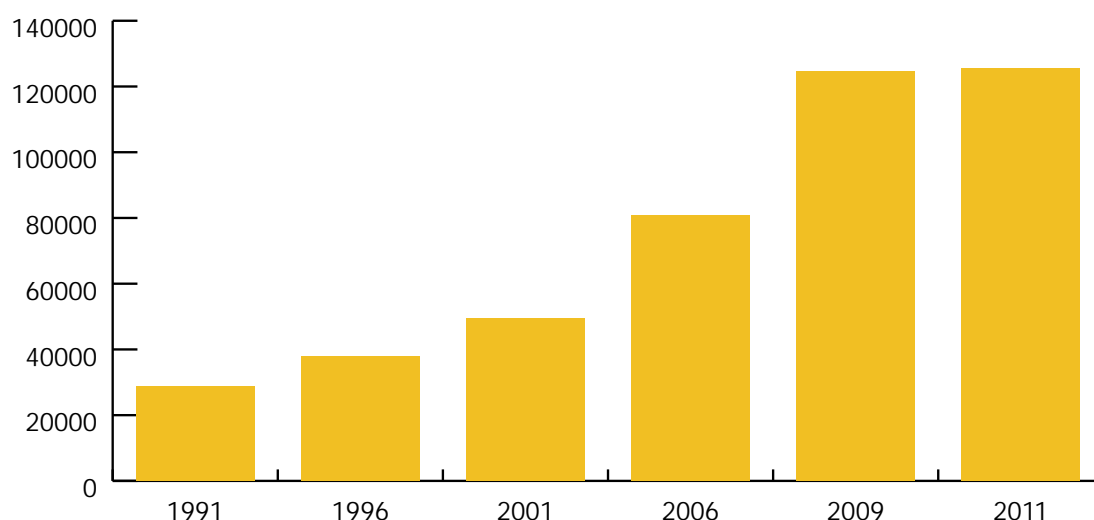
This growth was driven by a number of factors¹²:

- ➔ The growing interest in the sector from new investors: four out of ten landlords had entered the sector in the previous five years.
- ➔ The availability of good quality former Housing Executive dwellings.
- ➔ The ready supply of good quality accommodation in prospective tenants' area of choice.
- ➔ The vital role played by Housing Benefit in supporting an expanding private rented sector.

Between 2001 and 2006 the private rented sector grew at an accelerated pace of an average increase of more than 6,000 annually. The 2006 House Condition Survey showed that in that year there were approximately 81,000 dwellings in the private rented sector in Northern Ireland (11.5 per cent of the total stock).

¹² Gray, P., Hillyard, P., McAnulty, U. & Cowan, D. (2002) *The Private Rented Sector in Northern Ireland*, Northern Ireland Housing Executive, Belfast

Figure 11: The Growth of the Private Rented Sector 1991-2011



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

The 2009 House Condition Survey indicated a further very substantial growth in the private rented sector to 125,000 dwellings, (equating to 17 per cent of the total stock), reflecting a combination of market conditions:

- The ongoing investor driven boom between 2006 and the autumn of 2007 and some renewed investor interest during late 2008 and early 2009.
- The growing number of “accidental landlords”: mainly potential vendors in the owner occupied sector unable to sell their home at the desired price, who resort to letting it out.

The 2011 House Condition Survey showed that the sector experienced a further small increase in size over the previous two years. In 2011 there were more than 125,000 (16.5%) dwellings occupied by private tenants. If vacant properties, which when last occupied were in the private rented sector, are taken into account, the figure rises to 144,500 (19 per cent of the total stock and an increase of approximately 2,500 since 2009). 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%).

Reform of Housing Benefit

Housing Benefit (HB) has played a vital role in sustaining the private rented sector in Northern Ireland. In 2010/11 approximately 60,000 private tenants on HB were supported by a budget of more than £250bn and – unlike in Great Britain – a high proportion (approximately 80 per cent) of this is still being paid directly into the accounts of private landlords. For households on lower incomes, HB 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 HB system currently underway will reduce 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; this will affect approximately 500 larger households.
- ➔ Local Housing Allowances¹³ are now being calculated on the basis of the 30th percentile rather than the median (50th percentile); this is already affecting 3,000 new HB claims a month and will lead to HB reductions of an average weekly amount of £7 for more than 40,000 households.
- ➔ 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; approximately 7,000 existing cases are affected.

These changes have been applied to all new claims (or existing claimants who change address) from April 2011 onwards.

From 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, affecting approximately 5,000 existing applicants and typically leading to a £25 a week reduction in Housing Benefit.

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 much too early to arrive at any definitive outcomes, but it is important to highlight a number of issues in terms of the housing market:

- ➔ An estimated £15 million direct subvention to landlords and tenants will be removed from the sector in Northern Ireland, with potentially significant effects on the viability of investments and the possible re-emergence of a more widespread “No DHSS” culture among landlords.
- ➔ Landlords unable to accept lower rents may respond by evicting or not renewing tenancies for households on low incomes, who cannot afford to pay the difference between the new lower HB payment and the market rent, leading to a rise in arrears, homelessness and greater pressure on the social housing sector.
- ➔ A growing (income-based) segregation in the private rented sector, with lower income households more concentrated in poorer quality housing and an increase in overcrowding.

With the introduction of Universal Credit in 2013, Housing Benefit will start to disappear altogether. Over a period of four years, benefits to cover housing costs will be subsumed as part of this new amalgamated payment. There is little doubt that if this is introduced in the way currently envisaged by Government, direct payment to landlords will effectively become impossible. Proposed capping of benefits, with benefit for housing costs being awarded the lowest priority, may result in rising arrears and the viability of the operations of a significant number of landlords may be called into question. A healthy private rented sector may be more difficult to sustain.

¹³ The LHA rate depends on the number of rooms needed and the location. It is designed to ensure that households living in similar housing in the same area receive the same amount of support towards their housing costs.

Characteristics and Condition

Preliminary findings emerging from the 2011 House Condition Survey provide the most up to date profile of the characteristics and condition of privately rented homes in Northern Ireland.

Dwelling Age

The 2001 House Condition Survey revealed that 38 per cent of the private rented sector was built before 1919. By 2006 this proportion had already declined to 28 per cent and by 2011 the proportion had fallen further to 15 per cent (compared to 12 per cent for the stock as a whole), reflecting the increasing number of newly built properties which had entered the sector. Conversely, the proportion of dwellings in the private rented sector which were built after 1980 increased from 15 per cent in 2001 to 25 per cent in 2006 and 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 in the private rented sector continues to be significantly higher than in any other tenure. In 2011, the vacancy rate in the private rented sector was 13 per cent (equating to approximately 19,000 dwellings), compared to 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

In 2001 terraced houses were the most common dwelling type in the private rented sector, accounting for 40 per cent of the sector. The 2011 survey indicated that this proportion had remained fairly constant (40%), but was much higher than the overall stock average of 28 per cent. The number of occupied privately rented flats/apartments increased from 7,000 in 2001 to 13,800 in 2011 (up from 11,500 in 2009), but the proportion of flats/apartments in the private rented sector has actually fallen from 14 per cent to 11 per cent.

Unfitness

The unfitness rate in the private rented sector decreased substantially from 8.7 per cent in 2001 to 2.7 per cent in 2006, reflecting to a considerable extent the expansion of buy-to-let into modern properties, but also the amount of (often grant aided) investment by private landlords. Between 2006 and 2011 there was a further fall in the level of unfitness to 2.0 per cent. However, whilst this decrease in unfitness in the private rented sector has been substantial, the sector still had a higher rate of unfitness compared to the other occupied tenures (2.0 per cent, compared to 1.0 per cent in the owner occupied stock and minimal unfitness in the social sector). However, Chapter one, noted the significant rise in the number of unfit vacant dwellings which were in the private rented sector when last occupied: approximately 6,700 in 2011 (compared to only 1,300 in 2009). This may well be a reflection of the financial difficulties some landlords are having, making them reluctant to carry out necessary maintenance and improvements.

Government Indicators

Modelling work being undertaken by the Housing Executive in partnership with the Building Research Establishment will provide more up to date figures on Government indicators of housing conditions in the private rented sector during the course of 2012. The most recent figures, therefore, are from the 2009 House Condition Survey.

Disrepair and the Decent Homes Standard

In 2009, 56 per cent of dwellings in the private rented sector had at least one fault, a reduction from the comparable figure in 2006 (64%), but higher than the 2009 figure of 52 per cent for the stock as a whole. The average repair cost (£556 for urgent repairs and £798 for basic repairs) was lower than for the stock as a whole (£756 and £938).

Less than one fifth (17%) of privately rented homes failed the Decent Homes Standard in 2009, a significant reduction from 2006 when more than a quarter (27%) of all privately rented dwellings failed this Standard. Despite this improvement, the rate of failure in 2009, however, was still the highest of the three occupied tenures.

Housing Health and Safety Rating

Analysis of the 2009 House Condition Survey data on the basis of the Housing, Health and Safety Rating, showed that approximately 15 per cent of the private rented sector had at least one Category 1 hazard. This compares to 21 per cent for the owner occupied sector and 9 per cent for social housing.

Fuel Poverty

In 2009 more than half (55%) of households in the private rented sector were in fuel poverty. This was significantly higher than the comparable figure for all households (44%) and also significantly higher than the figure for 2006 (44%), and reflects both the characteristics of the stock, the significant rise in fuel prices and the greater concentrations of low-income households in the sector.

Research into the Private Rented Sector

In 2006, in recognition of the growing importance of the private rented sector as a housing solution for many households, the Housing Executive launched a new programme of private rented sector research in partnership with the University of Ulster. A series of reports have been produced based on a more in-depth analysis of data from the 2006 House Condition Survey, and a follow up household survey of 300 private tenants completed in 2007, which focused on affordability and landlord-tenant relationships. A further survey of the views of landlords was completed in 2010. Some key findings from these two surveys are set out below:

Living in the Private Rented Sector: The Experience of Tenants (2009)

- More than one-third (35%) of tenants indicated that an inability to access other tenures was their main reason for living in the private rented sector, including 28 per cent who stated that the waiting list for social housing was too long.
- One-third (34%) of respondents had paid rent in advance for their current home, paying on average £348 per month. Two-fifths (41%) of respondents paid a deposit for their current accommodation, paying on average £294. The average rent was £79 per week (£341 per month), although 16 per cent paid at least £100 per week.
- Overall sixty per cent of respondents were in receipt of Housing Benefit. Of these, the majority (68%) had to pay a shortfall between the Housing Benefit they received and the total rent payable. The average shortfall that tenants had to pay was £20 per week.
- The majority (89%) had a good relationship with their landlord/letting agent and almost three-quarters (72%) were satisfied or very satisfied with the overall service provided.

The Private Rented Sector: The Landlord Perspective (2010)

This report was based on a survey of almost 200 private landlords undertaken during the autumn of 2009. The following key findings have emerged:

- Northern Ireland's private rented sector remains a "cottage industry": the majority of landlords operate on a small scale although typical portfolio sizes have increased in the last five years. Two thirds (66%) of landlords had five properties or less (71% in 2005). However, landlords with at least 20 dwellings owned 40 per cent of the stock covered by the survey.
- One quarter (25%) of landlords had entered the sector in the previous five years. Landlords who entered the sector did so for a variety of investment related motives. The main reason for more than one third (35%) was to part fund their retirement, for 20 per cent it was to benefit from a rental income, while a quarter saw it as an "investment". However, a further 15 per cent were "accidental" landlords.
- The portfolio of the majority of landlords (69%) is financed mainly through mortgages or loans: 38 per cent with Buy to Let Mortgages and 24 per cent with Interest Only Mortgages. More than one third (38%) of those who had outstanding mortgages/loans had loan-to-value ratios of 76 per cent or more and a further 17 per cent had loan to value ratios of 51 – 75 per cent.

Given the changes which have taken place both in the economic environment and in terms of the private rented sector itself, the Housing Executive is proposing to replicate these two pieces of research over the two year period: 2012 to 2013. The first of these projects is now underway. It will involve a follow up survey of tenants in the private rented sector using the 2011 House Condition Survey as the sample frame. The findings will provide a wide range of information on tenants' circumstances cross-tabulated with their housing conditions as well as examining their attitudes to living in the private rented sector. A second project which will focus on the perspective of landlords will be commissioned in the autumn of 2012.

In the light of the considerable impact that the ongoing changes to the Housing Benefit system, and in the longer term welfare reform generally, will have on the sustainability of the private rented sector, two further research projects are now underway.

Research on the impact of Housing Benefit reforms on the private rented sector

The Department for Social Development, in partnership with the Housing Executive, has secured a Northern Ireland strand in a UK-wide project being undertaken by the Centre for Regional Economic and Social Research at the University of Sheffield for the Department for Work and Pensions. Field work in Northern Ireland commenced in February 2012. Findings are expected in September 2012.

Analysis of the impact of Housing Benefit reforms on social housing

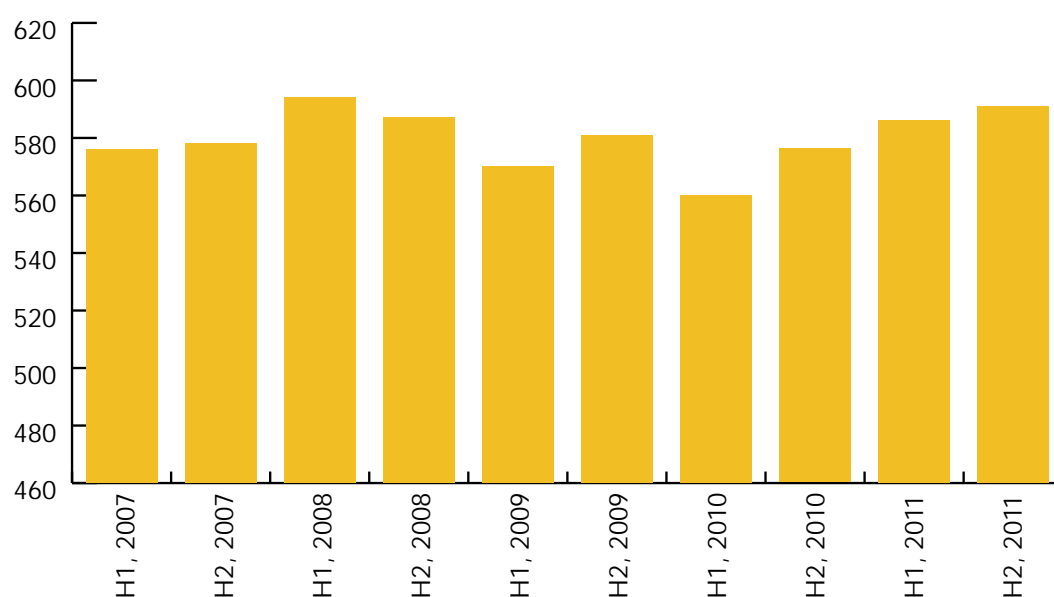
Commissioned by the Department for Social Development and the Housing Executive, this project will use secondary analysis of existing data from the House Condition Survey, Continuous Tenant Omnibus Survey and Housing Benefit databases, together with qualitative research on the views of key players in the housing market and a case study of a leading housing association, to provide a more robust evidence base for estimating the impacts of the changes in Northern Ireland. Findings are expected in September 2012.

A Private Rented Sector Index for Northern Ireland

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 transaction levels. In order to address this information gap the Housing Executive formed a research partnership with PropertyNews.com and the University of Ulster in 2007 to enable the large quantity of data on lettings on the Property News.com website to be used as the basis for a private rented sector index for Northern Ireland. The first report, based on a sample of almost 5,400 residential rental transactions in the Belfast Metropolitan Area (BMA) during 2007, was published in September 2008. It provided an analysis by location, property type and number of bedrooms, as well as average monthly rent, for new lettings, and became a template for future bi-annual reports. The key findings emerging from these reports over a four year period are set out below.

During 2007, the number of properties let on the PropertyNews.com website increased from approximately 2,300 in the first half to more than 3,000 in the second half of the year. The average monthly rent for all properties let during 2007 was £577, and in the BMA as a whole there was a slight upward drift in rents (+1.4%) during the year.

Figure 12: BMA: Average Rent in the Private Rented Sector, 2007-2011



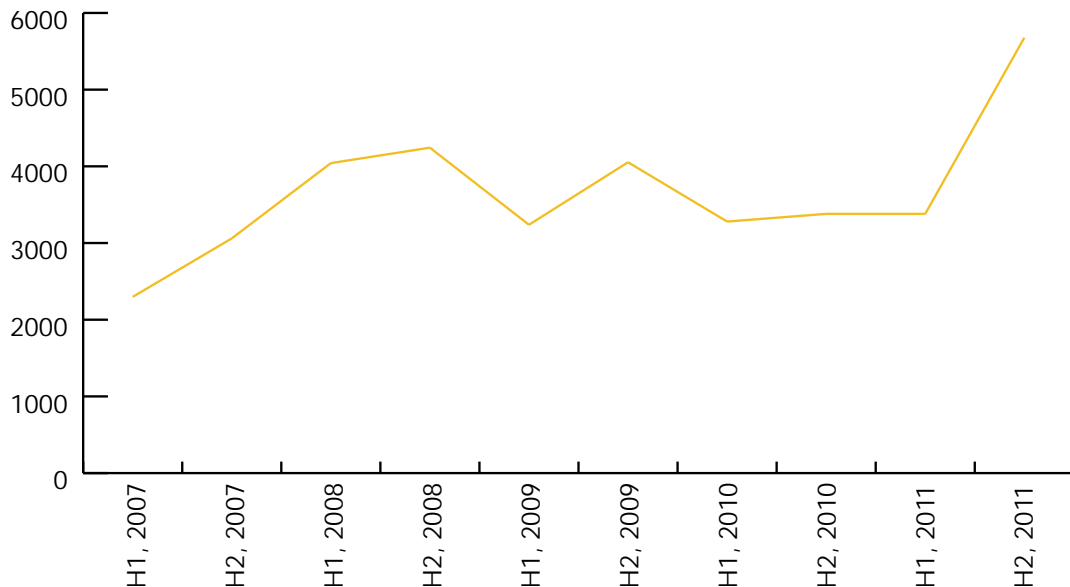
Source: PropertyNews.com

Figure 12 shows that 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 the second six months (H2), of 2011 was £591, only slightly lower than the previous highpoint of £594 for the first six months (H1), 2008.

A different pattern emerges for the number of lettings. The average number of lettings has tended to increase, reaching a new record in H2, 2011 of 5,677.

However, within this overall trend there is a seasonal pattern of a higher level of new lettings in the second half of the year, probably reflecting a surge in the demand for student accommodation in the autumn (see figure 13).

Figure 13: BMA: Average No. of lettings in the Private Rented Sector, 2007-2011



Source: PropertyNews.com

Houses in Multiple Occupation (HMOs)

Houses in Multiple Occupation are defined by the Housing Order (NI) 2003 as dwellings “occupied by more than two qualifying persons, being persons who are not members of the same family”. The most recent figures suggest that there are more than 10,000 HMOs in Northern Ireland. HMOs play an important role in meeting the housing needs of people who are single, who have temporary employment, students and those on low incomes. HMOs also play an important role in housing the large number of migrant workers, who came to Northern Ireland since 2004.

Statutory Registration Scheme for HMOs

The Housing (NI) Order 2003 required the Housing Executive to introduce a registration scheme for HMOs. The Housing Executive implemented this scheme the following year using a phased area-based approach, which seeks to ensure compliance with all physical and management standards for HMOs.

HMO Strategy

In 2008 the Housing Executive launched a new HMO strategy to ensure physical standards were improved, that appropriate advice and information was available, that HMOs were well managed and that the adverse effects of concentrations of HMOs were reduced. Indeed the first objective of the strategy was to “ensure HMO properties are brought up to satisfactory physical standards, prioritising those properties where risk to the occupants is perceived to be greatest”.

An important element of this strategy is the implementation of the registration of HMOs. A registration date has now been specified for every HMO in Northern Ireland and so far more than 4,000 have been registered.

Private Rented Sector Strategy

The Department for Social Development launched its *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 landlords and tenants.

Key points from the strategy include:

- Putting in place a comprehensive programme to improve the knowledge and awareness of landlords and tenants of their rights and responsibilities under the Private Tenancies (Northern Ireland) Order 2006.
- The need for a more consistent approach to enforcement of legislative provisions facilitated by more reliable sources of information on new tenancies, rather than new regulation.
- The introduction of mandatory registration of all private landlords and agents acting on their behalf, including details of all properties available for rent.
- An improved management framework, which will provide greater security of tenure in the future. In the interim, notice to quit periods will be increased to a minimum of 8 weeks for households who have been a tenant for between 5 and 10 years and to 12 weeks for those who have been tenants for more than 10 years.
- All private rented accommodation should meet an enhanced standard similar to the Decent Homes Standard.
- The introduction of a Northern Ireland Rent Deposit Scheme providing better protection for tenants’ deposits and a means for resolving landlord/tenant disputes in this field.

Key Issues and Strategic Perspective

The private rented sector continued to grow rapidly between 2006 and 2009. Following a lull in activity after the autumn of 2007 when the housing bubble burst, substantial falls in house prices re-activated investors' interest in the market. The sector continued to grow between 2009 and 2011 to reach a total of 125,000 (16.5% of the total stock). If vacant properties in the sector are included this figure rises to 144,500 (19%).

Rising waiting lists for social housing and affordability issues for first time buyers as a result of ongoing labour market uncertainty and a more cautious approach by lenders will ensure that the private rented sector continues to play an important role in Northern Ireland's housing market, and indeed will increasingly meet the needs of lower income households, who in the 1980s and 1990s may have had their housing needs met by the social sector.

Some investors – particularly those who bought at the height of the boom with the help of a high loan-to-value ratio mortgage – are leaving the sector. However, given the expected continued demand for private renting from first-time buyers unable to afford their first home, and the continuing pressure on the social housing budget, the risk of large-scale disinvestment is seen as low.

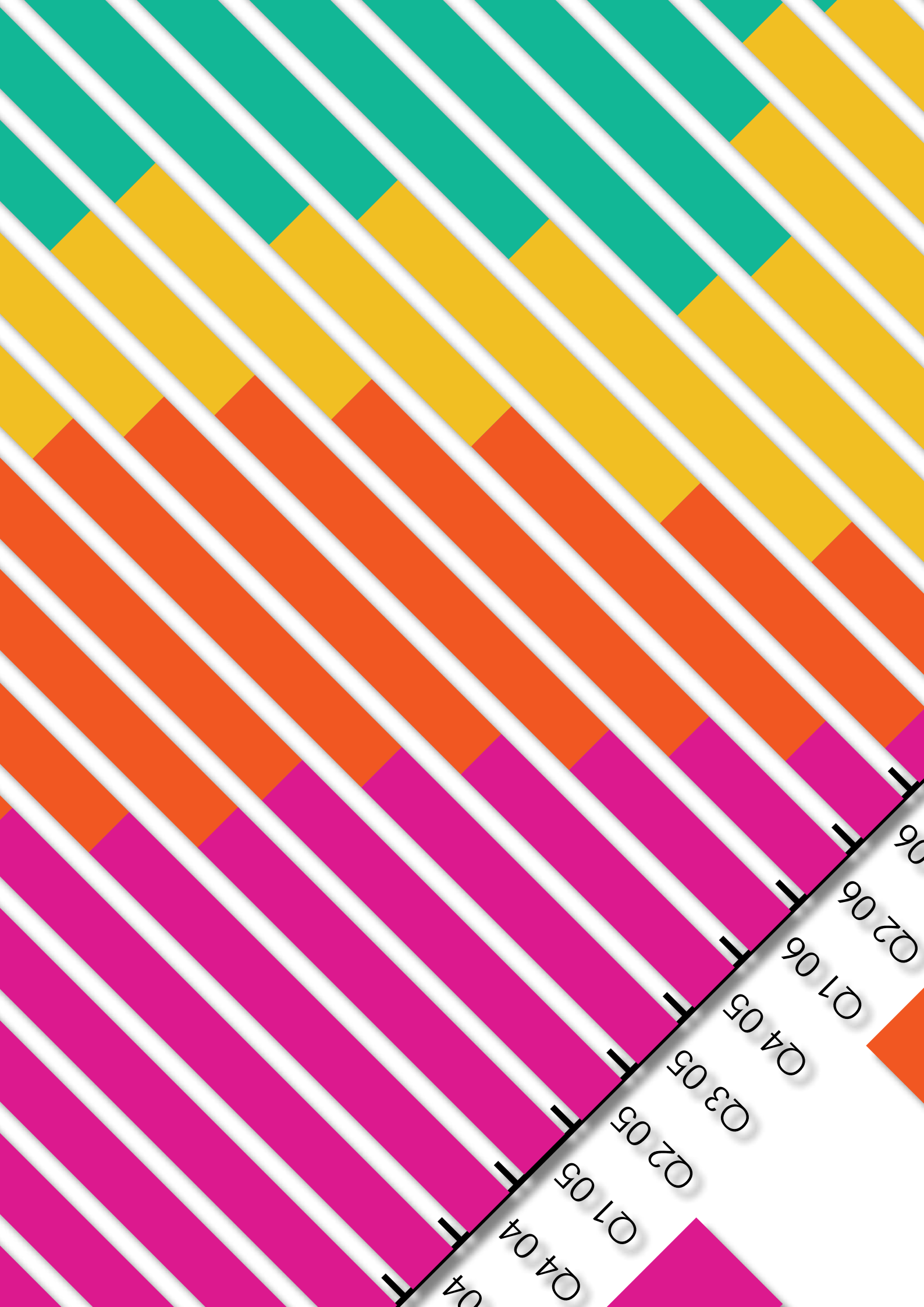
The private rented sector is currently underpinned by Housing Benefit payments totalling more than £250 million. The effects of the extension of the single room rate provision to 35 year old single people, the calculation of the Local Housing Allowance at the 30th percentile rather than the median and, in the longer term, the ending of direct payment to landlords in consequence of the introduction of Universal Credit could significantly undermine the viability of the sector for a significant number of investors.

Since 2007 average rental levels in the Belfast Metropolitan Area have remained broadly consistent and the number of lettings has tended to increase. This level of demand is set to continue.

The condition of the occupied private rented stock is continuing to improve as more and more modern houses become part of the sector and the level of unfit is now low. However, the number of unfit vacant properties in the sector has risen significantly. Addressing this issue at a time of severe financial constraints will prove challenging for Government.

Houses in Multiple Occupation (HMOs) will continue to play an important role in housing single person households including students, young professionals and migrant workers.

The implementation of the Department for Social Development's strategy for the private rented sector will help address a number of important issues, including awareness of rights and responsibilities, security of tenure, housing quality, management standards and the resolution of landlord/tenant disputes, including those concerning deposits.



4

Chapter

Social housing

Housing
Executive

Social Housing: 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%)	n/a
Rural	21,900 (16%)	15,600 (14%)	11,500 (10%)	n/a
DWELLING AGE				
Pre-1919	4,900 (4%)	4,300 (4%)	1,200 (1%)	2,900 (3%)
1919-1944	4,600 (3%)	4,600 (4%)	3,600 (3%)	2,900 (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%)	150 (0.1%)
Non-Decent Homes (rate)	58,800 (44%)	25,000 (22%)	16,100 (14.7%)	n/a
Fuel Poverty (rate)	47,800 (36%)	42,300 (37%)	56,500 (51.4%)	n/a
NEED FOR SOCIAL HOUSING				
Total Waiting List (at March)	22,054	31,908	38,923	39,891
Housing Stress	10,639	17,223	20,481	20,967
Homeless: No. Presented	12,694	20,121	18,076	20,158
Homeless: No. Accepted	6,457	9,749	8,934	10,443
New Social Housing Required (minimum)	1,500	2,500	2,500	2,000

* Excluding vacant properties

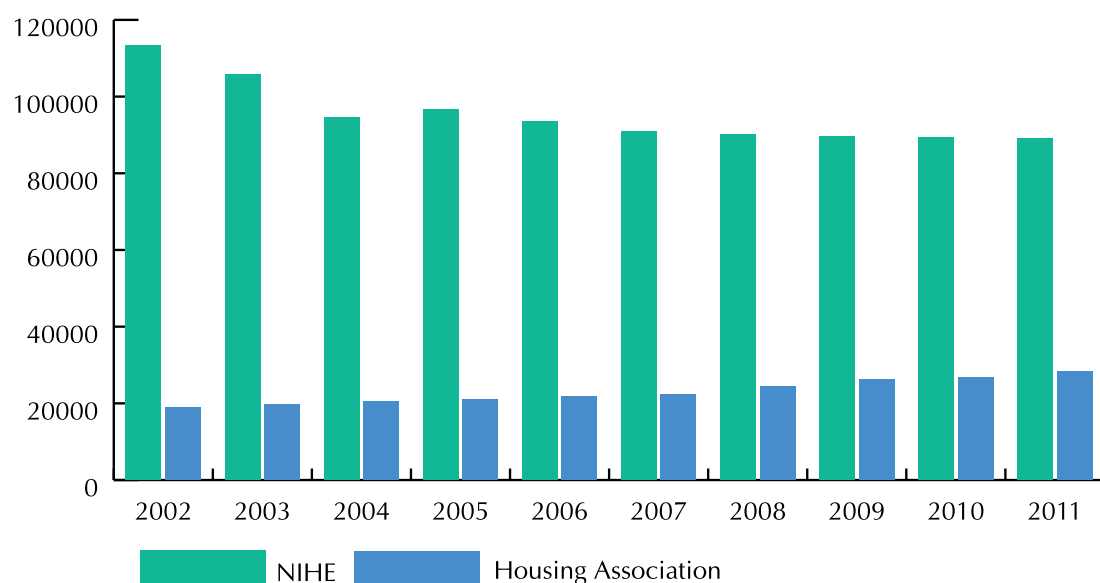
Introduction

In March 2011, there were 117,400 self-contained social rented sector dwellings in Northern Ireland, which accounted for around 16 per cent of the region's total housing stock¹⁴.

Approximately 89,000 of these dwellings were owned and managed by the Northern Ireland Housing Executive, but Figure 14 shows that the number and proportion of occupied units owned by housing associations has risen, and totalled 28,300 in March 2011. In addition, the housing associations also own and manage around 4,500 units of accommodation which are not fully self-contained.

Both demolitions and sales of social dwellings remained at a low level during 2010/11, while considerably more than 2,000 dwellings were added to the social housing stock. The result was that the proportion of total occupied stock in the social sector remained the same for a fifth consecutive year, while the total number of social dwellings in Northern Ireland rose for the fourth consecutive year.

Figure 14: Occupied, self-contained Housing Executive and housing association stock in Northern Ireland, 2002-2011



Source: DSD Housing Statistics, 2010/11 (Figures are at March each year)

¹⁴ Including vacant dwellings

Characteristics and Condition

Information on the characteristics of the social housing stock and the households living in the sector is provided by the Northern Ireland House Condition Survey. Preliminary findings from the 2011 survey reveal the following:

Dwelling age

The majority (74%) of social housing stock was built after 1964, and around one third (32%) since 1980.

Dwelling type

In 2011, 39 per cent of social sector stock was in the form of terraced properties. Flats and apartments (26%) and bungalows (22%) were the other main dwelling types.

Unfitness

In 2011 only 150 social sector dwellings (0.1%, excluding vacant dwellings) were estimated to be unfit, and the unfitness rate in the social sector was unchanged by comparison with 2009. The rate of unfitness across all housing stock (including vacants) increased slightly between 2009 and 2011, from 2.4% to 4.6%.

Government Indicators

The House Condition Survey also provides the data used to calculate key measures of housing quality in Northern Ireland. Data will be modelled during 2012 to provide the figures for 2011. Until then, the most recent figures are from the 2009 survey.

Decent Homes Standard

More than one in ten social dwellings (15%) failed to meet the Decent Homes Standard, the majority (80%) on the basis of thermal comfort.

Fuel poverty

Around half of households living in the social sector (51%: 56,500) were estimated to be in fuel poverty in 2009, compared with an average rate across all tenures of 44%. The rate of fuel poverty has risen among all households since 2006 when the overall rate of fuel poverty stood at 34%, and the rate among households living in the social sector (37%) was only slightly higher.

Housing Health & Safety Rating System (HHSRS)

Social dwellings performed well when assessed using the HHSRS methodology. In 2009, the proportion estimated to have Category 1 hazards (9%) was lower than for the housing stock as a whole (20%), and in line with the findings of the 2006 survey (8%).

Profile of social housing tenants, 2009

The 2009 House Condition Survey showed that:

- ➔ One quarter (25%) of household reference persons living in the social rented sector were aged between 25 and 39, just under one third (30%) were aged 40-59, and 41% were aged 60 or more. More than one third (35%) of households living in social dwellings consisted of one or two older people and one fifth (20%) were lone parent households.
- ➔ Almost half (45%) of social tenants were single persons living alone, compared with one quarter (24%) of owner occupiers and almost one third (32%) of households living in private rented accommodation.
- ➔ The majority (84%) of households living in social sector accommodation had an annual gross income of less than £15,000. Almost half (47%) reported having annual incomes lower than £10,000, compared with 30 per cent of households living in private rented accommodation and 15 per cent of owner occupiers.
- ➔ Around one fifth (19%) of household reference persons living in social sector properties were working either full-time or part-time. One third (34%) were retired and more than one tenth (14%) were permanently sick/disabled.

Impact of Housing Benefit Changes on the Social Sector

A number of significant changes to Housing Benefit for social housing tenants are to be introduced. Two are particularly important for the housing market.

- ➔ From April 2013, 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 from the 2009 House Condition Survey indicates that approximately 27,000 working age tenants in social housing in Northern Ireland will be affected by this change.
- ➔ The level of deductions applied for non-dependents living in a Housing Benefit claimant's household will increase significantly. This change will have the most significant impact on those claimants whose household includes adult children in work.

Government is providing additional resources to help mitigate any negative impacts of the Housing Benefit changes. In Northern Ireland, these are focused on increasing the level of funding for discretionary housing payments, which can be made for a time-limited period to a particular household in recognition of its special circumstances.

Research has now been commissioned by the Department for Social Development and the Housing Executive to undertake a detailed analysis of the impacts of these changes, but a number have already been identified:

The Department of Work and Pensions¹⁵ highlighted the following:

- ➔ the creation of incentives for greater mobility in the social housing sector should result in better use being made of available social housing stock and improved work incentives for working-age claimants;

¹⁵ DWP, *Housing Benefit: Size Criteria for People Renting in the Social Rented Sector – Equality Impact Assessment*, March 2011

Housing Executive

- ➡ an average reduction of £13 per week in Housing Benefit entitlement (in 2013/14) for those who do not downsize. It is estimated that, in Great Britain, approximately one-third of working-age Housing Benefit claimants are under-occupying accommodation in the social sector (a somewhat higher per cent than in Northern Ireland).
- ➡ a potentially greater impact in rural areas given the more limited opportunities to downsize.

However, there may in practice be an inherent policy tension between, on the one hand, a significant increase in non-dependent deductions as some non-dependent adults are pressurised to leave the family home and the desire to make better use of the stock by minimising under-occupancy.

The Chartered Institute of Housing¹⁶ and Scottish Government have identified a range of potential negative impacts, including:

- ➡ increasing demand for transfers to smaller properties, which in some areas may not exist;
- ➡ a rise in homelessness and increasing demand for social housing;
- ➡ some tenants being less willing to care for their elderly parents in their own home;
- ➡ a rise in rent arrears and Housing Benefit overpayments;
- ➡ a rise in overcrowding;
- ➡ greater demand for discretionary housing payments.

¹⁶ Chartered Institute of Housing, *Briefing Paper on the Impact of Forthcoming Changes to Housing Benefit and Local Housing Allowance*, April 2011.

The Housing Executive

The Housing Executive, 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 2010/11, the Housing Executive had a gross budget of £733.6m. Funding for the Social Housing Development Programme accounted for just over one fifth of the total budget (£165m), while £153m was invested in improvements and repairs to Housing Executive stock (a reduction of £13m on the 2009/10 figure).

Housing Executive stock

At March 2011, just over half (57%) 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 of the stock (49%) offered three or more bedrooms. Almost all dwellings (99%) had full central heating systems, of which more than one third (35%) used natural gas as the heating source, while two-fifths (42%) had oil-fired heating. The number and proportion of Housing Executive homes using solid fuel as their principal heat source had fallen to 9,600 (11%) by March 2011, 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 2010 survey showed that the average size of households living in Housing Executive accommodation (2.05 persons) was marginally lower than in 2009 (2.1 persons) and smaller than the average for Northern Ireland's housing stock as a whole (2.51 persons). More than two fifths of households (44%) consisted of only one person, while a slightly lower proportion of homes (38%) 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 15 per cent of Household Reference Persons (HRPs)¹⁷ were working (full time, part time or self-employed) in 2010, a proportion which was in line with the CTOS findings in previous years. People who had retired, again accounted for around one third (32%) of HRPs, and, approximately half (51%) of households had an annual gross household income of £10,400 or less. A significant minority (15%) of all household members required some form of mobility aid (including a wheelchair).

¹⁷ The Household Reference Person is the member of the household who owns, or pays the rent or mortgage on, the property. Where two people have equal claim, the HRP is the person with the highest annual income. This definition is for analysis purposes only, and does not imply any authoritative relationship within the household.

The Shared Neighbourhood Programme

The history of conflict in Northern Ireland means that many communities have been characterised by high levels of social and physical segregation according to community background, and research has confirmed relatively high levels of segregation in Housing Executive estates across the region¹⁸. In partnership with the International Fund for Ireland (IFI), the Housing Executive's Community Cohesion Unit initiated a Shared Neighbourhood Programme to work with existing communities to develop shared neighbourhoods, "where people choose to live with others regardless of their religion or race, in a neighbourhood that is safe and welcoming to all and threatening to no-one".

The three-year pilot programme cost just over £1 million, of which £868,000 was contributed by the IFI. Thirty rural and urban social housing areas participated in the programme, each benefitting from a budget of £8,000 to develop local activities. In 2010, the Housing Executive commissioned an external evaluation of the Shared Neighbourhood Programme, including resident surveys and interviews with key stakeholders. The main findings were that:

- Involvement in the Programme had increased residents' awareness of both similarities and differences within the local population.
- The development of localised Good Relations Plans as part of the programme had brought a more focused and targeted approach to good relations for many of the shared neighbourhoods, making good relations an integral part of activities, rather than an afterthought.
- The grant aid had enabled more cross-community events to take place, including a number specifically aimed at encouraging understanding and participation of minority ethnic communities.
- Perceptions of whether an area was 'mixed' did not always reflect the actual demographics; internal and external perceptions of an area are very important, and may be central to the future promotion of the limited shared housing stock.
- The majority of the communities that had participated were supportive of the Shared Neighbourhood Programme and felt that their involvement had been a valuable experience in terms of providing positive media coverage, facilitating links between neighbours and helping to establish more peaceful and welcoming neighbourhoods.
- Broadly, the evidence from the 30 pilot areas has highlighted the need for an infrastructure that empowers people to work on improving the quality of life in their estates and facilitates accountability from service providers and decision makers. The co-ordination of efforts via inter-agency partnerships can maximise impacts, but can be limited by the capacity and drive of local residents.

¹⁸ Shuttleworth, I and Lloyd C (2007) *Mapping Segregation in Belfast: Northern Ireland Housing Executive Estates* (Belfast: NIHE); and Shuttleworth, I and Lloyd C (2009) *Mapping Segregation in Northern Ireland: Northern Ireland Housing Executive Estates Outside Belfast* (Belfast: NIHE)

Fundamental Review of the Northern Ireland Housing Executive

In October 2010, the then Minister for Social Development, Alex Attwood, announced his intention to examine the functions of the Housing Executive. The Department for Social Development subsequently commissioned PricewaterhouseCoopers (PwC) to carry out a fundamental review, the aim of which included:

- ➡ Providing a robust shortlist of options for analysis;
- ➡ Making recommendations on where Housing Executive functions to be continued should be located, and how any organisational changes should be effected; and
- ➡ Providing a strategic review report and draft implementation plan to support the preferred service delivery model.

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, providing independent inspection and governance across all tenure types including service and economic regulation.

A new Strategic Housing Authority for Northern Ireland, with responsibility for a number of key roles, including:

- ➡ ultimate ownership of existing housing stock;
- ➡ development and delivery of a holistic housing strategy for the region;
- ➡ independent assessment of need across Northern Ireland;
- ➡ commissioning and monitoring the Social Housing Development Programme.

A new social enterprise landlord for existing Housing Executive stock and with responsibility for:

- ➡ a maintenance investment programme;
- ➡ landlord housing services, with a focus on tenants and communities; and
- ➡ community cohesion and safety.

Since publication of the report the Minister for Social Development has been leading discussions on the PwC recommendations with key stakeholders. The Minister is to announce his decision on the future strategic direction of the Housing Executive and its functions during spring 2012.

The Housing Associations

There were 31 registered¹⁹ housing associations in Northern Ireland at March 2011, including the Northern Ireland Co-Ownership Housing Association (NICHHA). Housing associations provide good quality, affordable accommodation for households in housing need on a not-for-profit basis. Since the early 2000s, housing associations have been responsible for developing all new social dwellings in Northern Ireland. Until 1992, housing association development was funded almost entirely by grants and loans from Government. Subsequent 'mixed funding' arrangements have required that associations obtain their loans from the private market. The private finance component now represents about one third of the cost of general-purpose development by associations, which have borrowed more than £600m from private sources (mainly banks, building societies and their own reserves) since 1991.

Housing Association stock

Excluding properties within the Co-Ownership Scheme, but including vacant stock, registered housing associations owned almost 33,700 units of accommodation at March 2011. Of these units, the majority (87%; 29,170) were self-contained, while the remainder were bed spaces in shared accommodation. The ten largest housing associations, each of which had more than 900 units, owned more than three quarters (78%) of all housing association stock (see Table 10).

Table 10: Housing associations with 900+ units of rented accommodation, March 2011

	Self-contained units	Bed spaces	Total Units
Helm	4,640	556	5,196
Fold	4,668	313	4,981
Oaklee	3,830	677	4,507
Apex	2,767	427	3,194
Clanmil	2,343	88	2,431
Habinteg	1,763	261	2,024
Trinity	1,152	111	1,263
Ulidia	685	295	980
Alpha	946	0	946
South Ulster	920	0	920
Total (10 largest associations)	23,714	2,728	26,442
Total housing association stock	29,168	4,530	33,698

Source: Department for Social Development

Approximately 2,000 housing association dwellings (almost 1,200 self-contained units and more than 800 bed spaces in shared accommodation) were suitable for tenants who use a wheelchair, and around one third of all stock owned by associations (10,660 units) was designed for elderly people. The housing associations own and manage stock throughout Northern Ireland, but there are particular concentrations in a number of district council areas including Belfast (40% of all housing association stock at March 2011), Derry City (12%), and Lisburn (7%).

¹⁹ 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 (NICHHA; 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.

Co-Ownership managed a total of 4,784 properties at 31 March 2011 – 371 more than at the same date a year earlier. The number of properties under management at any one time is expected to continue to rise as a result of enhanced purchasing activity and relatively low staircasing levels. Figure 15 shows that the number of properties acquired through the scheme between April 2010 and March 2011 (492 against a profiled 500) was slightly higher than during the previous year (461). NICHHA's overall investment of £26.2 million during 2010/11 was also broadly in line with the equivalent 2009/10 and 2008/09 figures (£25.5 million and £24.1 million respectively). £15 million of the investment in 2010/11 was in the form of Housing Association Grant. At £60.4 million, the total value of properties purchased during 2010/11 was also little changed from the previous year's figure, £58.7 million.

The value limit for purchases through the Co-Ownership scheme has been set at £175,000 since November 2008, and all purchasers commence by buying at least a 50 per cent share of the property. During 2010/11, purchase prices ranged from £50,000 to £175,000, and averaged £122,775. The 2010/11 average purchase price was slightly lower than in 2009/10 (£127,310) and also lower than the average Northern Ireland open market price during 2010 (£158,421).

Figure 15: Co-Ownership Properties Acquired Annually: 2003/04-2010/11



Source: Co-Ownership

The continuing reduction in average house prices in Northern Ireland during 2010/11 meant that the proportion of terraced properties and apartments purchased through the scheme continued to decline; almost half (46%) of purchases in 2010/11 were semi-

detached homes, while a further tenth (10%) were detached, compared with 21 per cent and one per cent respectively in 2006/07.

Almost 21,500 households have purchased their own homes through Co-Ownership since the scheme was set up, and approximately 16,700 'staircased' out to become full owners between 1978 and March 2011. During 2010/11, 121 households staircased to full ownership, and a further 32 partial 'staircasers' increased their share in the property, but not to the point of full ownership. The average return for households that staircased during 2010/11 was £30,589 compared with £40,263 in 2009/10. Income generated through sales was also slightly lower in 2010/11 (£5.4 million) than in 2009/10 (£6.7 million). Property sales proceeds varied widely between individual properties in 2010/11, reflecting the changes in property values over recent years and also current market conditions for property sales.

Data collated by NICHA provides an insight into the profile of purchasers during 2010/11:

- Two thirds (68%) of purchasing households had only one earner, and more than half (54%) were single person households; both figures were closely in line with the characteristics of purchasers in the previous year. Just over one fifth (22%) of purchasers were couples, 15 per cent were couples with children, and almost one tenth (9%) were lone parents. Purchasers ranged in age from 19 to 56; the average age was 27.
- The average annual household income of those purchasing through Co-Ownership was slightly higher in 2010/11 (£24,636) than 2009/10 (£22,977). At 5.2, purchasers' price to income ratio in 2010/11 was slightly reduced by comparison with 2009/10 (5.4).

In October 2011, the Northern Ireland Executive increased its funding commitment to the Co-Ownership scheme, with an additional £10 million for the 2011/12 financial year and each of the three following years. Along with support from the local banks and building societies providing mortgage funds to prospective Co-Ownership buyers, it is anticipated that this additional funding will enable the scheme to deliver 600 homes each year until 2014/15; £15 million of Housing Association Grant had already been committed to the scheme for each year of the same period.

New Social Housing

Social Housing Supply and Housing Need

In the social rented sector, housing need is primarily met through the re-let of existing dwellings to new applicants. Figure 16 shows that the annual total number of re-lets and allocations (excluding transfers), as well as the numbers specifically attributable to the Housing Executive and housing associations, has varied from year to year. During 2009/10, the total was at its highest in recent years (9,192, of which 6,322 were Housing Executive re-lets and 2,870 were housing association allocations/re-lets). However, Housing Executive re-lets (5,371) and housing association re-lets/allocations (2,703) were both lower during 2010/11 than the previous year.

Figure 16: Social housing: re-lets/allocations (excluding transfers), 2005/06-2010/11



Source: DSD Housing Statistics

The most recent version of the Net Stock Model (outlined in Chapter 1) was produced in January 2012. It envisaged an annual requirement for 1,100 new social dwellings to meet ongoing, primarily demographically-driven, housing need. However, given the shortfall in new social housing provision since 2001 and the expected low rate of new private construction over the next three year period, it was also considered appropriate that an additional 900 additional units should be provided each year, giving a total annual requirement for a minimum of 2,000 new social dwellings.

The Housing Executive is responsible for the management of the Social Housing Development Programme, and takes account of local Housing Need Assessments (HNAs) in its formulation. The Programme is distributed and reviewed within the overarching framework of agreed strategic guidelines, which ensure an equitable geographical allocation of new build according to assessed housing need.

The Social Housing Development Programme 2010/11

In 2009/10 housing associations commenced work on, or acquired, 1,838 new social dwellings, exceeding the target of 1,750 dwellings. The most ambitious target in recent years – 2,000 starts or acquisitions – was subsequently set for 2010/11, along with a requirement to start an additional 276 dwellings in order to account for below-target delivery in 2008/09 and fully address the three-year target of 5,250 starts on new social dwellings between 2008/09 and 2010/11. Actual outturn exceeded this target, with 2,418 social sector dwellings started or acquired during 2010/11.

During 2010/11, work started on 2,104 new self-contained dwellings and 48 bed spaces in hostels and other communal establishments, while 1,267 new self-contained dwellings and a further 38 bed spaces in hostels and other communal establishments were completed during the year.

Table 11 shows the composition of the new build programme since 2005/06. During 2010/11 contracts starts for new dwellings totalled 2,152, of which 400 were “off the shelf” and 1,752 were new build. A further 93 “existing satisfactory” properties were acquired during the year and work started on the rehabilitation/reimprovement of 173 properties.

Table 11: Social Housing Development Programme starts, 2005/06-2010/11

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Buy and develop sites: new build	1,013	604	885	476	1,243	1,752
Buy new homes “off the shelf”	90	48	270	299	467	400
Package deals (design & build) ²⁰	212	174	84	131	0	0
Buy “existing satisfactory” homes	142	180	343	223	76	93
Rehabilitation/reimprovement	62	26	13	7	52	173
Total recorded starts	1,519	1,032	1,595	1,136	1,838	2,418

Source: NIHE

General needs schemes for families, couples and single people accounted for the vast majority of social housing starts during 2010/11 (2,164 units; 90% of starts). A further five per cent of starts (124 units) were in the form of accommodation for relatively fit elderly people, and the remainder were schemes to meet more specialised needs such as those of people with physical or learning disabilities and elderly people in need of housing with care. Just over one tenth of the 2010/11 programme (303 units) was provided in rural areas.

²⁰ 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 houses) prior to commencement of the 2009/10 programme.

The New Build Programme from 2011/12 onwards

Housing associations are working towards a target of starts on 1,400 new units of accommodation during 2011/12, of which 200 are to be supported housing schemes. By the end of September 2011, work had commenced on 109 units, in what has traditionally been a “back-loaded” programme with activity concentrated in the final quarter of the financial year. With a number of housing associations suspended from undertaking development activity during much of 2011/12, delivery of the year’s programme may prove difficult to achieve.

The draft Northern Ireland Programme for Government, published in November 2011, included a target for delivery of 8,000 social and affordable homes during the period 2012/13 to 2014/15. Given that the budget for the Social Housing Development Programme looks set to be significantly lower from 2012/13 onwards than in recent years, annual targets of 1,000 new general needs homes in the social sector have been set for in 2012/13 and 2013/14.

Planning Policy Statement 12: Housing in Settlements

In July 2005, the Department for Regional Development published Planning Policy Statement 12 (PPS12) – Housing in Settlements. Its purpose was ‘to provide strategic direction and guidance in the form of regional planning policy’ to assist the implementation of the Regional Development Strategy.

Within PPS12, policy HS2 has been identified as the critical mechanism for delivery of social and affordable housing in Northern Ireland. The policy currently allows for planning approvals to require an element of social housing at locations where need has been identified by the Housing Executive. In the long term, to enable developer contributions as a matter of course, as in other parts of the UK, and in the Republic of Ireland, amendments are required to PPS12 (and within it policy HS2). The aim would be to require non-social, affordable housing – as well as social housing – as part of planning approvals. Experience elsewhere has shown that developer contributions are most effective in a buoyant housing market. Although the local market remains subdued, it is important, in the long term, that a developer contributions policy is put in place in Northern Ireland. Work is ongoing to progress this issue.

Improving and Maintaining Social Housing

The findings of the 2009 House Condition survey showed that, thanks to investment in maintenance and improvement of the existing stock, and construction of new dwellings, the quality of social housing in Northern Ireland has continued to improve in recent years. In 2009:

- ➔ Around 16,100 properties in the social sector (14%) failed to meet the Decent Homes Standard; the comparable figure in 2001 was 59,000 (44%).
- ➔ The vast majority (83%) of social stock failing to meet this Standard failed on the thermal comfort criterion. Smaller proportions failed on modernisation (16%) and disrepair (8%).²¹

The Decent Homes Standard was introduced in Northern Ireland in 2004 to promote measureable improvements to housing in the region, with the aim that the entire social stock would meet the standard by 2010. Although the findings show significant improvement, they point to a need for continuing investment in the social sector stock – primarily to replace inefficient heating systems, but also to maintain and improve the existing stock as it continues to age. The figures also demonstrate that, for a number of reasons including reduced availability of capital funding due to the collapse in income from capital receipts (land and house sales), the original target date for social stock to meet the Decent Homes Standard has not been achieved.

Improving Housing Executive stock

In 2004, the Housing Executive set the objective that all its stock would meet the Decent Homes Standard by 2010. In order to achieve the 2010 target, it was estimated that multi-element improvements (MEIs) needed to be carried out on more than 9,000 properties. Although the programme had already fallen behind target by 2008/09, the subsequent funding shortfall dealt a severe blow to the improvement programme; there were no MEI starts on Housing Executive properties during 2009/10 or 2010/11.

In response to this funding position, an approach was developed to address the most pressing work requirements in the majority of these properties through phased 'revenue replacement' or capital kitchen improvements. In addition, in order to address the more extensive improvement works needed by a residual group of Housing Executive properties, a stock transfer protocol was developed during 2011, based on experience of a pilot scheme in Derry, through which a number of properties transferred from the ownership of the Housing Executive to Apex Housing Association. The protocol will be tested on another scheme in Bangor before a transfer programme to address the remainder which are in need of more extensive work is drawn up.

Heating replacement schemes, which are also classified as improvements, have been less adversely affected by the budget restrictions. As in 2009/10, the availability of additional funding in-year through monitoring rounds meant that heating replacement starts during 2010/11 (3,802) exceeded the original target for the year (1,350). The target for 2011/12 was 2,400 starts, but with the availability of additional funding in-year it is expected that approximately 5,500 will be undertaken. Some 15,000 dwellings still require to have their heating replaced.

²¹ As properties may fail to meet the Decent Homes Standard on the basis of more than one criterion, proportions may add to more than 100 per cent.

In 2010, the Housing Executive initiated a review of its existing heating policy, which prioritises properties with solid fuel room heaters or open fires for replacement with gas heating (where a supply is available) and oil elsewhere. The review considered whether the existing policy remained appropriate in the light of fuel price changes and the development of new technologies. The review concluded that natural gas remained the preferred fuel source, and, in other areas where gas is not available, that tenants should be offered a choice of oil heating or wood pellet boilers. Having been agreed by the Housing Executive's Board, the new policy has been submitted to the Department for Social Development for approval.

Maintaining Housing Executive stock

The Housing Executive maintains its stock through planned (programmed) schemes and response maintenance, which reacts to tenants' requests for repairs. The two main types of planned maintenance are *external cyclical maintenance* (ECM), which involves work to the external fabric of dwellings and their immediate surroundings, carried out on a five-year cycle, and *revenue replacement*, through which internal elements that have reached the end of their expected life (e.g. sanitary ware, room heaters and kitchen units) are replaced.

Budgetary constraints have also impacted on the number and type of planned maintenance schemes carried out in recent years. There was a significant drop in the number of ECM starts between 2007/08 (9,700) and 2008/09 (2,100), but the total increased in subsequent years, reaching 5,646 starts in 2010/11. A target of 3,200 ECM starts was set for 2011/12, although the availability of additional funding in-year has meant that around 8,000 dwellings will be subject to ECM work. As the Housing Executive stock continues to age, it is important that appropriate funding for external cyclical maintenance continues to be made available.

During 2010/11 work commenced on almost 2,600 kitchen replacement schemes – fewer than in 2009/10, when around 4,000 kitchen replacements were started. The target for 2011/12 was lower still (1,500); however due to the availability of additional funding in-year it is expected that more than 4,000 will be completed. Some time ago, it was estimated that 16,800 kitchen replacements would be required between April 2003 and March 2010. As a result of funding pressures, the target date was subsequently moved back to 2012. Above-target starts during 2009/10 and 2010/11 have meant that the original target total has now been met, but subsequent analysis has shown that more kitchens than originally estimated will need to be replaced.

Response Maintenance

A total of 402,500 response maintenance works orders were issued during 2010/11, including 41,550 during the period of severe weather in December 2010 and January 2011. Despite the high demand for repairs resulting from the sudden post-Christmas thaw, the total for the year was lower than in both 2009/10 (424,200) and 2008/09 (406,160). The Continuous Tenant Omnibus Survey monitors tenants' satisfaction with the Housing Executive's repairs service. In 2010, three quarters (75%) of tenants who had reported a repair within the previous 12 months were either 'satisfied' or 'very satisfied' with the repair service; the proportion was unchanged from 2009.

Maintenance Investment Strategy

The Housing Executive's Maintenance Investment Strategy was formally adopted in 2004, and set a programme of work for the period 2003-2010, within which Housing Executive stock was expected to meet agreed targets such as the Decent Homes Standard. Following a review in 2007, which considered progress to date as well as new health and safety and building regulations requirements, the targets for heating replacement, the capital improvement programme and kitchen replacements were extended to 2012.

In 2008, a stock condition survey carried out by Savills for the Department for Social Development considered the Housing Executive's repairs and maintenance liability over a 30-year period and assessed properties against the Decent Homes Standard *Plus*.²² While the survey found that the Housing Executive's stock was generally of a high quality, 17 per cent failed the Decent Homes Standard *Plus*. A need was identified for short-term investment in the internal fabric of properties, as well as medium-term investment in roofs, the external fabric of dwellings, and ongoing work to the internal fabric.

In light of these findings and the uncertainty over the availability of finance following a sharp reduction in capital receipts, the Housing Executive instigated a further review of its Maintenance Investment Strategy in 2010. With the multi-element improvement programme suspended and other aspects of the planned maintenance programme (e.g. external cyclical maintenance and kitchen replacement) having fallen behind, the Housing Executive's Board agreed a strategy for 2011-2016 that would work towards achievement of Decent Homes Standard *Plus* by 2021. The proposed strategy has been submitted to the Department for Social Development for approval.

Double glazing

As part of the Maintenance Investment Strategy, the Housing Executive had set the objective that all its homes should have double glazing by 2021. However the draft Programme for Government, published in November 2011, included a requirement that this objective should be achieved by March 2015. With up to 50,000 dwellings needing to be upgraded to double glazing, at a cost of approximately £125 million, the Housing Executive is considering delivery options in light of a likely funding shortfall and the potential impact on other maintenance and improvement programmes, unless additional funding is secured.

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.

²² 'Decent Homes Plus' is an enhanced version of the Decent Homes Standard, which Savills defined as the Decent Homes Standard, plus: statutory obligations; good and tenantable repair; and maintenance of existing environmental works. The Housing Executive's definition of Decent Homes Plus includes further components, in relation to, for example, energy efficiency, carbon emissions and accessibility standards.

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 2012, estimates that there is an annual requirement for at least 1,100 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.

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 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. More sustainable funding arrangements, including the greater use of private finance, will help the organisation continue to fulfil its invaluable role in the context of a very challenging market.

Ongoing constraints on the finance available for Housing Executive improvement and maintenance programmes will delay the attainment of the Decent Homes Standard for social housing in Northern Ireland.

A ministerial announcement regarding the recommendations made by PwC in its Fundamental Review of the Northern Ireland Housing Executive has the potential to lead to significant changes in the ownership and management of Northern Ireland's social housing stock in the longer term.



Conclusion

Housing
Executive

Conclusion

Developments during 2011 indicate that 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 will 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.

House prices are destined to remain at best flat, but on balance are more likely to continue to drift downwards during 2012, 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. Co-Ownership has continued to play a valuable bridging role in enabling approximately 500 households on low incomes each year to become home owners.

The private rented sector has also played a valuable role in recent years in meeting the needs of younger households on lower incomes, who might in previous decades have become first-time buyers. It also continues to play an important role in meeting the housing needs of 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.

The 2011 House Condition Survey indicates that conditions in the private sector, and particularly in vacant properties, have deteriorated over the last two years. This is not surprising given the budgetary pressures on households and landlords, but may also reflect reduced availability of home improvement grants to lower income households.

The most recent estimates of housing need based on the Net Stock Model and analysis of the waiting list for social housing indicate the need for an annual programme of a minimum of 2,000 additional social dwellings, although resources will only be available for a significantly lower number. The proposals to reduce Housing Benefit to tenants in the social sector if they occupy more bedrooms than deemed necessary and the substantial increase in non-dependent deductions will add to the stress on social housing providers, who may have to deal with rising homelessness, an increasing demand for social housing and rising arrears.

The Programme for Government confirms that resources for stimulating the housing market, for new social housing and undertaking improvements and repairs to existing social dwellings will be more constrained, making effective housing policy interventions in the market more difficult than at any time in recent decades. The new Housing Strategy for Northern Ireland to be launched by the Minister for Social Development later this year will undoubtedly throw new light on how to address these very challenging housing market conditions.

Appendix 1: Affordability Index 2010

District Council	Median Income £	House Price Quartile 1 £	Affordable Price £	Affordability Gap £	Affordable %
Derry	18,000	91,000	123,146	32,146	48
Limavady*					
Coleraine	35,000	88,000	239,451	151,451	89
Ballymoney	17,500	115,000	119,726	4,726	31
Moyle	17,000	110,000	116,305	6,305	30
Larne	25,500	84,988	174,457	89,469	77
Ballymena	16,000	107,250	109,463	2,213	30
Magherafelt	21,500	106,375	147,091	40,716	60
Cookstown	20,000	99,000	136,829	37,829	67
Strabane*					
Omagh	16,500	68,875	112,884	44,009	57
Fermanagh	24,500	101,000	167,616	66,616	86
Dungannon*					
Craigvon	20,500	92,500	140,250	47,750	85
Armagh	23,000	108,975	157,354	48,379	70
Newry & Mourne	18,500	107,250	126,567	19,317	48
Banbridge	19,500	115,000	133,408	18,408	34
Down	21,500	125,000	147,091	22,091	53
Lisburn	25,000	105,000	171,037	66,037	68
Antrim	20,500	135,000	140,250	5,250	40
Newtownabbey	22,000	95,000	150,512	55,512	66
Carrickfergus	25,000	85,000	171,037	86,037	84
North Down	32,000	118,000	218,927	100,927	72
Ards	25,000	110,000	171,037	61,037	67
Castlereagh	20,000	154,500	136,829	-17,671	20
North Belfast	17,500	68,250	119,726	51,476	69
South Belfast	27,000	142,000	184,719	42,719	56
West Belfast	13,000	84,375	88,939	4,564	27
East Belfast	23,000	99,250	157,354	58,104	49
N Ireland (2010)	21,500	100,000	147,091	47,091	58
N Ireland (2008)	17,530	149,950	96,828	-53,122	3

* It should be noted that in these three District Council areas the underlying samples were considered too small to provide robust analysis.





