Review of housing need and demand in Edinburgh

The City of Edinburgh Council

FINAL REPORT

September 2020

indigohouse

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Executive Summary

Purpose of the study

This study has reviewed evidence on housing need and demand to inform the City Plan, the City Housing Strategy and HNDA 3 which is due to commence later this year. It has included a review of HNDA2 (2015) figures, how the Housing Study for City Plan Main Issues Report interprets them, along with other available evidence on need and demand. The study has also examined the likely impact of the current crisis/recession on demand for affordable housing.

Summary of Key findings

HNDA2 provided a range of estimates of housing need and demand based on different assumptions about the local economy and possible household growth. The table below shows comparison between the HNDA2 estimates, the revised HNDA estimates from this study and the Housing Supply Targets (HST) – the Council's current HST and that provided by the City Plan housing paper.

		HNDA 2		Revised HNDA estimates		Current HST	City Plan housing study
High	Affordable	49,902	81,884	48,866	67,174	Afford 20,800	Afford 20,800
	Market	31,982		18,308			
Medium	Affordable	44,586	67,174	32,862	45,174	Market 20,600	Market 22,600
	Market	22,588		12,312			
Low	Affordable	39,099	53,455	24,121	31,455	**Total 41,400**	**Total 43,400**
	Market	14,356		7,334			

The yellow highlights provide the most likely scenarios under current conditions. Overall, the suggested revised estimates of housing need and demand are considerably lower than the original HNDA2 estimates. The main reasons for this are:

- **Household growth estimates have been significantly reduced** between the 2012 household estimates used in the HNDA2 and the most recent 2016 household growth estimates.
- Although the City of Edinburgh is still projected to have far higher household growth than elsewhere across Scotland, this is now projected to be considerably **less than previously projected**. Midlothian, West Lothian and East Lothian are expected to see **more growth** than previously, suggesting that the Edinburgh market is widening.
- There is strong evidence of **affordability constraints**, with a greater need for affordable housing highlighted in the analysis of house prices, rents and incomes. There are indications that **housing affordability is stifling household growth in Edinburgh**.
- The recommendation is for a **Housing Supply Target (HST) of around 45,000**, with greater emphasis on affordable housing including social and mid-market rent, and an identified need for the policy objective to encourage greater supply of more "affordable" market housing (priced at the lower end of Edinburgh's housing market).
- The household growth and economic analysis provided by this report does **not support the argument for a larger HST** more aligned to the original HNDA2 middle scenarios of 67,174.

In term of the likely **impact of the current health crisis/recession on demand for affordable housing**:

- The impact of Covid-19 has seen **a current surge in the housing market** through pent-up demand from the lock-down period, but also demand for different type of housing with more internal and external space as the employment market has shifted to more home working. There are indications of some of this demand leaving the city centre urban core, and even moving out of Edinburgh altogether to seek more affordable space.
- The current **high demand is coupled with supply constraints in the new build sector**. Current Covid-19 restrictions mean that the production rate has slowed down, and there are reports of the supply chain still adjusting since the easing of lockdown. As a result of this demand supply imbalance, there continues to be pressure on sale prices in the second-hand market, and prices have remained stable for new build properties.
- The current spike in **demand is partly fueled at the lower end** of the Edinburgh market from the Scottish Government housing market stimuli including the Land and Building Transaction Tax (LBTT) holiday up to £250k, and the First Home Fund. There are concerns about the potential impact at this end of the market as unemployment is likely to increase over the next 6 months, probably amongst households from lower paid sectors, coupled with the potential halt of the current Scottish Government housing market stimuli in March 2021. During late 2020 and early 2021 this **may result in shifts from ownership at the lower end of the market to greater demand for private renting, mid-market rent and social rent, but still with demand for more internal and external space**. As with the ownership market, demand is likely to increase for houses rather than flats, and for any house type there will be increased demand for spare rooms for home working, and increased outside space (including balconies for flats).
- The private rented sector has been in a state of flux through the pandemic as many student and more mobile young households left the City to return to their parental home. These households are now returning, and vacancies are gradually being filled. There was a temporary downward pressure on rents immediately on easing of lockdown, but prices now appear to be returning to pre-lockdown levels as equilibrium in the market returns. **As for the ownership market, there is evidence of demand for more internal and external space, and shifting out of the urban core.**
- There was some evidence of an immediate shift of Short-term lets (STLs) to residential private-lets during lock-down, but consultation suggests that the **high demand for UK staycations means that demand for City Centre STLs has been broadly maintained**.
- For the long term the market fundamentals for the Edinburgh market are projected to remain strong, with unlikely downward pressure of prices. Affordability pressures will likely continue to constrain Edinburgh's household growth as people seek more affordable space, emphasized even more now through the pandemic experience. **The market appraisal and housing need and demand review shows the continued emphasis on the need for affordable housing, with a mix of mid-market rent and social rent, and market housing priced at the lower, affordable end of the market. This points to an increased proportion of affordable housing required on all housing sites.**

1. Introduction and methods

Introduction

The City Plan that is currently being developed assumes that the housing need and demand figures contained in SESPlanHNDA2 (HNDA2) remain accurate. It was signed off as robust and credible by Scottish Ministers in March 2015, but time has passed since the assessment was carried out.

The brief for this study is to review the HNDA2 figures, and how the Housing Study for City Plan Main Issues Report interprets them, along with other available evidence on need and demand. The study will inform City Plan, the City Housing Strategy and HNDA 3 (due to commence later this year).

The study will also include an assessment of the likely impact of the current crisis/recession on demand for affordable housing. It will consider demand for different types of affordable housing (mid rent, social rent, LCHO).

A weakness of the current HNDA2 is that it does not provide sufficient guidance on the type and mix of housing required (for example, wheelchair accessible homes, extra care or specialist housing need). A separate report examines possible approaches/methodology for assessing specialist housing need. This could be taken forward as part of HNDA 3.

Research methods

The overall HNDA review workstream has been structured as follows:

(1) The review of HNDA2, Housing Study and other evidence on demand and need.

(2) A desk-based rapid review of key papers and online commentary on Covid impacts and recent economic trends has been undertaken to inform scenario development.

(3) Qualitative research with key stakeholders. The research has included consultation with industry players including a sample of housing developers, estate agents and letting agents on anticipated impacts of Covid on the economy and housing market to provide insights on what is currently happening in the market. 17 participants across estate agents, house builders and letting agents took part in the research.

(5) Case studies on demand for newly completed housing developments (or due to complete soon) also informed the development of the scenarios.

(6) An online review of homes available for sale and to let, and comparison with previous trends in the City provided quantitative market insights.

(7) Specialist provision – a review of methods and approaches was undertaken looking at the type and mix of housing required (for example, wheelchair accessible homes, extra care or specialist housing need).

(8) Scenario testing - based on the work carried out, the report sets out the findings for different scenarios and highlights any CEC policy or practice that could help to address the need and demand for affordable housing.

2. Review of Housing Need and Demand

2.1 The current housing need and demand estimates and the HST

This section reviews the assumptions underpinning the current need and demand estimates from HNDA2 and considers how the results feed into the Housing Supply Target.

HNDA2 sets out three scenarios in Table 10.1 summarising need and demand 2012-2032 based on three scenarios - Steady Recovery, Wealth Distribution and Strong Economic Growth (described more fully below).

Table 10.1: SESplan Total Current and Future Housing Need and Demand 2012-2032

	City of Edinburgh	East Lothian	Fife SESplan	Midlothian	Scottish Borders	West Lothian	SESplan
Alternative Future: Steady Recovery 2	67,966	10,617	12,954	8,235	3,768	11,336	**114,876**
Alternative Future: Wealth Distribution 2	81,685	11,431	16,417	8,996	5,407	12,871	**136,807**
Alternative Future: Strong Economic Growth 2	96,394	12,494	19,619	9,347	7,082	14,223	**159,160**

The Housing Study outlines the current estimates arising from HNDA2, and how these translate into need and demand over 2019-2032:

Table 1 – Scenarios of Need and Demand 2019-2032 (HNDA2)

Steady Recovery	**2012-2032**	**Annual Average**	**Completions 2012 - 2019**	**Need/Demand 2019-2032**
Social Rent	34,836	1,742		
Below market rent	9,590	480		
Total Affordable	**44,426**	**2,221**	**5,327**	**39,099**
Private rent	7,407	370		
Owner occupied	16,133	807		
Total Market	**23,540**	**1,177**	**9,184**	**14,356**
Total Housing	**67,966**	**3,398**	**14,511**	**53,455**
Wealth Distribution	**2012-2032**	**Annual Average**		
Social Rent	36,969	1,848		
Below market rent	12,944	647		
Total Affordable	**49,913**	**2,496**	**5,327**	**44,586**
Private rent	12,125	606		
Owner occupied	19,647	982		
Total Market	**31,772**	**1,589**	**9,184**	**22,588**
Total Housing	**81,685**	**4,084**	**14,511**	**67,174**
Strong Economic Growth	**2012-2032**	**Annual Average**		
Social Rent	43,507	2,175		
Below market rent	11,722	586		
Total Affordable	**55,229**	**2,761**	**5,327**	**49,902**
Private rent	15,219	761		
Owner occupied	25,947	1,297		
Total Market	**41,166**	**2,058**	**9,184**	**31,982**
Total Housing	**96,395**	**4,820**	**14,511**	**81,884**

In 2013, Oxford Economics carried out a study to assist SESplan in selecting the most appropriate scenario upon which to base its Housing Supply Targets. The study concluded that either of the two lower forecasts of need/demand set out above (Steady recovery or wealth distribution) may be suitable but that the higher scenario (strong economic growth) was unrealistic.

Scottish Planning Policy requires that the Housing Supply Target should be reasonable and should properly reflect the HNDA estimate of housing demand in the market sector. It should meet the market demand and set a target for the amount of affordable housing which could realistically be brought forward in the period of the plan. Table 2 sets out proposed Housing Supply Targets.

Table 2-Proposed Housing Supply Targets

Market Housing (HNDA 2 middle economic scenario)	Affordable Housing (Council commitment to 2027)
22,600	20,800*

* The Council objective is to deliver 20,000 affordable homes by 2027. Affordable housing will continue to be delivered beyond 2027 but at a reduced rate

The targets provide for the Council commitment to deliver 20,800 affordable homes by 2027. By comparison, taking account of completions, HNDA2 identifies a need for around double the current HST at 44,500 affordable homes in the period 2019-2032 (wealth distribution scenario). As set out above this must be translated into HST based upon a number of factors. The Council consider that 20,800 is the maximum amount that can be committed to with regard to a range of factors.

Completions during 2012-2019 were 63% market and 37% affordable, while the HST in Table 2 are far more evenly balanced, proportionately - 52% market and 48% affordable.

2.2 A review of the HNDA2 assumptions

The HNDA2 arrived at the estimation of housing need and demand through establishing:

1. How many new households were expected to form (from newly arising need)
2. What the estimate of existing (or backlog) need was
3. What share of need required social housing or other affordable housing and what share could be met by the market

The remainder of this section summarises analysis of each of these aspects of the housing need and demand estimates, with more detail provided in Appendix 1. Chapter 3 looks at potential COVID impacts and Chapter 4 considers market evidence. Then in Chapter 5 we look at what this means for the share of need that requires social housing and what share could be met in the market, comparing HNDA2 estimates with possible scenarios.

2.3 Household growth estimates used for modelling newly arising need

The timing of the HNDA2 reporting meant that the 2012-based household projections became available late in the process, although 2010-based projections had been considered initially and variations of these were used in the HNDA tool estimates. Scenarios derived from 2012-based estimates were also run.

Table 1.12: A Comparison of principal, low and high migration variant household projections, using 2010 based and 2012 based projections (2012-37)							
	2012	**2037**			**Change % 2012-37**		
	All	**Low Migration**	**Principal**	**High Migration**	**Low Migration**	**Principal**	**High Migration**
City of Edinburgh	224,875	294,255	313,033	333,300	31	39	48
East Lothian	43,429	53,865	54,944	56,410	24	27	30
Fife SESplan	129,476	141,270	146,038	150,384	9	13	16
Midlothian	35,540	42,264	43,312	43,819	19	22	23
Scottish Borders	52,671	54,378	56,575	58,832	3	7	12
West Lothian	73,847	84,376	86,487	88,266	14	17	20
SESplan	**537,307**	**670,408**	**700,389**	**731,011**	**17**	**23**	**25**
	2010	**2035**			**Change % 2010-35**		
	All	**Low Migration**	**Principal**	**High Migration**	**Low Migration**	**Principal**	**High Migration**
City of Edinburgh	220,190	293,470	314,670	336,340	33	43	53
East Lothian	42,800	58,250	59,380	60,740	36	39	42
Fife SESplan	129,780	152,260	157,900	163,870	17	22	27
Midlothian	35,270	42,860	43,640	44,380	22	24	26
Scottish Borders	51,980	59,110	61,930	64,660	14	19	24
West Lothian	73,160	95,160	95,160	97,810	30	30	34
SESplan	**553,180**	**698,650**	**732,680**	**767,800**	**26**	**32**	**39**
		Difference between 2037 and 2035			**Difference in % Change from 2012-37 and 2010-35**		
		Low Migration	**Principal**	**High Migration**	**Low Migration**	**Principal**	**High Migration**
City of Edinburgh		785	1,637	3,040	2	4	5
East Lothian		4,385	4,436	4,330	12	12	12
Fife SESplan		10,990	11,862	13,486	8	9	11
Midlothian		596	328	561	5	2	3
Scottish Borders		4,732	5,355	5,828	11	12	12
West Lothian		10,784	8,673	9,544	16	13	14
SESplan		**28,242**	**32,291**	**36,789**	**9**	**11**	**14**

Source: SESplan Core Housing Market Partnership Analysis of NRS Household Projections for Scotland, 2010 and 2012 based

Table 1.12 from HNDA2 shows a comparison of the 2010-based and 2012-based household projections. The 2012 estimates reduced the CEC principal household projection from a 43% growth in the number of households between 2010-2035 to a 39% growth between 2012 and 2037.

The method changed between the two sets of projections. The 2012-based projections incorporated data from the 2011 Census and the latest population projections. They also used a new method including data from more censuses than in the past, as well as recent data from the Scottish Household Survey. The narrative in HNDA2 noted that this was felt to offer greater accuracy compared with the 2010 projections and so needed to inform the HNDA2. For this reason, the principal 2010 projection was not used but instead the 'alternative headship' estimates or 2010 were used. This assumed a lower rate of smaller households more in line with findings from the Scottish Household Survey.

For Edinburgh, according to the principal projection this meant 1,637 fewer households were expected to form by 2037 using the 2012-based projections compared with the 2010 projections for growth by 2035.

Since the HNDA2 need and demand estimates were developed, two further sets of household estimates have been produced, in 2014 and 2016. The 2016-based estimates are those included by local authorities more recently, using the latest HNDA tool.

Table 1: Comparison of household projections - 2012 and 2016

2012-based	**2012**	**2037**	**Change**	**Annual**	**% change**
Low migration	224,875	294,255	69,380	2,775	31%
Principal	224,875	313,033	88,158	3,526	39%
High migration	224,875	333,300	108,425	4,337	48%
2016-based	**2016**	**2041**	**Change**	**Annual**	**% change**
Low migration	231,383	271,787	40,404	1,616	17%
Principal	231,383	291,764	60,381	2,415	26%
High migration	231,383	311,837	80,454	3,218	35%
Difference between 2037 and 2041 projections			**Change**	**Annual**	
Low migration			-22,468	-1,159	
Principal			-21,269	-1,111	
High migration			-21,463	-1,119	

Table 1 shows a comparison of the 2012-based and 2016-based household projections. There has been a significant change in the estimates, **with over 20,000 fewer household projected by 2041 under the principal, low migration and high migration scenarios. This is an annual reduction in expected household growth of around 1,100 compared with the 2012 projections.**

The same method is used in producing the 2012, 2014 and 2016 household projections, so the variation in estimates is likely to be driven by trends estimated between 2012 and 2016. The household projections rely on projecting trends in household formation from Scotland's Census 1991, 2001 and 2011, alongside the 2016 Scottish Household Survey, to 2041. The projections show what is likely to happen if these trends continue into the future. Patterns of household formation may be different in the future, due to economic changes or the impact of new government policies, as well as imbalances between housing supply and demand[1].

Assuming the continuation of past trends results in uncertainty in the projections, and this uncertainty increases the further into the future they are taken. Local planning policies are often intended to modify past trends and Development Plans may demonstrate departures from the projections that seem better able to fit particular local circumstances.

Across Scotland overall, the 2012-based principal projection suggested an average annual increase of around 15,800 households per year between 2012 and 2037, corresponding to an overall increase of 17 per cent over the 25-year projection period. The 2014- and 2016-based projections have suggested successively lower average annual increases of 13,800 and 12,700 households per year, corresponding

[1] https://www.nrscotland.gov.uk/files//statistics/household-projections/16/household-proj-16-pub.pdf

to overall increases over the 25-year projection period of 14 per cent and 13 per cent respectively. Although the City of Edinburgh is still projected to have far higher household growth than elsewhere across Scotland, this is now projected to be less than previously. The City of Edinburgh is projected to grow less than previously while Midlothian, West Lothian and East Lothian are expected to see more growth.

HNDA3 needs to analyse this projected change fully, alongside detailed economic analysis to determine scenarios for the future. Is there other evidence to suggest that household growth slowed between 2012 and 2016, and in addition how might Brexit and Covid-19 impact?

2018-based projections should also become available in 2020 and should be reviewed in the light of the recent significant shift in assumptions about household growth.

Scenario: Newly arising need - Regardless of the potential impact of Covid-19 on new household formation and migration, household population growth is predicted to have slowed down. A 'slower growth' scenario based on a lower household population growth (of 1,100 fewer households) each year should be considered in the light of these revised estimates.

2.4 Existing need

A further aspect of need is back-log or existing need. In the HNDA2, this was estimated using an alternative to the HaTAP method (the former default HNDA tool approach), for Edinburgh, as follows. This involved estimating different aspects of need and then deducting any need that could be satisfied by amending the current property (in-situ solutions) or because the household could afford a market solution to their housing need. Affordability was tested using analysis of incomes and lower quartile house prices, assuming a 2.8 income multiplier on a mortgage with 80% LTV and 20% deposit. This estimated that 42% of households could afford to resolve their need in the market.

The HoTOC method (an updated HaTAP) produces an estimate for Edinburgh, based on 2018 data, of 1,923 households in existing need. This is the default in the current HNDA tool. This is considerably lower than the current backlog need figure of 8,942.

The HoTOC method includes only homeless households in temporary accommodation at the year-end (Q1 2018) plus overcrowded and concealed households (based on estimates from the 2011 uprated using the 2013-2015 Scottish Household Survey estimates). It is based on national modelled estimates of the rate of social sector new build that would be needed in each Local Authority in order to a) ensure that the proportion of lets to homeless households does not exceed a fixed proportion - say 60 per cent and b) the number of people in temporary accommodation does not increase.

The main differences between the methods are that homeless households are only included where in temporary accommodation at the year-end in HoTOC. Concealed and overcrowded households are not included in the HoTOC figures unless there is a wholly moving concealed household with children **and** overcrowding. That excludes concealed but not overcrowded households, and overcrowded households needing an additional room where the whole household would move to an alternative property.

Method for reaching 'Net affordable new build requirement from existing need'

All scenarios use a consistent methodology for 'netting off' those housing needs that can be met in-situ or through a market solution. A worked example of how this has been applied is provided, using City of Edinburgh data, as shown in Scenario 1:

Components of existing need / City of Edinburgh

1.1 Homeless households	2,238
1.2 Concealed households	1,608
1.3 Overcrowded households	6,893
1.4 Support needs / adaptations	11,000
1.5 Support needs / special forms of housing	1,791
1.6 Poor quality	6,893
Gross existing housing need (Sum 1.1-1.6)	30,423

Deductions

2.1 Homeless households (no deductions made from 2,238 [pt1.1])	0
2.2 Concealed households (affordability deduction 1,608 [pt1.2] x 42.21% [pt2.7])	679
2.3 Overcrowded households (affordability deduction 6,893 [pt1.3] x 42.21% [pt2.7])	2,910
2.4 Support needs / adaptations (in-situ deduction 11,000 [pt1.4])	11,000
2.5 Support needs / special forms of housing (no deductions made from 1,791 [pt1.5])	0
2.6 Poor quality (in-situ deduction 6,893 [pt1.6])	6,893
2.7 Affordability calculation / % need that can be resolved in private housing	42.21%
Total deductions (Sum 2.1-2.6)	21,481
Net affordable new build requirement from existing need	
(Gross existing housing need 30,423 minus Total deductions 21,481)	**8,942**

The lowest alternative existing need scenario would be to take the default in the HNDA tool – 1,923 affordable units. This would be 7,022 fewer units than in the HNDA2 scenario – around 700 fewer each year.

	Low (HoTOC)	Medium	High (HNDA2)
Homeless	1,380	3,574	2,238
Overcrowded	543	2,735	3,983
Concealed		638	929
Specialist housing	-	1,791	1,791
Total existing need	**1,923**	**8,738**	**8,942**
Adjusted existing need*		**7,603**	
Annual requirement (10 years)	**192**	**760**	**894**

*Taking account of 1,135 affordable units freed up by those in overcrowded/specialist need that vacate affordable housing. See Appendix 1.

An alternative (medium) scenario would be to update the estimates based on recent homelessness data (the average over three years) but bases overcrowded and concealed estimates and specialist provision estimates on the assumption that some households will free up housing when they move, so estimates may not be as high as in HNDA2. A full explanation of these updated estimates of housing need is discussed in Appendix 1.

Poor quality accommodation and adaptation needs are also included in HNDA2 but all the need is assumed to be possible to resolve in situ without the need for additional accommodation, so deducted from the existing need total in the example above.

Those in need of support/specialist housing are also not included in HoTOC. These households currently occupy housing but it is assumed that a further 1,791 additional units are needed due to the specific nature of the provision required. This would free up 1,791 properties (of which some would be social housing units) but would need additional specialist supply.

The estimate of backlog/existing need outlined above from HNDA2 was accepted as a robust and credible estimate of need. The current HNDA Guidance also allows local authorities to propose alternative estimates of existing need based on their own data. It is noted in the Guidance that this estimate should exclude any existing need that can be met with an in-situ solution, for example, housing support or needs that could be met by providing an adaptation, a carer or home help, dampness or condensation that could be resolved by improving the property. **The approach adopted by the CHMA in reviewing the extent to which additional housing is required may be stricter for HNDA3.**

Removing those households currently in social housing who are overcrowded where the whole household would move to a new property and those households needing specialist accommodation who are in social housing would require an estimated 1,135 fewer units – the medium estimate of 7,603 affordable units.

This gives a lower existing need estimate of 1,920 units (192 units a year over 10 years) a medium estimate of 7,603 (760 units a year) and a higher estimate of 8,942 (894 units a year).

2.5 Scenarios considered in HNDA2 to estimate need and demand

Four core scenarios were used in HNDA2, determined by different household projection scenarios and assumptions of existing need as outlined above, with the balance of need for affordable housing and demand for market housing determined by various scenarios about economic growth which drive assumptions about incomes, affordability and market prices.

Default scenario - tests the HNDA tool with all scenarios in default settings as selected by CHMA.

Alternative future: **Steady recovery** - describes a steady upturn in the economy, characterised by positive economic activity in some areas and some reduction in housing development constraints, limited increases in GVA, productivity and employment growth, with public spending cuts and welfare reform continuing to impact. Migration to the area is low in comparison with other scenarios.

Alternative future: **Wealth distribution** - portrays a wide distribution of wealth within the region, creating more high and low skilled jobs and increasing economic activity throughout the working age population. Whilst helping to reduce economic inequalities, bringing more people back into work in lower skilled employment lowers GVA and workforce productivity.

Alternative future: **Strong economic growth** - is characterised by major increases in economic wealth, productivity and high levels of employment. The SESplan area becomes one of the fastest growing regions of the UK in population terms, drawing in workers from other parts of the country.

The variants used in the final estimates of need and demand were based on 2012 projections (i.e. Default 2 etc.).

Appendix 1 outlines the detailed process of estimating the need for affordable and market housing, with analysis of incomes, house prices and rents over the past 10 years. That analysis suggests:

- Wages growth is closer to the 'inflation target' than the 'modest increase'. A modest increase or flat income growth scenario may be more likely over the short to medium term.
- Analysis of wages suggests that the 'creeping equality' assumed in the wealth distribution scenario is not likely based on recent trends, which suggests little convergence between higher and lower incomes.
- Registers of Scotland data between 2004 and 2019 showed an average price increase from £165,206 in 2004 to £267,110 in 2019. That is an average of 4.1% a year, slightly above the OBR estimate recommended but not as high as the 'strong recovery' scenario.
- Data from Citylets shows an increase in average rent advertised of £848 in Q1 of 2014 to £1,142 in Q1 of 2020. That is an average increase of 5.7% a year. The increase for 2-bedroom properties has been from an average of £762 in 2014 to £1,040 in 2020, an average increase of 6%. That is closer to the 'modest increase' than to the OBR estimates.

On balance, recent indicators suggest that the 'steady recovery' scenario is more likely than the 'wealth redistribution' scenario. There has been evidence of growth in house prices and rents but more modest growth in incomes.

The 2016 household projections also suggest that household growth is considerably lower under both the low migration and principal migration scenarios than estimated in 2012, with around 1,100 fewer households projected each year.

In considering the consultation responses to the Council's main issues report – Choices for City Plan 2030 it is important to examine the arguments for a higher Housing Supply Target. The Homes for Scotland response considered the starting point being the HNDA2 and taking the Wealth Distribution (middle) scenario as being the most appropriate with the HST being 67,174. This was argued on the basis of population growth of 13% over the last 10 years, and employment growth being 2.5% per annum over the last nine years. However, as outlined above, when considering the long-term prospects of household formation, and economic growth as detailed in the appendices, it is clear that growth has been considerably lower than the HNDA2 estimated with an annual reduction in expected household growth of around 1,100 compared with the 2012 projections.

The following chapter considers how recent events in relation to COVID might impact further on these assumptions.

3. Potential Covid-19 impacts – Assessment of likely impact of current crisis/recession on demand for affordable housing

Economic projections

The estimates produced in HNDA2 were based on assumptions about the underlying economy and likely changes in economic growth, incomes and house prices/rents that need further consideration post-Covid. There remains huge uncertainty about how long economic recovery might take – Appendix 2 provides a detailed discussion on projected economic impacts of COVID, highlighting expected slower economic growth and higher unemployment.

Edinburgh's employment growth prior to 2019 was notably better than the Scottish average. Between 2010 and 2019, the number of people employed in Edinburgh has increased by 23% in Edinburgh compared to growth of 6% across Scotland as a whole[2].

However, the latest modelling suggests that if Edinburgh's economy follows this national trend that would represent a £3.5bn drop in output year on year, broadly equivalent to 50,000 jobs in the city. A longer recovery phase than previously anticipated is increasingly likely given the loss of productive capacity and the change in market conditions for many sectors of the economy.

Appendix 2 provides a detailed analysis of recent thinking on the economic impacts of COVID, while this chapter focuses on the housing market impacts. The analysis draws on secondary data, and findings from qualitative research with 17 participants from estate agents, house builders and letting agents in Edinburgh.

3.1 The housing market

The Scottish Housing Market Review[3] notes that there was a significant drop in sales activity since Government advice to delay home moves was issued on 31 March 2020 (this was lifted on 29 June). Sales registrations in Scotland fell by 81% in April and May 2020 compared with the previous period. This reduction is likely to have been affected by the temporary pause in registrations. The number of residential Land Building Transcation Tax (LBTT) returns fell 67% in April and May combined, compared with the previous annual figure.

The Fraser and Allander Institute's latest 'Economy update' noted a fall in LBTT returns in Scotland by week, 2016 – 2020. The number of property transactions fell significantly since the start of the pandemic and as at June 2020, was yet to recover to pre-crisis levels. A total of 4,970 notifiable land and building transactions were reported in June 2020, 1,380 more than the previous month but 5,630 fewer than June 2019. A total self-reported tax liability of £25.7m was declared by taxpayers in June 2020, £7.6m higher than May 2020, but £24.5m lower than June 2019 (See Figure 1 below).

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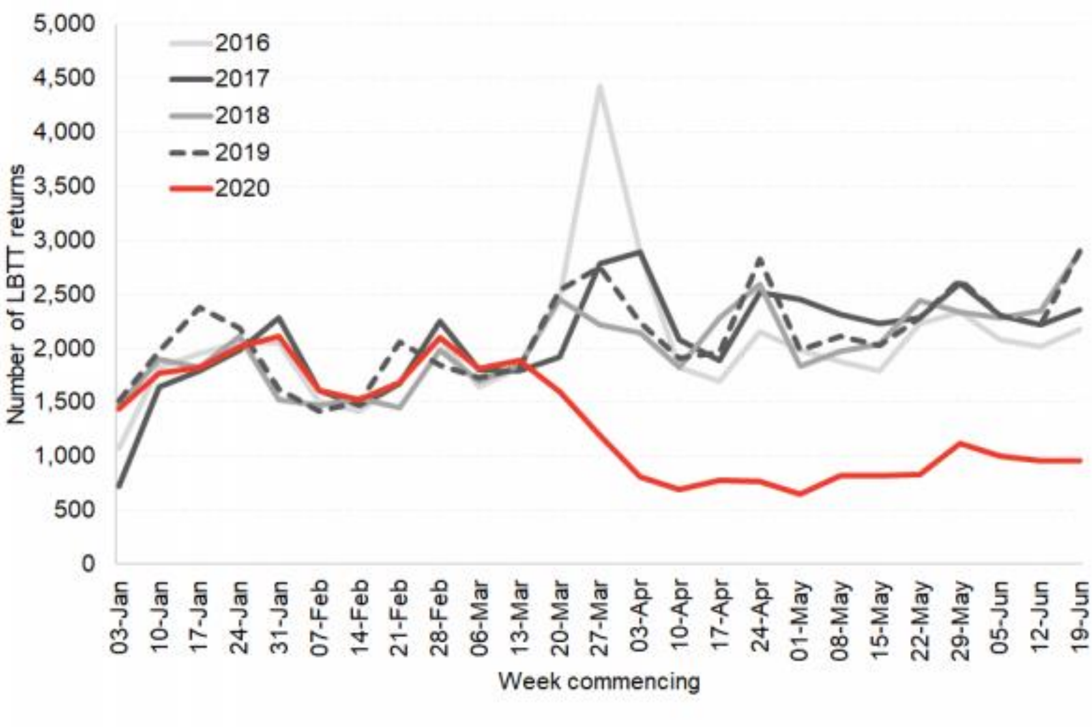
[2] https://fraserofallander.org/scottish-economy/the-economic-rise-of-the-east-scotlands-powerhouse-region/
[3] https://www.gov.scot/binaries/content/documents/govscot/publications/advice-and-guidance/2020/03/scottish-housing-market-review-2020/documents/scottish-housing-market-review-q2-2020/scottish-housing-market-review-q2-2020/govscot%3Adocument/Scottish%2BHousing%2BMarket%2BReview%2B-%2BQ2%2B2020.pdf

Figure 1: Fraser of Allander analysis of LBTT data



Source: Revenues data - https://fraserofallander.org/covid/latest-data-on-the-scottish-economy-update-31st-july-2020/

House sales market

The Housing Market Review suggested that following the easing of restrictions on home moves, the Scottish housing market could recover to pre-crisis levels. However, the risk was highlighted that sales may be depressed by the adverse economic impact from the Covid-19 crisis in the longer term.

Researchers from the LSE[4] identify the key questions for the housing market as follows:

1. How far will lenders be willing – or able – to adapt to minimise the number of forced sales? Forced sales quickly translate into falling house prices as seen in 1991;

2. How catastrophically will borrowers' incomes be hit - and for how long?

3. By how much and for how long will real incomes fall?

LSE noted that even with downward pressure on prices, lower incomes mean affordability would remain a concern. It envisaged lower prices in the medium term, with a slower recovery affecting the demand for housing – as prices are driven largely by earnings. It was further suggested that, even when earnings start to recover, the savings needed for deposits will have been depleted.

[4] https://blogs.lse.ac.uk/politicsandpolicy/covid-19-housing/

Despite Covid-19, market analysts at Savills provided a more upbeat forecast, of a 7.5% drop in house prices in 2020 for Scotland but a 7% increase in 2021[5] and then an 8.5% increase in 2022, followed by 6.0% in 2023 and 5.5% in 2024.

The Edinburgh Solicitor Property Centre (ESPC - the membership body for solicitor estate agents in Edinburgh) has noted a considerable surge in buyer and seller activity since June. ESPC welcomed the LBTT 'holiday' for properties under £250k and additional investment in the First Home Fund, but cautioned that uncertainty over the UK economy remained. They indicated that "*In the past, the Scottish property market has proven remarkably resilient and we expect that to be the case even with the uncertainty that the upcoming months may bring*"[6].

In their August updates, ESPC noted increased activity with some evidence of slightly increased prices[7]:

- The number of homes listed on ESPC during July 2020 increased by 42% compared to July 2019.
- In July 2020, 94% of homes marketed on ESPC in Edinburgh, the Lothians, Fife and the Borders were priced as "offers over" and the average asking price was £249,569 compared to £224,716 in July 2019.
- ESPC received the highest number of property valuation requests on record in July 2020, up by 80% compared to the previous year.
- The number of under offer properties on ESPC in July 2020 was up by 40% compared to July 2019.
- ESPC received over 24,000 viewing requests and 61,000 Home Report downloads during July 2020, up 248% and 73% year-on-year, respectively.

Consultation undertaken with ESPC as part of this study put these figures in context, suggesting that the sustained growth in market demand observed in Edinburgh since mid-May represents not only pent up demand from the months over lockdown, but also has involved new entrants into the market. This new demand is seen as being the result of households re-evaluating their housing needs and priorities over lockdown, with an increase in demand for properties offering more internal and external space. Households are demanding flexible space to enable home working and recreation within the property, and access to outdoor space, such as gardens and balconies. Importantly, ESPC members have observed increasing interest in properties further from the urban core of the City, suggesting that households are widening their search areas to secure more space for their money, and are now willing to accept longer commuting times due to the expectation of only having to travel to work one or two days per week. As a result, July saw a higher number of requests for property valuations compared to the same point last year, alongside increasing numbers of offers and expressions of interest. As at the beginning of

[5] https://www.savills.co.uk/research_articles/229130/301028-0?utm_source=ExactTarget&utm_medium=Email&utm_term=5266012&utm_content=7837369&utm_campaign=Residential+Forecasts+-+160620+-+LC+%26+LB
[6] https://espc.com/news/post/how-will-coronavirus-impact-the-scottish-property-market#5
[7] https://espc.com/news?tag=COVID-19; https://espc.com/news/post/july-property-market-review-significant-increase-in-homes-coming-to-market

September, sales data is not yet available for August, but ESPC members report that demand has been continuing to build and that homes are selling for higher prices than home report valuations.

Despite this burst in current market activity, ESPC warns that there may be a slowdown ahead as the furlough scheme ends in October and as the UK moves further into recession. There is an expectation that a rise in unemployment levels will reduce home sales and potentially reduce property values. Other consultees including Homes for Scotland also expressed this concern about a projected dip in the market, particularly as both the LBTT holiday and the First Home Fund are expected to expire at the same time in March 2021 (as of September, there is no indication the Scottish Government will extend this stimulus for first time buyers). Some of the consultees are expecting a temporary drop in property value growth, possibly below the rate of inflation, but they are not expecting a drop in nominal terms. However, ESPC, Homes for Scotland, Rettie and a number of house builders all suggested that in the longer-term Edinburgh is a robust market which they expect to recover, similar to that which was experienced after the 2008 Global Financial Crisis.

Recent analysis by Rettie & Co[8] in their Spring / Summer Bulletin 2020 presented a projection for the future market, which was also optimistic for the longer term, despite anticipating strong headwinds in the short/medium term. They concluded that transactions activity is likely to fall by 20-35% in 2020 and did not anticipate a return to 2019 trading levels until 2022. It was suggested that house prices will be more stable than pre-Covid, in part due to the reduced level of transactions but also continuing low interest rates and government support packages which they anticipated would prevent a surge in distressed sales. At the point of its early summer bulletin, Rettie & Co was forecasting a reduction in average prices of 1-5% in 2020, with modest growth returning 2021 onwards. It was noted that unemployment and lending levels will be important drivers of future prices. However, consultation undertaken with Rettie as part of this study suggests an update of these projections is required; that the transaction activity may not fall as much as suggested in the bulletin, partly based on Rettie's own market experience of the significant surge in activity experienced in August, with an enquiries book for Edinburgh that will likely sustain sales well into September/October.

First Time Home Buyers

Prior to Covid-19, consultees across the house sales market (second hand and new build) described the first-time homebuyer market in Edinburgh as especially buoyant. However, consultees' opinion suggests this market may be particularly negatively impacted by Covid-19 since first time home buyers (and other lower end market homebuyers in the sub £200k Edinburgh market) are more likely to work in sectors negatively affected by Covid-19, such as hospitality.

This part of the market is also particularly affected by change in lender behaviour. Consultees referred to some lenders cancelling mortgage offers during lockdown, and according to one house builder, there are now (as of early September) less than 10 mortgage products available from lenders for up to a 90% loan to value, in contrast to the months preceding lockdown when there were reported to be hundreds of such products. Most consultees noted that banks appear now to be generally avoiding high loan to value mortgages, frequently requiring 30-40% deposits. In addition, the increased length of time to process first-time buyer mortgage applications (due to the sheer volume of current demand for

[8] https://www.rettie.co.uk/articles/the-market-after-covid-scottish-housing-forecasts

mortgages overall) is particularly problematic for house builders who said they '*could have otherwise sold that property three times over*'. Other consultees suggested lenders have reduced their volume of higher loan to value products as a means of managing the amount of current demand for mortgages overall, rather than an indication of risk aversion towards the first-time buyer market, per se.

A counter view to concerns over the First-time buyer market, is the increasing demand being seen by some house builders in this part of the market, and particularly those offering more space (internal and external green space). However, this increased demand also seen to be associated with the current Government stimuli – no LBTT for under £250k and First Home Fund which is limited to properties valued £250k and under. There is widespread concern about the impact on this part of the market when these stimuli end in March 2021 (unless extended). Consultees argued that extending this First Home Fund is particularly important for first time buyers in Edinburgh due to high average prices and coincides with the current LBTT threshold of £250k (whereas the Help to Buy scheme is limited to £200k).

New Build Homes

Prior to Covid-19, consultees pointed to strong demand for new build homes in Edinburgh. Out of nine housebuilder consultees, only one house builder described sales as being 'slow' on one site in early 2020, but this was to do with organisational sales capacity, rather than a reflection of product demand.

All consultees confirmed that lockdown had an immediate negative impact on the new build house sales, and house building production. Some consultees explained that pre-lockdown reservations were also cancelled as some purchasers were not willing to tolerate delays. Some of the cancellations were the result of tightened lending criteria during lockdown. Delays over this period meant that some mortgage offers had expired and in particular high loan to value mortgages were not extended (with explanations from lenders being that these products were no longer available). A few examples were provided of housing developers providing equity stakes where lenders had required a larger deposit than originally agreed prior to lockdown, although others stated that demand was sufficiently high that providing shared equity options was not necessary.

Despite some cancellations, most consultees explained that these were offset by a surprisingly large volume of reservations during lockdown, facilitated by the industry's rapid shift to virtual marketing. One house builder explained that online enquiries spiked as many households reassessed their housing needs during lockdown, and their initial concern about a wave of cancellations never materialised. On one site, from their recent release (released one week before lock-down), out of 28 the homes, only 4 were cancelled and 2 homes remain unsold. Most house builders consulted expressed their pleasant surprise at the reservation rate during lockdown, and that these have now translated into actual sales. Consultees expressed some surprise at how quickly the '*market has bounced back*' and put this down to the strength of the Edinburgh market. One consultee stated that the pandemic had not '*played out as expected*' with a '*huge*' level of demand with the main challenge relating to a shortage of available product.

A number of consultees explained demand for new build in the context of the very high demand for second hand sales in Edinburgh, suggesting that new build for some was a compromise. The increasing popularity of their exchange programmes was also indicative of the strength of both the new build and second hand home markets - '*9.5 out of 10 times*' a property has been marketed as part of the exchange programme in Edinburgh, the property had sold within three weeks of being put on the market and selling in excess of the home report valuation. This consultee attributed the demand for the exchange option as indicative of a '*very little supply of resale relative to demand'* in Edinburgh following lockdown.

The sustained demand in the Edinburgh housing market has largely protected property values. None of the house builders said that they needed to take any downwards pricing action, despite initial concerns that they might have to. Homes for Scotland pointed to a level of anxiety from SME builders that the larger PLCs might engage in competitive behaviour and take pricing action following lockdown; however, this concern had not materialised and some larger builders have actually enhanced values. Another developer had debated lowering prices on a particular site to meet the £250k LBTT threshold but explained that in practice they have not had to deviate from their marketing strategy and were still achieving the values they had projected.

In addition to potential negative impacts on the first-time buyer market (discussed above), there are some indications that there are also some negative impacts at the higher end of the Edinburgh market. Examples were offered where overseas purchasers have pulled out of contracts due to travel bans, and older downsizers have postponed house moves given their vulnerability to the virus. Other wealthy second home buyers have cancelled contracts due to the changes to the vibrancy of urban living as venues and restaurants have closed. The need for a second homes for those who travel for business are required less given the emphasis on teleworking. As one consultee explained the '*sentiment which drives the high end of the market has dissipated*' during the pandemic. However, even though sales have been slower in the luxury market, no pricing action had been taken by this house builder as '*affordability is not the concern for these buyers*' and that they are still confident that the sales will materialise eventually.

House builders are anticipating a decrease in demand towards the end of 2020 as a consequence of the furlough scheme ending in October. Through a survey of its members, Homes for Scotland anticipate an overall drop in demand of 30% across Scotland, with SMEs expecting 40% decrease in demand. It is also estimated by Homes for Scotland that a 5% increase in additional costs relating to delays caused by social distancing measures may be passed on to the purchase price, which could impact on demand. However, some of the house builders consulted expressed less concern about their Edinburgh sites due to the robust nature of the Edinburgh economy, and one explained that efficiency gains have been achieved across the sector as a result of changes to customer engagement with greater reliance on virtual and digital communications.

Reduced output is a real concern for housebuilders. Homes for Scotland explained that prior to the pandemic they projected around 22,000 new housing supply per annum was being delivered across Scotland, across all tenures, and this was still short of the 25,000 target considered to be required. Homes for Scotland now sees little prospect of meeting this supply target in the years ahead due to the reduced build rate caused by social distancing regulations. Many of the Edinburgh housebuilders consulted discussed the lower output rate – examples provided included 30% reduction of completions in 2020, and one site completion rate extended by 27 weeks. While Edinburgh's new build sector is considered to be outperforming other areas of Scotland, there was also acknowledgement that the construction delays also had a knock-on impact on new site starts and pipeline projects, which will also add to supply shortages in the medium term, and the possibility of having to reconsider new land acquisitions for 2021.

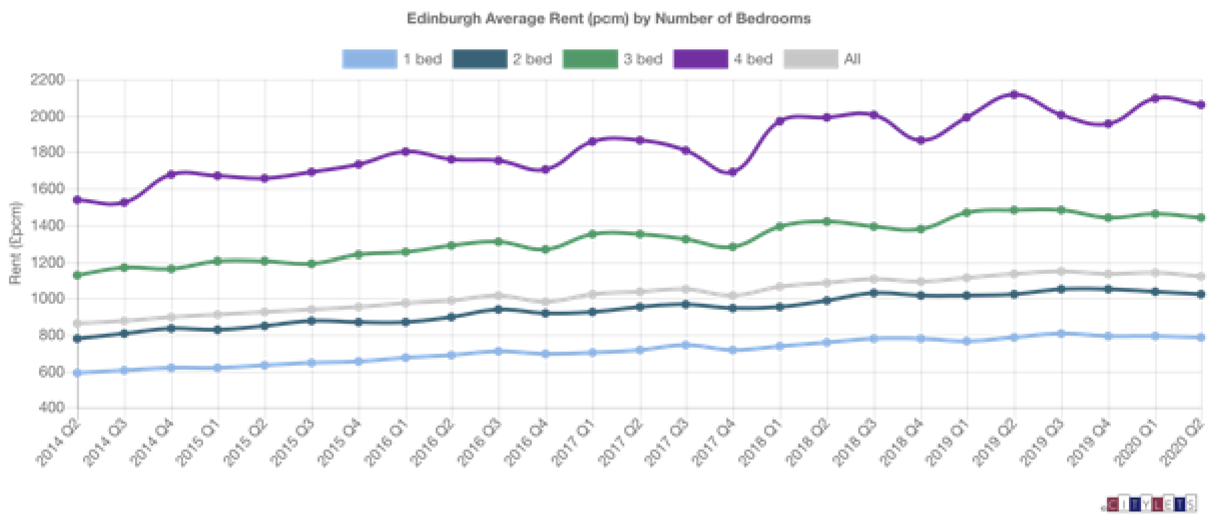
Commentators including Homes for Scotland and Rettie's also noted concern about the possible impacts of market challenges on the SME sector. Larger house builders are expected to be able to '*weather the storm'* but there remains the possibility of some SMEs falling away as the recession proceeds. This is argued to further exacerbate the existing supply shortage which was caused by the longer lead in time as a result of Covid-19, although the extent of supply provided by SMEs in Edinburgh is probably proportionally much less than in other parts of parts of Scotland.

The Private Rented Market

In their recent market report, Rettie's note that from April to June 2020, average private rents in Edinburgh fell by 0.9% to £1,122 compared to the previous year. This was the first year-on-year drop in average rents recorded in the capital in the previous ten years but is a very small decrease particularly considering the ten years of rising rents in Edinburgh.

Citylets[9] data on renting for Q2 of 2020 showed a decrease in rents in Edinburgh in Q2 compared with previous periods. The commentary for Edinburgh, from a letting agent noted:

"The first half of Q2 had us dealing with tenants handing in notices to leave properties and also rent assistance requests. Around 10% of our managed portfolio asked for some sort of assistance and on the letting side, enquiries drastically reduced. The second half of the quarter saw the market begin to pick-up with an increasing number of enquiries, but with so many properties available, we have seen the market swing from landlord favoured to one where tenants are able to pick and choose properties. Rents in some areas have been negatively affected, but in traditionally very popular areas rents are holding firm."



In terms of time to let, Retties reported an average time to let in the capital during the quarter was 35 days, seven days slower than in the previous year. Four-bedroom properties were let fastest, with an

[9] https://www.citylets.co.uk/research/reports/property-rental-report-edinburgh-2020-q1/

average of 32 days, 6 days slower than last year. 13% of Edinburgh properties were let within a week while 50% were let within a month.

Qualitative research undertaken with six letting agents for this study confirmed that prior to the pandemic, the private rented sector (PRS) in Edinburgh was '*buoyant*' and '*healthy*'. In the three years preceding the pandemic, there were good levels of demand across the market; strong and increasing rent levels, attracting investment to the sector. Student demand in particular was high, as was the demand for 1- and 2-bedroom properties. Most consultees agreed there were year on year increases in rents across Edinburgh, particularly for smaller properties. One letting agent, however, suggested that the transition to the PRT regime at the end of 2017 added tension in the market, particularly with regards to student lets and the removal of fixed term tenancies.

The immediate impact of Covid-19 for letting agents meant either temporarily closing all business operations or shifting all letting functions to virtual platforms. There was a little movement during lockdown, for example emergency moves and sourcing accommodation for key workers, but for the most part all other letting activity ceased. For those agents that chose to completely shut down all operations during lockdown they are now facing a huge task of addressing the backlog of property management activity.

Student HMOs lets were hit first and hardest. Within a few weeks of lockdown, consultees reported that many students gave notice, mainly to return to the family home. High vacancy levels in 1- and 2-bedroom properties were also attributed to a large number of students giving notice, but also possibly young professionals returning to the family home or moving in with partners/friends. This *'exodus'* of tenants from the rental market caused a vacancy rates around three times higher than normal during lockdown. Consultees explained that since being able to relet properties they have gradually been working through this stock of vacancies, but with still some remaining.

Apart from vacancy rates, the other key impact of the pandemic in the PRS has been the increase in arrears. Consultees confirmed that rent arrears have increased, mainly as a result of people being made redundant and furloughed. Rent arrears have been a feature across different parts of the market, including high income earners with large properties. However, consultees have found that those at the lower end of the market, and those working in hospitality were more commonly falling behind with their rent. Consultees explained that a build-up of arrears was largely avoided by the range of strategies landlords took to salvage tenancies, including temporary deferrals of rent payments, waiving rent for a period of time, and permanent rent reductions. Very few Notices to Quit were reported by consultees, and no evictions were undertaken, possibly as a result of landlords' general willingness to negotiate on rent at the outset of the pandemic. Interestingly these consultees also explained that the problems experienced during lock-down had now largely been resolved, either employment being resolved, support from Universal Credit, or tenants moving out voluntarily.

The letting agent consultees confirmed that there is still a surplus of properties on the market, compared to the pre-Covid demand supply balance. Reasons were the backlog of properties still to be relet, a number of notices still coming in, as well as some short term lets (STLs) reverting back to long term residential - all increasing the 'natural' churn in the market usually seen in the summer months. A number of the letting agents mentioned that while some STLs have returned to the long-term market, this is perhaps not as significant of other commentators had predicted – probably due to high demand for UK ‘staycations’. A number of consultees across the market (agents and house builders) believed that the global tourism market, and with it the second home residential/STLs market, will quickly bounce back if and when a vaccination is found.

Most consultees suggested that an equilibrium has largely been reached as of mid-August. As seen elsewhere in the housing market, there is now greater demand for properties with outdoor space, and tenants have generally been willing to move further from the urban core to secure more space for their money. There is evidence to suggest there is less demand for older, more traditional properties in the city centre with landlords needing to either negotiate between a 10% to 20% reduction in rent or invest more in their property to bring it up to a higher standard. Some landlords were offering discounted rents for an initial term as an insurance against voids - to avert a vacancy in excess of 45 days which would have implications for insurance policies.

There is mixed opinion amongst consultees regarding the impact of Covid-19 on rent levels. On the one hand, a surge of smaller properties coming back to market on easing of lockdown has meant that in some cases 1- and 2-bedroom properties have had to be marketed at a lower rent than previously advertised. But there is also evidence that some rents have increased following improvements made by landlords during lockdown to make them marketable. Some consultees suggested most of the renewed confidence in the rental market is coming from student demand, with the suggestion that even though some courses will be online, other courses are practically based, and either way students appear to be returning to the City. One letting agent gave the example of all except two of their 52 HMOs had been re-let for September.

Another factor affecting the rental supply/demand balance is the longer lead in times for re-letting a property. Letting agents expressed frustration that properties are lying vacant despite experiencing a large volume of (speculative) enquiries. It was explained that previously letting agents were able to market a property with a sitting tenant. Now with social distancing rules, letting agents have to wait until the property is vacant before arranging viewings, which might also explain why there are more properties on the market.

In terms of projections, most of the letting agents were confident that the rental market in Edinburgh will rebound, and that there are already signals of a recovery (the return of students, increasing inquiries, rent levels resuming to previous levels). It was also noted that high property values in Edinburgh means homeownership is out of reach for many households, and that, combined with the prospects of recession will maintain demand for private rentals from lower- to mid- income households. However, there was concern that tenants are looking to move further from the city centre, but it is unclear how sustained this demand for suburban/rural accommodation will be.

Consultees were also concerned about the prospect of the furlough scheme ending in October, and the extent to which the removal of this support will usher in a raft of redundancies. Many letting agents acknowledged having a number of tenants working in the hospitality industry with the vulnerability that brings for rent. Agents were also concerned about the prospect of a second wave of the virus and the associated implications of revisiting challenges experienced with the lockdown in March. The prospect of country specific travel bans has the potential to disrupt the student market, due to Edinburgh being a particularly attractive place to study for students from overseas.

Over the course of the consultation with letting agents, the Scottish Government announced the extension of emergency legislation continuing a moratorium on evictions. Extending this legislation was the largest and immediate concern of landlords and letting agents, following the lifting of restrictions, with one consultee characterising the extension as a '*license to tenants to not pay rent*'. There was a general feeling amongst consultees that extending the emergency legislation has meant the *'balance had tipped too far'* in favour of tenants. Another consultee explained that the use of Section 33, referring to the sale of property as grounds for eviction, is critical for landlords who find themselves in financial difficulty and need to exit the sector. The effect of extending the moratorium (as well as the backlog of cases anticipated for the First Tier Tribunal) means that landlords could potentially be expected to forgo more than 12 months of rental income without a legal means of disposing of property with sitting tenants. There is some evidence that landlords are taking the opportunity to sell (when they can) to take advantage of the LBTT holiday for the lower end of the market whilst demand is currently high.

Mid Market Rent

As part of the consultation, opinion was also taken from Edinburgh Living as a major provider for Mid Market Rent (MMR). In overall terms there is no concern about demand for MMR, although like the rest of the rental market the landlord has seen increases in rent arrears (although all with payment plans). Edinburgh Living believes that MMR is well placed in the market with very high demand, even with the prospect of a recession – serving those that potentially may be unable to afford housing for sale, or private renting, or those that run into difficulties as a result of changes in employment.

The fact that the Local Housing Allowance rates have recently been uplifted means that MMR developments are more likely to be more viable in higher value areas while still keeping a safety net for those who employment circumstances / income may change. However, it is acknowledged that there is a tension between increasing MMR rents in line to the full potential LHA rates (from £688 per month for 1-bedroom up to £1,900 pm for 4 bed property) and affordability. It is understood that most existing MMR developments (across all suppliers) are likely to leave rents at historical levels, and in considering future rent levels Edinburgh Living will be examining vaibility and affordability on a development by development basis. The maximum household income that Edinburgh Living applies for MMR is from the 7th decile income – from £23,300 for a single person the £53,300 for a couple with children on the basis that this increases access to more affordable homes for a wider range of incomes.

Case Studies

The following sets out a range of case studies illustrating typologies for different parts of the new build market. These typologies have been developed to protect anonymity of the participating businesses, and to draw experience from a range of different developments into one 'typical' case study.

‘Lux’: Luxury city living

‘Lux’ is a high-end development, including a mix of 1-3 bedroom apartments and penthouses. Average sales prices are around £1m, starting at £600k up to £1.75m. At the start of lockdown, 30 out of 85 properties were sold and 5 reserved. The development is pitched to a very select market, which had been performing well prior to Covid-19. Those investing in properties at ‘Lux’ are second home buyers or wealthy downsizers.

There were only a handful of sales over the 13 weeks of lockdown, with a few reservations made via virtual viewing and buying off plan. In the months following lockdown, some reservations have been cancelled. The reasons for sales falling through over lockdown include:

-The vibrant, urban lifestyle that was being bought into simply does not exist anymore - with the closure of venues and clubs and the restrictions placed on nightlife in the City

-Overseas purchasers unable to freely enjoy a second home due to the unpredictability and inconveniences associated with travel bans

-Wealthy, older downsizers concerned about personal safety when moving home in the midst of a pandemic

-Businessmen and corporate professionals no longer needing a second home for business travel

Coming out of lockdown, sales have been slower than expected, despite the recent reopening of the show home. The second home market is not selling because buyers are not travelling. A second home is a highly discretionary purchase; an investment which can be postponed when market conditions are more favourable. Affordability is not an issue for this clientele, so the developer sees no need to reduce prices to make sales; although sales have been slow there is confidence on part of the developer that these properties will eventually be sold, but perhaps over a longer period than anticipated pre Covid-19. Construction had been on hold over lockdown, but has since resumed. Depending on the sales rate, construction will flex. The pandemic has impacted on the build cycle of the development, in terms of length of time for completions, but has not affected the overall build programme. There are no adjustments planned in terms of specifications or number of units to be completed. The developer is contractually committed to continue with the build programme and has a high level of confidence in the local market.

‘Slate’: Affordable city living

The ‘Slate’ is a large flatted development in the west of the City, comprising 200 homes, of which 5 are townhouses and the rest 1-3 bedroom flats. There was planning gain of 50 affordable homes on site, marketed by a local housing association. Prices ranged from £160k to £285k across the whole of the development. There was strong performance at the ‘Slate’ prior to lockdown; the cheapest 1-bedroom property sold at £160k in 2019 and then increased to £185k in a subsequent release, achieving a cost benefit of over 15% in one year. The demand for these homes largely came from local first-time buyers, many of whom had benefitted from the First Home Fund. Generally, the demand was coming from younger, smaller households, requiring higher loan to value mortgage products.

About 20 sales made at the start of 2020 were impacted by lockdown. Over the course of 13 weeks, these mortgage offers expired and lenders did not renew, explaining that these 90% loan to value products were no longer available. Most of these reservations were cancelled and there was concern at the length of time it would take to remarket the properties. The site, which was halfway through the build programme, was completely shut down over lockdown, as was the sales office and show home. There was no sales activity for 13 weeks.

Despite not taking any reservations over this period, there was a burst of demand once restrictions were lifted and marketing activity could resume. Online enquiries spiked over lockdown - more homes were sold in the first week of July 2020 than the same week in the previous year. The concern that there would be a large number of cancelled reservations never materialised, and the few cancellations that took place were quickly balanced by new reservations. The strong reservation rate over July and into August suggested that the buoyant sales activity was in excess of pent up demand over lockdown. It is likely that the 'Slate' saw new entrants into the market looking to take advantage of Help to Buy, the First Home Fund and the LBTT holiday, before these incentives are set to expire in March.

There were some properties at the 'Slate' that exceeded the LBTT threshold and there was discussion at one point whether these prices needed to be lowered to the eligible figure of £250k, but the developer had not needed to take pricing action, due to strong demand. Across the scheme the developer achieved 2% growth in the phased releases, as projected prior to Covid-19. The developer, however, did acknowledge emerging challenges, namely the expiry of the LBTT holiday, as well as the end of the furlough scheme (which could possibly be accompanied by a raft of redundancies). Furthermore, there is a question over whether or not First Time Home Fund awards can/will be extended, should the date of entry on these properties be later than March 2021, when the Fund expires. On balance, however, there are signals in the market that there will be sustained demand for a more affordable product, even if the first-time home buyer market falls away, in the short- to medium-term.

'School House': Mid to high market refurbishment

The 'School House' is a redevelopment of an educational facility into a mix of 50 flats and townhouses, priced between £315k and £845k. Set in the popular southside neighbourhood, there was early and strong demand for these homes, currently under construction. Demand was mainly from first movers, downsizers and Buy to Let landlords. Prior to Covid-19, only 1- and 2-bedroom flats were released – these quickly sold out. Once restrictions were lifted, a mix of flats and townhouses were released. There was a healthy reservation rate for all products during lockdown, registering very high interest at an early stage. The demand for townhouses was particularly strong, perhaps reflecting the changing needs of buyers requiring additional space following lockdown. Interestingly, the developer has decided to add balconies very late in the design stage, to ensure flat sales in later phases.

Due to no onsite delivery between April and June, there was a drop in output which will delay completion into March of next year. Delay to entry has caused some cancellations due to mortgage offers expiring, but these have more or less been mitigated by subsequent reservations. There were two cases where the developer had to take action to provide an equity stake, where the lender would not provide a further 5% equity stake. In these rare instances, providing a shared equity option was deemed less risky than the potential cost of remarketing the property.

The developer is confident that the sales rate will hold and they will not have lost revenue as a result of Covid-19. Furthermore, due to marketing at the medium- to high-end of the market, there were no concerns about the expiring LBTT holiday or other incentives for first time buyers; as the latter unlikely to afford the relatively high sales prices. The developer also explained they were not especially concerned about the furlough scheme ending in October, as the stringent qualifying practices, served to 'weed out' riskier buyers.

'Fairway': Diverse suburban homes

The 'Fairway' is a large suburban development of 330 homes, southwest of the City. It is a scheme which has proved very popular, as is typically the case with large developments with several builders on site. The developer has been on this site for 10 years and prior to Covid-19 was averaging 3 completions per month. The current phase under construction offers a range of properties, including 1 bedroom apartments as well as large, single family, detached homes. Prices range considerably, from between £245k to just over £1m. A separate developer on site is delivering the affordable housing element, which will add a further 82 homes, for working families and older households.

The large PLC delivering 'Fairway' closed all their sites over lockdown. Although the sales office and show home were closed, the developer continued to take online reservations. These 'soft' reservations were offered at a reduced cost of £99, as a special online deal, which converted into 'hard' reservations, once the buyer had been qualified.

There was no change at all in terms of demand, due to Covid-19 - and the developer was still receiving around 30 enquiries per day for 'Fairway', during the lockdown period. The part exchange programme has proved especially popular for first time movers, looking to 'trade up' to a larger family home. Nearly all properties marketed as a trade in sold within three weeks of being on the market and in excess of home report valuations, demonstrating the resilience of both the new build and second hand home market following lockdown.

Although the developer is 'cautiously optimistic' about the relative robustness of the Edinburgh market, there is some concern for the months and years ahead, particularly with regards to the LBTT holiday expiring and the end of the furlough scheme in October. Come November/December the developer might need to take a 'considered view' as to where the market is heading and might need to reconsider new land acquisitions for 2021.

'Forth': Regeneration scheme

'Forth' is a regeneration scheme north of Edinburgh dominated by social housing. Initially, marketing the development was very challenging, due to its stigmatised location. However, concerted effort was taken to attract buyers to the area, through providing affordable pricing. The first of four phases (each comprising around 150 homes) was completed in 2015; in less than five years some of those initial buyers have already resold their homes and left the area. In Phase 1 and 2, half of these homes were marketed for sale, with the other half a mix of social and Mid Market Rent homes. Market prices ranged between £112k for a 1 bedroom through to £185k for a 4-bedroom flat.

The first tranche of properties in Phase 3 was released pre-lock down - at prices between 25% and 35% above previous Phases, ranging between £140k and £250k. There was strong demand for Phase 2 and

3 properties across the market, including first time buyers, empty nesters, and young families. Each release has sold out within two weeks of being put on the market. Demand for Phase 2 had been very high, even during lockdown. There are 134 properties for sale as part of Phase 3, of which 55 have been sold, 4 unsold and 75 yet to be released. 24 of the 28 properties offered before March had been reserved over lockdown. Since restrictions were lifted, only 2 out of the 24 have been cancelled. During lock-down the developer offered a refundable reservation fee for buying off plan. Due to the level of demand, the developer has created an early bird reservation for the next release, with currently 300 on the waiting list for properties with 2 or more bedrooms.

The developer has no concerns about demand moving forward, suggesting that Covid-19 has actually increased demand at ‘Forth’ - due to households requiring larger internal spaces and a quality outdoor environment. The pandemic has, however, slowed construction down, causing even more pent up demand as developers struggle to keep pace with market demand in Edinburgh. In addition to delays over lockdown, adhering to social distancing guidelines has caused a 27 week delay to the completion rate.

Social Housing

Demand for social housing far exceeds its supply, with 21,831 live applicants on the Choice Based Lettings list compared with 2,631 adverts in the year 2019-2020. However, just 5,145 applicants for social housing are actively bidding, so a large part of the waiting list is waiting without bidding. A very high proportion of let - 2,278 lets were to priority groups.

The flow of social housing is likely to have contributed to the recent increase in the number of live homeless cases at year end. As of 31st March 2020 there were 4,113 cases where the Council has a duty to provide settled housing compared with 3, 453 cases as at 31st March 2019 and 3,155 in March 2018. Covid may continue to have an impact on this pressure in the near future as furlough ends.

The latest Rapid Rehousing Transition Plan highlighted that Edinburgh is one of the least affordable cities to rent or buy housing and is a growing city (even if growth has slowed recently). By 2029 it is projected that the number of households in Edinburgh will be 10.7% higher, nearly double the Scottish average. The Council has responded to this challenge by taking forward one of the largest affordable housebuilding programmes in Scotland. A record number of new affordable homes were approved for site start in 2019/20.

The RRTP notes, however, that Edinburgh has one of the lowest proportions of social housing in Scotland with only 14% of homes in social rent compared to a Scottish average of 23%. A higher proportion of available lets are made to homeless households than the national average, with 72% of Council lets and 51% of Registered Social Landlords (RSLs) lets in 2019/20 being allocated to homeless households.

Conclusion

In summary the following conclusions are drawn on the impact of Covid-19 on demand:

Short term (2020)

- There is a surge of activity in the sales market (second hand and new build) as a result of pent up demand, and new demand from prospective purchasers looking for more internal and external space, shifting out of the urban core, and government stimuli for first time buyers/bottom of the market. This is likely to continue well into the autumn, but with demand possibly dampening when furlough ends. This potential fall in demand will be countered by slower output of new supply with potential increased costs passed onto purchasers. On balance prices will remain stable/ or increase marginally for the rest of 2020.

- The PRS has been in a considerable state of flux but is now rebalancing and transient households return to the City. There is currently more flexibility in supply augmented to some extent by previous STLs moving to residential stock. This should not be over-estimated as UK 'staycations' are in high demand. On balance prices will remain stable for the rest of 2020, but will unlikely increase on average. Demand for social housing and MMR will remain high which will continue as unemployment increases.

Short-Medium term (2021/22)

- Increasing unemployment from late 2020 is likely to dampen demand, particularly for the lower end of the market where economic impacts are likely to be greatest. This will include the first-time buyer market, particularly due to lending limitations, although this part of the market may continue to be buoyed as long as government stimulus remains. If it stops, demand will reduce significantly at the lower end. While other parts of the market will be less impacted, the first-time buyer market is important in creating movement in the market, and so transactions are likely to slow overall. Supply at the lower end of the market may be supplemented with sales from the PRS once emergency legislation is loosened from those landlords than want to leave the sector. Prices will remain stable, but may decrease marginally at the bottom of the market.

- Demand for PRS is likely to increase again, as movement increases from the households that otherwise may be in the sales market either those suffering from economic impacts, or those unable to access their first home. The demand supply balance may be tightened as a result of sales out of this sector, although this may be to other landlords, rather than individual purchasers. Demand for social housing and MMR will remain high.

Medium-Long term (2022/3 onwards)

- Assuming a vaccination for Covid-19 is found, the market fundamentals of the resilient Edinburgh housing market will return giving rise to increased demand. However, as with pre pandemic this level of demand will be stifled by lack of affordability, coupled with the potential structural change in employment with more households living further distance from the urban core with part-time office/home working reducing the draw of city-centre living. This may give rise to stabilising prices in the long term.

4. Market appraisal – what is the likely demand for affordable housing?

Market evidence

4.1 Evidence on lowest quartile rents and LHA level rents

To provide some current insights into the rental and owner-occupied markets, a review of rents and asking prices was undertaken based on lower quartile properties of different sizes. To provide a sample from different sections of the market, data was collected from the top-ten (non-advertised) web-sites features when using the search terms 'property for sale in Edinburgh' and 'property for rent in Edinburgh'. For each website, properties were selected based on size and then sorted by price, from low to high, with ten properties recorded at the lowest quartile (i.e. the cheapest quarter of properties advertised) at each of the ten sites, 100 of each size.

For rented properties:

- The most common rent for a lower quartile 1-bed property was £675 per calendar month
- The most common rent for a lower quartile 2-bed property was £850 per calendar month
- The most common rent for a 3-bedroom property was £1,200 per calendar month
- The most common rent for a 4-bedroom property was £1,850 per calendar month.

Thinking about who could afford these rents, if rents are affordable when between 25%-35% of income is spent on rent (as assumed in the HNDA tool affordability assessment) then the following incomes would be required.

Lower quartile rent	25% of income	35% of income
1-bed = £675	£32,400	£23,143
2-bed = £850	£40,800	£29,143
3-bed = £1,200	£57,600	£41,143
4-bed = £1,850	£88,800	£63,429

To afford a lower quartile 1-bed rent, an income of between around £23K and £32.5K would be required. For a 2-bed rent an income of between £29K-£40.8K would be needed.

CACI data for 2019 found an average (mean) income in the City of Edinburgh of £45,000, which would make a 3-bedroom lower quartile rent affordable at between 25-35% of income. A 4-bedroom lower quartile rent would need a higher than average income – of between £63.4K and £88.8K.

The HNDA tool uses 2-bedroom median rents as the reference point for private renting affordability, with the current HNDA tool populated with data projecting a rent in 2020 of £1,000-£1,100 depending on whether rents show modest or strong growth (based on a 2016 start point). Given that lower quartile 3-bedroom rents are around £1,200 it would seem more likely that median 2-bed rents would be closer to £1,000 than £1,100. The Citylets data above also reported average (mean) rents at £1,100 and we would expect the median to be lower. So a median 2-bed rent of £1,000 is used in the affordability model.

The HNDA tool also includes data on below market rents based on the prevailing LHA rate (April 2016-2017).

The Current 2020-2021 LHA rates are far higher than previously, which may affect the comparability of the affordability assessment below and the calculations in the HNDA tool. **This needs to be bourne in mind when using the HNDA tool as part of HNDA3, with the likelihood that the demand for below market rent might be higher than would be the case under current LHA rates.**

The 2-bed LHA rate of £822.73 is used in the affordability assessment. A 30% affordability ratio is used for MMR developments while the HNDA tool assumes that an income of up to 35% of the LHA rate/30th percentile would make below market rents affordable.

	LHA 2020/21	30% AR (MMR)	35% AR (HNDA)
1-bed	£688.09	£27,523.60	£23,591.65
2-bed	£822.73	£32,909.20	£28,207.89
3-bed	£1,096.98	£43,879.20	£37,610.74
4-bed	£1,690.35	£67,614.00	£57,954.86

Clearly, while 1-bed and 2-bed properties at the LHA rate would be affordable to households with well below average incomes, 3-bedroom properties at LHA rates need incomes of just below average and 4-bedroom LHA rates would need above average incomes.

4.2 Evidence on lower quartile house prices

The review of house prices across ten web-sites found significant variation between lower quartile house prices on lower value sites such as Zoopla and higher value sites such as Savilles. For this reason, the averages across the lower value sites with more properties advertised was taken as more indicative of lower quartile, entry-level prices.

- Lower quartile 1-bedroom properties tended to range between £155K and £175K
- Lower quartile 2-bedroom properties tended to range from £170K to £195K
- Lower quartile 3-bedroom properties tended to range between £185K to £275K
- Lower quartile 4-bedroom properties tended to range between £300K to £420K.

Using the HNDA tool default of an income multiple of 3.6 (3.1 with an 85% mortgage) these lower-end prices would be affordable with the following incomes.

Lower quartile house prices	3.6 income multiplier
1-bed = £160K	£44,444
2-bed = £185K	£51,389
3-bed = £230K	£63,889
4-bed = £360K	£100,000

This means only a lower quartile 1-bedroom property would be affordable to households with an average £45k Edinburgh income according to these asking prices. As outlined above, there is current pent-up demand in the housing market at the moment which may be impacting on prices. Although as outlined above, we would expect this to become more stable over time.

Even if these house prices may represent a short-term increase due to excess demand, the affordability of entry level house prices in Edinburgh is a concern. The house prices above are somewhat higher than recent data on lower quartile house prices – Register of Scotland data on lower quartile house prices for 2018 was reported as £157K[10], with an average price increase at the lower quartile level of 1.6% a year over the previous 10-year period. This suggests that the current lower quartile 1-bedroom price of £160K is closer to what we might expect the lower quartile house price to be.

The current HNDA tool was populated with 2017 house prices, which estimated the lower quartile house price for 2020 at £149K under modest house price growth (4% per year) and £163K under strong price growth (6% per year). As this is based on properties of all sizes, the current price analysis suggests that asking prices at the moment are considerably higher than expected. For this reason, the affordability assessment uses a lower quartile house price of £160K as the 'entry level' house price to be more consistent with the HNDA projections and recent trends.

As with the LHA rates in the HNDA tool, the use of 2017 house prices projected forward impacts on estimates in the HNDA tool and these need to be examined carefully.

Conclusion

The market analysis indicates a clear need to update the affordability assessment underpinning the HNDA2, with significant increases in house prices and rents observed. Entry level house prices now stand at £160K while median 2-bed rents are around £1,000 while the LHA rates have also recently increased significantly to £822.73 for a 2-bedroom property.

[10] https://statistics.gov.scot/slice?dataset=http%3A%2F%2Fstatistics.gov.scot%2Fdata%2Fhouse-sales-prices&http%3A%2F%2Fpurl.org%2Flinked-data%2Fcube%23measureType=http%3A%2F%2Fstatistics.gov.scot%2Fdef%2Fmeasure-properties%2Flower-quartile

5. Scenarios of housing need and demand

Affordability assessment

Newly emerging household need was considered using the default affordability assessment in the current HNDA tool:

1. Incomes were compared with lower quartile house prices with the assumption that with an income of more than 4 times the lower quartile house price, a household could afford to buy. This is equivalent to a 75% mortgage and income multiple of 3.2. (The current HNDA tool ratio is 3.6, equivalent to an 85% mortgage and income multiple of 3.1)

2. 50% of these households were assumed to need private rented housing as they would not be able to secure a deposit, even though their income was sufficient to meet the affordability test. (The current tool has increased the default to 60%).

3. Those remaining with an income that would mean spending less than 25% of income on private rents would be assessed as needing a PRS property.

4. Those who would spend between 25-35% of income on private rents are assessed as needing below market rent.

5. Those who would spend more than 35% of their income on rent are assessed as needing a social rented property.

These assumptions are tested in the scenario models below.

Base scenarios

Based on the analysis of rent and house prices in the chapter above and comparisons with other data, the following base tenure model is assumed, mirroring the method used in the HNDA tool:

- Newly emerging households can afford to buy if they have an income of £44,444 – based on the income multiple of 3.6, to afford a property of lower quartile house price of £160K – but only 60% are assumed to be able to afford a deposit

- Newly emerging households can afford private renting at a median rent of £1,000 pcm if this is up to 25% of their income.

- Newly emerging households can afford below market rents if their income means they cannot afford 25% of the median 2-bed private rent but it is less than 35% of the 2-bed LHA rent of £822.73.

- Newly emerging households need social renting if their income means they would pay more than 35% of their income on the LHA rent of £822.73. All those in backlog need also require social renting.

- The current level of entry level house prices and rents are of a level that means that the tenure requirements of newly emerging households has shifted from market provision to affordable provision, as shown below.

	New tenure split	HNDA2 Steady recovery (2012-2032)	Change
Social	53%	51%	1.6%
BMR	20%	14%	5.8%
PRS	9%	11%	-2.2%
OO	19%	24%	-5.2%

The requirement for below market rent has overtaken the demand for owner-occupation. This is a broad income range from £28,000 to £48,000, so we would expect that around 9% of the 20% might be in the market for Low Cost Home Ownership – with incomes between £35,000-£48,000.

Test scenarios

Scenario: Ongoing challenges to affordability with modest household growth. The current level of affordability, with steady price/rental growth alongside more constrained income growth continues, so more affordable housing is needed.

In this scenario we see house prices remaining stable at their current level with any rent drop stabilised. As current incomes are low relative to house prices and rents are not envisaged to increase, the original tenure split envisaged needs to shift towards affordable housing.

The original 'Steady recovery' scenario from HNDA2 resulted in the following requirement. If the remaining need, after completions, is assumed to be of the original tenure split from the HNDA2 model, the requirement would be as follows:

Steady recovery with original tenure split				
	Annual need	**2012-2032**	**Completions (2012-2019)**	**2019-2032**
Affordable	2221	44,426	5327	39,099
Market	1177	23,540	9184	14,356
	3398	67,966	14511	**53,455**
Need of 53, 455 delivered with original tenure split				
Social	1,742	27,396	Affordable	34,945
BMR	480	7,549	Market	18,510
PRS	370	5,819		**53,455**
OO	807	12,691		
	3,399	**53,455**		

Based on the market analysis above of current entry level rents and house prices, there would be an expected requirement in future for 5.2% fewer owner occupier properties and 2.2% fewer private rented properties and 5.8% more below market rent and 1.6% more social rented properties. This is the 'new tenure split'.

If this new tenure split, weighted more towards affordable housing, was applied to the steady recovery scenario, the future requirement would be as follows:

Steady recovery with new tenure split (2019-2032)				
	Annual need	**2012-2032**	**Completions (2012-2019)**	**2019-2032**
Affordable	2221	44,426	5,327	39,099
Market	1177	23,540	9,184	14,356
	3398	67,966	14,511	**53,455**

Need of 53, 455 delivered with new tenure split:				
	2019-2032	**Annual (13 years)**		
Social	28,255	2,173	Affordable	38,886
BMR	10,631	818	Market	14,569
PRS	4,646	357		**53,455**
OO	9,923	763		
Total	53,455	4,112		

Under this scenario, modest growth in prices and rents are assumed, alongside low migration (based on 2012 household growth projections). Using the current affordability model shifts the requirement from the market to affordable housing. This scenario would be consistent with the expectation of modest price growth but incomes to be constrained for the foreseeable future. This is 3,941 fewer market properties than originally envisaged, down from 18,510 to 14,569. This assumes steady house price growth and steady incomes. Much higher house price and rent increases in future would require even more of a shift from market to affordable supply.

Scenario: Ongoing challenges to affordability but higher migration. The current level of affordability, with steady price/rental growth alongside more constrained income growth continues, so more affordable housing is needed. However, a growth strategy is adopted to stimulate migration to be more similar to that predicted in the 2012 principal projection.

Under the higher 'wealth distribution' scenario, the change in tenure would have a similar impact, with the requirement for market properties down from 23,261 to 18,308 as shown in the tables below but more household growth is assumed, with more affordable housing need.

Wealth distribution with new tenure split				
	Annual need	2012-2032	**Completions (2012-2019)**	**2019-2032**
Affordable	2496	49,913	5327	44,586
Market	1589	31,772	9184	22,588
	4085	81,685	14511	**67,174**
	2019-2032	**Annual (13 years)**		
Social	35,506	959	Affordable	48,866
BMR	13,360	449	Market	18,308
PRS	5,839	1,028		**67,174**
OO	12,469	2,731		
Total	67,174	5,167		

Scenario: Rents and house prices are more affordable and in line with previous estimates, with more income redistribution and higher migration (2012 principal).

The original requirement set out in HNDA2 is shown below, with the original tenure split applied to the housing needed from 2019-2032. This higher level of market requirement is unlikely given current income and housing costs and future likely income growth, which is expected to be modest. This scenario would require reduced prices and rents, which seems unlikely given current views on the market.

Wealth distribution with original tenure split				
	Annual need	**2012-2032**	**Completions 2012-2019**	**2019-2032**
Affordable	2496	49,913	5327	44,586
Market	1589	31,772	9184	22,588
	4085	81,685	14511	**67,174**
	2019-2032	**Annual (13 years)**		
Social	34,427	2,648	Affordable	43,913
BMR	9,486	730	Market	23,261
PRS	7,312	562		**67,174**
OO	15,949	1,227		
Total	67,174	5,167		

Scenario: As discussed above, regardless of the potential impact of Covid-19 on new household formation and migration, household population growth is predicted to have slowed down. A 'slower growth' scenario based on a lower household population growth (of 1,100 fewer households) is considered possible.

The analysis in Chapter 2 and Appendix 2 suggests that the wealth distribution scenario seems unlikely, given that incomes have been growing modestly and not becoming more evenly distributed as envisaged in this 'shared prosperity' scenario. As outlined earlier, the 2016 household projections are considerably lower each year compared with the 2012 projections used in the HNDA2 (with household growth estimated to be lower by 1,100 households each year between 2012-2047). Lower household growth alongside current, constrained affordability would lead to the following need – assuming modest/steady prices and modest incomes.

Lower household growth, wealth distribution (new tenure split)				
	Annual need	**2012-2032**	**Completions 2012-2019**	**2019-2032**
Affordable	2496	49,913	5327	44,586
Market	1589	31,772	9184	22,588
	4085	81,685	14511	**67,174**
Revised - 1,100 fewer households formed each year				**45,174**
	2019-2032	**Annual (13 years)**		
Social	23,878	645	Affordable	32,862
BMR	8,984	302	Market	12,312
PRS	3,927	691		**45,174**
OO	8,385	1,837		
Total	45,174	3,475		

A revised wealth distribution scenario is produced above, based on the revised tenure split and a reduction in the projected need between 2019-2032 to take account of there being fewer household expected to be formed between 2012-2032. The net housing required, after completions, is now estimated at 45,174 (down from 67,174) or 3,475 units per year with 32,862 affordable and 12,312 market properties needed.

This is a revised 'medium need' scenario based on a revised principal household projection but recognises that affordability is likely to remain constrained – with steady price growth but constrained incomes.

A similar approach is also used for the lower migration scenario – steady recovery – with an average household growth of 1,100 fewer households a year between 2012 and 2032. That is an annual requirement of 2,420 rather than 3,398, with 24,121 affordable and 7,334 market units needed.

Scenario: Covid-19 adversely impacts on new household formation and migration, household population growth is predicted to have slowed down. Incomes remained constrained so affordability issues still prevail, with stable prices and rents.

Lower household growth, steady growth (new tenure split)				
	Annual need	2012-2032	Completions 2012-2019	2019-2032
Affordable	2221	44,426	5327	39,099
Market	1177	23,540	9184	14,356
	3398	67,966	14511	**53,455**
Revised - 1,100 fewer households formed each year				**31,455**
	2019-2032	**Annual (13 years)**		
Social	18,769	384	Affordable	24,121
BMR	5,352	180	Market	7,334
PRS	2,339	412		**31,455**
OO	4,995	1,444		
Total	31,455	2,420		

This provides a low scenario based on low migration but also steady prices/rents alongside constrained incomes. This might be the worse-case scenario if population movement remains very constrained. Prices/rents are not projected to fall enough to become affordable and new household formation is constrained.

A summary of the range of estimates appears in the table below.

High - Wealth distribution with new tenure split				
	2019-2032	**Annual (13 years)**		
Social	35,506	959	Affordable	48,866
BMR	13,360	449	Market	18,308
PRS	5,839	1,028		**67,174**
OO	12,469	2,731		
Total	67,174	5,167		
Medium: Lower household growth, wealth distribution (new tenure split)				
	2019-2032	**Annual (13 years)**		
Social	23,878	645	Affordable	32,862
BMR	8,984	302	Market	12,312
PRS	3,927	691		**45,174**
OO	8,385	1,837		
Total	45,174	3,475		

Low: Lower household growth, steady growth (new tenure split)				
	2019-2032	**Annual (13 years)**		
Social	18,769	384	Affordable	24,121
BMR	5,352	180	Market	7,334
PRS	2,339	412		**31,455**
OO	4,995	1,444		
Total	31,455	2,420		

The following tables compare the original HNDA2 estimates with these revised estimates, and the current Housing Supply Target.

		HNDA 2		Revised HNDA estimates		Current HST	Cityplan housing paper
High	Affordable	49,902	81,884	48,866	67,174	Afford 20,800	Afford 20,800
	Market	31,982		18,308			
Medium	Affordable	44,586	67,174	32,862	45,174	Market 20,600	Market 22,600
	Market	22,588		12,312			
Low	Affordable	39,099	53,455	24,121	31,455	**Total 41,400**	**Total 43,400**
	Market	14,356		7,334			

The medium and lower revised estimates factor in **both** a more modest growth in population and the need for more affordable housing (driven by the affordability assessment) while the higher estimate assumes higher household growth alongside the provision of more affordable housing.

All of the scenarios above are based on the original existing housing need figure of 8,942 or around 894 social housing units each year. This is reasonable given the robust and credible verdict.

However, we have provided lower estimate of 192 units a year and a middle estimate would be 760 units a year. That could mean between around 2,000 or 7,000 fewer affordable properties needed over a 10-year period. This provides an indication of the variation that may arise from changes in the HNDA3 methodology.

Given the wide range of scenarios from **24,121 to 48,866** affordable units an adjustment for variation in existing need might be expected to adjust that range to between **17,121 and 41,866**. **This compares the current HST of 20,800.**

In terms of market provision, this is a range from around **7,300 to around 18,300**, which is significantly lower from that estimated by HNDA2, which estimated **between 14,400 and 22,600** for the steady growth and wealth redistribution scenarios. **This compares to the current HST of 20,600.**

Options for the HST

The scenarios above point to a necessary shift between market and affordable housing to enable household formation in a market with high house prices and rents relative to incomes. Market housing is envisaged to be slightly below the previous target.

The findings from this study shows that there continues to be stable demand for market housing, even in the context of the pandemic, and particularly at the more 'affordable' end of the market. The need for affordable housing will increase as indicated by these revised HNDA estimates and affordability levels drive the required shift from market provision to affordable provision. It is reasonable to project forward on the basis of either the low or medium scenarios, but there is little evidence to support the high projections.

The total revised HNDA requirement for the low to medium projections suggests a total housing requirements of between 31,455 and 45,174 which compares to the total current HST of 41,400. The Council's Housing Study which informed the main issue Choices for the CityPlan suggested the HST increased target to 43,400: 22,600 market housing and the same level of 20,800 affordable homes in the period 2019-2032. This is a reasonable total against the revised HNDA requirements, but more consideration is required between the market/affordable housing split.

The risks associated with the ongoing pandemic and resultant recession to the housing market are likely to be short-medium term (2-3 years). It is unlikely to affect the long-term market fundamentals. A key constraint in the short-term will be the rate of new supply which will create even further pent-up demand, price and affordability pressure across the housing system (across all tenures).

Looking to the long-term, there are benefits to encouraging greater market supply over and above that which is needed – the demand and supply balance *may* adjust and encourage more affordable market supply as prices adjust. However, we also know that in strong, pressured markets that the market may respond by withholding supply so that higher prices are maintained. Regardless, there is clear evidence that an increased affordable housing HST is required.

The options for the HST are:

- Retain the HST of 43,400 and current tenure balance – with broadly 50/50 affordable/market.
- Retain the HST of 43,400 and shift the balance to affordable in line with the ratios shown above i.e. 70/30 affordable/market
- Increase the HST to the medium projection of roughly 45,000 – with a 50/50 split
- Increase the HST to the medium projection of roughly 45,000 – with a 70/30 affordable/ market split.

Options should include reviewing the Affordable Housing Policy – increasing the proportional percentage requirement, and reviewing what is defined as affordable including market provision which is affordable based on affordability ratio (say 35%, and income multipliers) for example for households in the 7th decile i.e. currently up to £53,000, equivalent broadly up to £200,000 purchase price.

6. Summary and conclusions

Review of housing need and demand

The report produced analysis of the detailed process of estimating the need for affordable and market housing, with analysis of incomes, house prices and rents over the past 10 years. That analysis suggests:

- Wages growth is closer to the 'inflation target' than the 'modest increase'. A modest increase or flat income growth scenario may be more likely over the short to medium term.
- Analysis of wages suggests that the 'creeping equality' assumed in the wealth distribution scenario is not likely based on recent trends, which suggests little convergence between higher and lower incomes.
- Registers of Scotland data between 2004 and 2019 showed an average price increase from £165,206 in 2004 to £267,110 in 2019. That is an average of 4.1% a year, slightly above the OBR estimate recommended but not as high as the 'strong recovery' scenario.
- Data from Citylets shows an increase in average rent advertised of £848 in Q1 of 2014 to £1,142 in Q1 of 2020. That is an average increase of 5.7% a year. The increase for 2-bedroom properties has been from an average of £762 in 2014 to £1,040 in 2020, an average increase of 6%. That is closer to the 'modest increase' than to the OBR estimates.

On balance, recent indicators suggest that the 'steady recovery' scenario is more likely than the 'wealth redistribution' scenario. There has been evidence of growth in house prices and rents but more modest growth in incomes.

The 2016 household projections also suggest that household growth is considerably lower under both the low migration and principal migration scenarios than estimated in 2012, with around 1,100 fewer households projected each year.

Potential Covid-19 impacts

The estimates produced in HNDA2 were based on assumptions about the underlying economy and likely changes in economic growth, incomes and house prices/rents that need further consideration post-Covid. There remains huge uncertainty about how long economic recovery might take. Although Edinburgh has been very resilient in the past, the latest evidence suggests that the impacts of Covid on Edinburgh could would represent a £3.5bn drop in output year on year, broadly equivalent to 50,000 jobs in the city. A longer recovery phase than previously anticipated is increasingly likely given the loss of productive capacity and the change in market conditions for many sectors of the economy.

In summary the following conclusions are drawn in relation to the housing market:

Short term (2020)

- There is a surge of activity in the sales market (second hand and new build) as a result of pent up demand, and new demand from prospective purchasers looking for more internal and external space, shifting out of the urban core, and government stimuli for first time buyers/bottom of the market. This is likely to continue well into the autumn, but with demand possibly dampening when furlough ends. This potential fall in demand will be countered by slower output of new supply with potential increased costs passed onto purchasers. On balance prices will remain stable/ or increase marginally for the rest of 2020.

- The PRS has been in a considerable state of flux but is now rebalancing and transient households return to the City. There is currently more flexibility in supply augmented to some extent by previous STLs moving to residential stock. This should not be over-estimated as UK ‘staycations’ are in high demand. On balance prices will remain stable for the rest of 2020, but will unlikely increase on average. Demand for social housing and MMR will remain high which will continue as unemployment increases.

Short-Medium term (2021/22)

- Increasing unemployment from late 2020 is likely to dampen demand, particularly for the lower end of the market where economic impacts are likely to be greatest. This will include the first-time buyer market, particularly due to lending limitations, although this part of the market may continue to be buoyed as long as government stimulus remains. If it stops, demand will reduce significantly at the lower end. While other parts of the market will be less impacted, the first-time buyer market is important in creating movement in the market, and so transactions are likely to slow overall. Supply at the lower end of the market may be supplemented with sales from the PRS once emergency legislation is loosened from those landlords than want to leave the sector. Prices will remain stable, but may decrease marginally at the bottom of the market.

- Demand for PRS is likely to increase again, as movement increases from the household that otherwise may be in the sales market either those suffering from economic impacts, or those unable to access their first home. The demand supply balance may be tightened as a result of sales out of this sector, although this may be to other landlords, rather than individual purchasers. Demand for social housing and MMR will remain high.

Medium-Long term (2022/3 onwards)

- Assuming a vaccination for Covid-19 is found, the market fundamentals of the resilient Edinburgh housing market will return giving rise to increased demand. However, as with pre pandemic this level of demand will be stifled by lack of affordability, coupled with the potential structural change in employment with more households living further distance from the urban core with part-time office/home working reducing the draw of city-centre living. This may give rise to stabilising prices in the long term.

Market appraisal

The market analysis indicates a clear need to update the affordability assessment underpinning the HNDA2, with significant increases in house prices and rents observed. Entry level house prices now stand at £160K while median 2-bed rents are around £1,000 while the LHA rates have also recently increased significantly to £822.73 for a 2-bedroom property.

Scenarios for need and demand

A range of scenarios were modelled based on the HNDA2 method and the outcomes of the market analysis on incomes, rents and house prices.

A summary of the range of estimates appears in the table below.

High - Wealth distribution with new tenure split				
	2019-2032	**Annual (13 years)**		
Social	35,506	959	Affordable	48,866
BMR	13,360	449	Market	18,308
PRS	5,839	1,028		**67,174**
OO	12,469	2,731		
Total	67,174	5,167		
Medium: Lower household growth, wealth distribution (new tenure split)				
	2019-2032	**Annual (13 years)**		
Social	23,878	645	Affordable	32,862
BMR	8,984	302	Market	12,312
PRS	3,927	691		**45,174**
OO	8,385	1,837		
Total	45,174	3,475		
Low: Lower household growth, steady growth (new tenure split)				
	2019-2032	**Annual (13 years)**		
Social	18,769	384	Affordable	24,121
BMR	5,352	180	Market	7,334
PRS	2,339	412		**31,455**
OO	4,995	1,444		
Total	31,455	2,420		

The medium and lower estimates factor in both a more modest growth in population and the need for more affordable housing while the higher estimate assumes higher household growth alongside the provision of more affordable housing.

All of the scenarios above are based on the original existing housing need figure of 8,942 or around 894 social housing units each year. This is reasonable given the robust and credible verdict.

However, we have provided lower estimate of 192 units a year and a middle estimate would be 760 units a year. That could mean between around 2,000 or 7,000 fewer affordable properties needed over a 10-year period. This provides an indication of the variation that may arise from changes in the HJNDA3 methodology.

Given the wide range of scenarios from 24,121 to 48,866 affordable units an adjustment for variation in backlog might be expected to adjust that range to between 17,121 and 41,866.

In terms of market provision, this is a range from around 7,300 to around 18,300, which is significantly lower from that estimated by HNDA2, which estimated between 14,400 and 22,600 for the steady growth and wealth redistribution scenarios.

The Housing Supply Target

The total revised HNDA requirement for the low to medium projections suggests a total housing requirement of between 31,455 and 45,174 which compares to the total current HST of 41,400. The Council's Housing Study which informed the main issue Choices for the CityPlan suggested the HST increased target to 43,400: 22,600 market housing and the same level of 20,800 affordable homes in the period 2019-2032. This is a reasonable total against the revised HNDA requirements, but more consideration is required between the market/affordable housing split.

The risks associated with the ongoing pandemic and resultant recession to the housing market are likely to be short-medium term (2-3 years). It is unlikely to affect the long-term market fundamentals. A key constraint in the short-term will be the rate of new supply which will create even further pent-up demand, price and affordability pressure across the housing system (across all tenures).

The main options are:

- Retain the HST of 43,400 and current tenure balance – with broadly 50/50 affordable/market.
- Retain the HST of 43,400 and shift the balance to affordable in line with the ratios shown above i.e. 70/30 affordable/market
- Increase the HST to the medium projection of roughly 45,000 – with a 50/50 split
- Increase the HST to the medium projection of roughly 45,000 – with a 70/30 affordable/ market split.

Options should include reviewing the Affordable Housing Policy – increasing proportion, and reviewing what is defined as affordable including market provision which is affordable based on affordability ratio (say 35%, and income multipliers) for example for households in the 7th decile i.e. currently up to £53,000, equivalent to up to broadly £200k purchase price.

Appendix 1 - Detail on estimates of need and demand

Updated estimates of the existing need

The Rapid Rehousing Transition Plan[11] reported 3,155 live homelessness cases in March 2018 and 1,668 cases in temporary accommodation. This is 917 additional households to the 2,238 homeless households reported in HNDA2. 3,155 homeless households would need affordable housing.

The number of live homeless cases for which the Council has a duty as at 31st March has increased. As of 31st March 2020 there were 4,113 cases where the Council has a duty to provide settled housing while as of 31st March 2019 there were 3,453 cases where the Council had a duty to provide settled housing.

This indicates more existing need than in the HoTOC model, with an average need of **3,574 homeless households** over the last three years.

The HNDA2 estimate includes overcrowded households who could not afford to resolve their housing need in the market – that is 3,983 households (excluding 2,910 able to afford a market option). Updated estimates from the 2018 Scottish House Condition Survey[12] data estimate overcrowding at 2% - which would be an estimated 4,715 households (based on 2018 household estimate of 235,771 households in Edinburgh)[13]. Excluding the 42% who could afford a market solution as above (1,980), this would be **2,735 overcrowded households in need of affordable housing.**

The 2018 SHCS does not include an updated estimate of concealed households. These were assessed to be 1,608 with 679 (42%) of these able to afford housing in the market. That is an estimated 929 concealed households. Given that the overcrowded estimate has reduced, this may also be slightly high. A pro-rata reduction in concealed households as in the case of overcrowded households would result in a revised estimate of **638 concealed households needing affordable housing**.

The HNDA2 method may overstate the need for additional affordable units where overcrowded households would resolve their housing need by everyone moving together (and so occupy a new property but also free up a property). Data from the 2018 SHCS suggested that 75% of overcrowded households live in owner occupation or private renting and 25% in social renting. The estimated 2,735 overcrowded households needing affordable housing would **vacate around 2,050 market properties and 685 social rented properties.**

The estimate of poor condition properties (Below Tolerable Standard) was 2% in 2018 or 4,715 poor condition properties in need of improvement. This is a decrease of around 2,200 on HNDA2.

11 https://democracy.edinburgh.gov.uk/Data/Housing%20and%20Economy%20Committee/20190321/Agenda/item_83_-_rapid_rehousing_transition_planpdf.pdf
12 https://www.gov.scot/publications/scottish-house-condition-survey-2018-key-findings/
13 https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/households/household-estimates/2018

Households needing adaptations are estimated at 4.8%[14] - 12% of the 40% of households containing someone with a long-term health issue or disability. **That is an estimated 11,300 households which is similar to the HNDA2 estimate.**

There would also be market and social housing units brought into supply from those 1,791 households needing specialist provision. This estimate needs revisited based on analysis of waiting list or other information. A separate note proposes methods for updating this figure during HNDA3.

This suggests a revised estimate of the current need for additional units of affordable housing (excluding in situ needs for adaptations and property improvements):

- 3,574 homeless households
- 2,735 overcrowded households
- 638 concealed households
- 1,791 needing specialist provision.

This is a revised estimate of 8,738 – around 200 fewer units than found in HNDA2 (8,942).

As noted above, the needs assessment also should take account of where properties are freed-up by overcrowded households and those entering specialist provision. It is estimated that overcrowded households will vacate around 2,050 market properties and 685 social rented properties while some of the 1,791 households needing specialist provision would vacate market and social properties. If those needing specialist provision had a similar tenure profile to overcrowded households, they would free up around 1,340 market properties and 450 social rented properties.

So, in additional to 200 fewer social units needed for the estimated existing need, there would be 1,135 social rented units made available and 3,390 other units freed up (estimated to be 2,950 owner occupied units and 440 private rented units).

How HNDA2 estimated the requirement for affordable and market housing

The split between social rent, below market rent, private renting and owning was determined by different assumptions made about incomes, affordability and the housing market in the HNDA tool. Each of these are discussed below.

The current HST is based on the wealth distribution scenario. That is based on the principal household projection, existing need met over ten years, modest income growth, incomes becoming more equal over time, strong recovery in house prices and modest increases in rents.

[14] https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2019/09/scotlands-people-annual-report-results-2018-scottish-household-survey/documents/scotlands-people-annual-report-2018/scotlands-people-annual-report-2018/govscot%3Adocument/scotlands-people-annual-report-2018.pdf

Affordability assessment

All those in backlog need were assumed in HNDA2 to need social housing, as all those able to afford a market option had been excluded from the estimated backlog need figure, as outlined above.

Newly emerging household need was considered using the default affordability assessment in the HNDA tool:

6. Incomes were compared with lower quartile house prices with the assumption that with an income of more than 4 times the lower quartile house price, a household could afford to buy. This is equivalent to a 75% mortgage and income multiple of 3.2. (The current HNDA tool ratio is 3.6, equivalent to an 85% mortgage and income multiple of 3.1)

7. 50% of these households were assumed to need private rented housing as they would not be able to secure a deposit, even though their income was sufficient to meet the affordability test. (The current tool has increased the default to 60%).

8. Those remaining with an income that would mean spending less than 25% of income on private rents would be assessed as needing a PRS property.

9. Those who would spend between 25-35% of income on private rents are assessed as needing below market rent.

10. Those who would spend more than 35% of their income on rent are assessed as needing a social rented property.

These assumptions are tested in the scenario models in Chapter 6.

How affordability and therefore tenure profile is affected over time then depends on assumptions about changes in incomes, house prices and rents. The assumptions tested and selected are discussed below, compared with data on what has happened to incomes, house prices and rents.

HNDA tool scenarios using 2012-based household projections

Scenarios / Variables in HNDA Tool	Alternative Future: Default 2	Alternative Future: Steady Recovery 2	Alternative Future: Wealth Distribution 2	Alternative Future: Strong Economic Growth 2
Household projections	'Principal' using 2012 based household projections	'Low migration' using 2012 based household projections	'Principal' using 2012 based household projections	'High migration' using 2012 based household projections
Existing need clearance period	5 years	Inputted value of 10 years	Inputted value of 10 years	Inputted value of 5 years
Average (median) household Income growth	Modest increases	No real growth (Inflation Target)	Modest Increases	Reasonable growth
Change in income distribution	Flat (no change)	Flat (no change)	Creeping equality	Creeping inequality
Projected house prices	'OBR estimates'	'No real growth (inflation target)', 'OBR estimates' for CoE and 'modest increases' for WL	'Modest increases' with 'strong recovery' for CoE and WL	'Strong recovery'
Below market rent growth assumption	'OBR estimates'	'No real growth (Inflation Target)' with 'OBR estimates' for CoE and 'modest increases' for WL	'Modest increases' with 'strong recovery' for WL	'Strong recovery'

SESplan Core HMP analysis of evidence to inform alternative futures

Assumptions about income growth and distribution

The scenario of modest income growth was suggested for the City of Edinburgh – an average growth of 3.5% per annum.

Table 1.19: Income Growth Scenario Recommendations – A Summary[7]						
Scenario Options	Average Annual % Growth 2011-2032					
	City of Edinburgh	East Lothian	Fife SESplan	Midlothian	Scottish Borders	West Lothian
Oxford Economics Baseline	3.8	3.6	3.6	3.5	3.5	3.8
Inflation Target (No real growth)	2.2	2.2	2.2	2.2	2.2	2.2
Modest Increase	3.5	3.5	3.5	3.5	3.5	3.5
Flat	1.2	1.2	1.2	1.2	1.2	1.2
Reasonable Growth	5.3	5.3	5.3	5.3	5.3	5.3
Slow Growth	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3

Source: Oxford Economics 2013

Looking at median gross weekly pay from all jobs between 2009 and 2019 from the Annual Survey of Hours and Earnings (ASHE)[15], median income in Edinburgh were £421.60 in 2009 and £498.30 in 2019. That is an average 2% increase.

This suggests that wages growth is closer to the 'inflation target' than the 'modest increase'. A modest increase or flat income growth scenario may be more likely over the short to medium term.

Oxford Economics also suggested that the most likely scenario for The City of Edinburgh in terms of income inequality was 'creeping equality' with incomes between the highest and lowest earners expected to converge, as shown below.

The HNDA tool sets out four possible scenarios in relation to income distribution, as per Table 1.20.

Table 1.20: HNDA Tool Income Distribution Growth Rate Forecast, Selected Years

	2013	2014	2015	2016	2020	2030	2030-41 (Av. per annum)
Flat	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Creeping Inequality	1.5%	1.5%	1.5%	1.5%	1.5%	1.0%	1.0%
Creeping Equality	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.0%	-1.0%
Higher End Runs Away	5.0%	6.0%	7.0%	8.0%	8.0%	2.5%	2.5%

Source: HNDA Tool 2013

The assessment of changing equality is based on a comparison of the ratio of the highest and lowest quartile earnings from the Annual Survey of Hours and Earnings (ASHE).

Analysis of the ASHE data shows that lower quartile earnings were 40% of upper quartile earnings in 2009 and also in 2019 in Edinburgh, with an average proportion of 41% across the 10 years. The proportion narrowed by 1.5% or more in three years – to 44% in 2016, 42% in 2017, 43% in 2018.

This suggests that creeping equality is not likely based on recent trends, which suggests little convergence between higher and lower incomes.

House prices and rents

The Oxford Economics recommendation was to use the OBR estimate of house price growth in City of Edinburgh, suggesting average house prices will increase from £269,000 to £539,500 in 2030 and modest recovery as an alternative scenario. The growth rate over the period is similar but modest recovery suggests a higher level of growth in the short term.

15 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/placeofresidencebylocalauthorityashetable8

Table 1.23: House Price Growth Scenario Recommendations – A Summary[8]						
Scenario Options	**Average Annual % Growth 2011-30**					
	City of Edinburgh	**East Lothian**	**Fife SESplan**	**Midlothian**	**Scottish Borders**	**West Lothian**
Oxford Economics Forecast	3.8	2.6	2.6	2.5	2.6	4.3
OBR Estimate	3.8	3.8	3.8	3.8	3.8	3.8
No Real Growth (Inflation Target)	2.2	2.2	2.2	2.2	2.2	2.2
Flat	1.2	1.2	1.2	1.2	1.2	1.2
Modest Recovery	3.5	3.5	3.5	3.5	3.5	3.5
Strong Recovery	4.6	4.6	4.6	4.6	4.6	4.6
Gradual Decline	0.1	0.1	0.1	0.1	0.1	0.1

Oxford Economics 2013

Registers of Scotland data between 2004 and 2019 showed an average price increase from £165,206 in 2004 to £267,110 in 2019. That is an average of 4.1% a year, slightly above the OBR estimate recommended but not as high as the 'strong recovery' scenario.

Year	Local authority code	Local authority	Average residential property price (£)
2004	S12000036	City of Edinburgh	165,206
2005	S12000036	City of Edinburgh	174,908
2006	S12000036	City of Edinburgh	192,295
2007	S12000036	City of Edinburgh	212,070
2008	S12000036	City of Edinburgh	214,488
2009	S12000036	City of Edinburgh	202,407
2010	S12000036	City of Edinburgh	219,054
2011	S12000036	City of Edinburgh	217,742
2012	S12000036	City of Edinburgh	216,930
2013	S12000036	City of Edinburgh	215,285
2014	S12000036	City of Edinburgh	227,034
2015	S12000036	City of Edinburgh	238,268
2016	S12000036	City of Edinburgh	234,417
2017	S12000036	City of Edinburgh	249,691
2018	S12000036	City of Edinburgh	266,481
2019	S12000036	City of Edinburgh	267,110

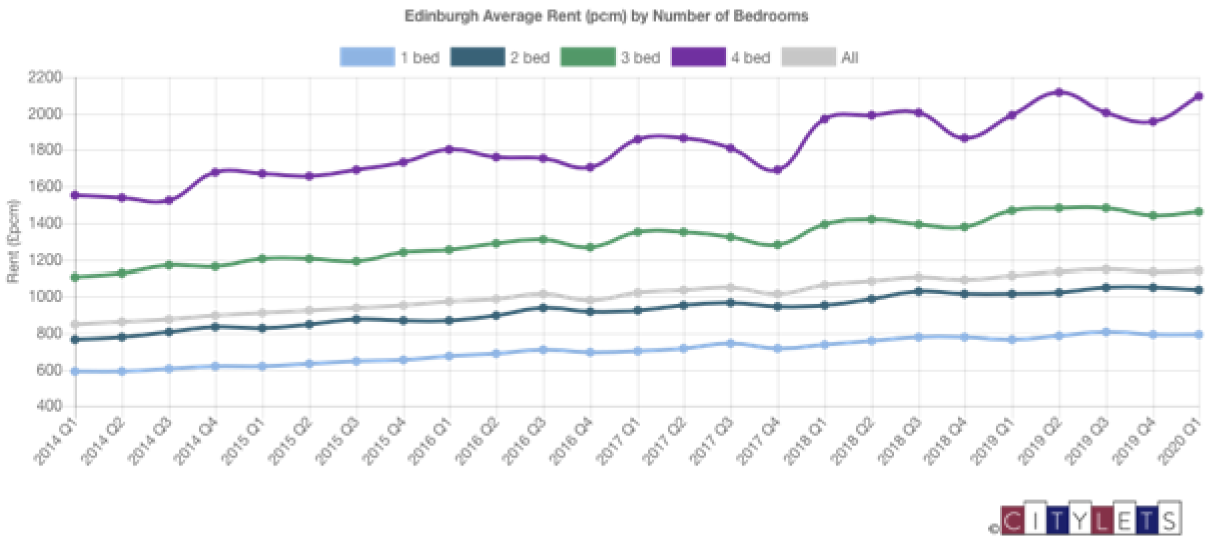
Source: Registers of Scotland Table C1: Average residential property price by local authority: Scotland, 2004 to 2019, calendar year data

On rents, based on their analysis of rents data, Oxford Economics recommendation for City of Edinburgh is for OBR estimates, with modest increase as an alternative scenario

Table 1.24: HNDA Tool Demand for Market Rent Growth Rate Forecasts, Selected Years							
	2013	**2014**	**2015**	**2016**	**2020**	**2030**	**2030-41 Av. per annum**
OBR Estimates (Core)	2.0%	2.0%	2.0%	2.0%	2.0%	2.5%	2.5%
No Real Growth (Inflation Target)	5.0%	5.0%	5.0%	5.0%	5.0%	2.5%	2.5%
Flat	0.0%	0.0%	0.0%	0.0%	0.0%	2.5%	2.5%
Modest Increases	5.0%	5.0%	5.0%	5.0%	5.0%	2.5%	2.5%
Strong Recovery	5.0%	6.0%	7.0%	8.0%	8.0%	2.5%	2.5%
Gradual Decline	-0.1%	-0.2%	-0.2%	-0.4%	-0.1%	2.5%	2.5%

Source: Oxford Economics 2013

Data from Citylets shows an increase in average rent advertised of £848 in Q1 of 2014 to £1,142 in Q1 of 2020. That is an average increase of 5.7% a year. The increase for 2-bedroom properties has been from an average of £762 in 2014 to £1,040 in 2020, an average increase of 6%. That is closer to the 'modest increase' than to the OBR estimates.



Summary of analysis

On balance, recent indicators suggest that the 'steady recovery' scenario is more likely than the 'wealth redistribution' scenario. There has been evidence of growth in house prices and rents but little change in incomes.

The 2016 household projections also suggest that household growth is considerably lower under both the low migration and principal migration scenarios than estimated in 2012, with around 1,100 fewer households projected each year.

Appendix 2 – COVID economic impacts

The UK economy and COVID-19

In July 2020, The Office for Budget Responsibility[16] outlined three possible scenarios for the UK economy post-COVID-19.

Upside scenario: in effect an updated April reference scenario, with a sharp rebound in activity and no medium-term economic scarring. The Upside scenario would see GDP reduce by 10.6% in 2020 and unemployment peak at a rate of 9.7% in Quarter 3 of 2020.

Central scenario: activity recovers more slowly and incorporates some scarring to potential GDP. The Central scenario would see GDP reduce by 12.4% in 2020 and unemployment peak at 11.9% in Quarter 4 of 2020.

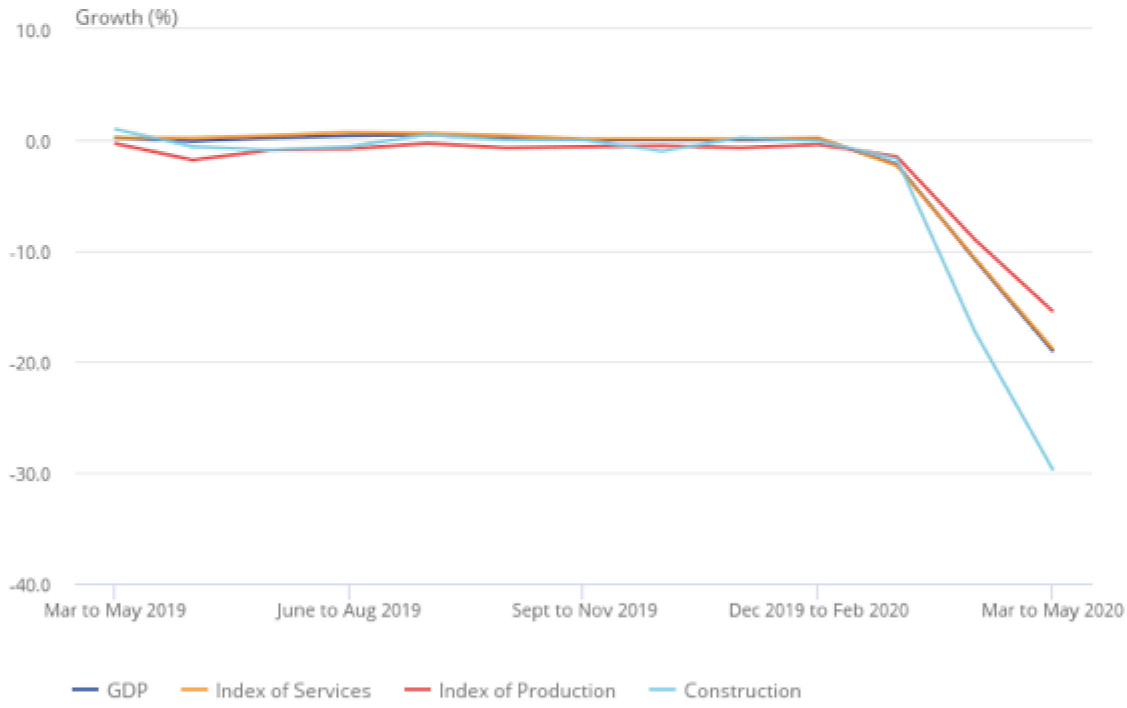
Downside scenario: recovery is slower still and scarring is deeper. The Downside scenario would see GDP reduce by 14.3% in 2020 and unemployment peak at 13.2% in Quarter 1 of 2021.

ONS data shows the sharp drop in GDP by May 2020 (new figure released August 2020)[17]

[16] https://obr.uk/coronavirus-analysis/
[17] https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2020

Figure 2: GDP fell by 19.1% in the three months to May 2020, following falls in both the three months to March and the three months to April 2020

Growth, three months on previous three months, UK, March to May 2019 until March to May 2020



Source: Office for National Statistics – GDP monthly estimate

The Monetary Policy Committee report[18] for August 2020 concluded that, although UK GDP is expected to have been over 20% lower in 2020 Q2 than in 2019 Q4, payments data suggest that household consumption in July was less than 10% below its level at the start of the year. They also conclude that housing market activity appeared to have returned to close to normal levels, despite signs of a tightening in credit supply for some households.

On the less positive side, the report showed less evidence being available on business spending, but surveys suggest that business investment is likely to have fallen markedly in Q2 and investment intentions remained very weak.

The MPC report noted that employment had fallen since the Covid-19 outbreak, but this had been very significantly mitigated by the extensive take-up of support from temporary government schemes. Survey data showed many workers had already returned to work from furlough, but considerable

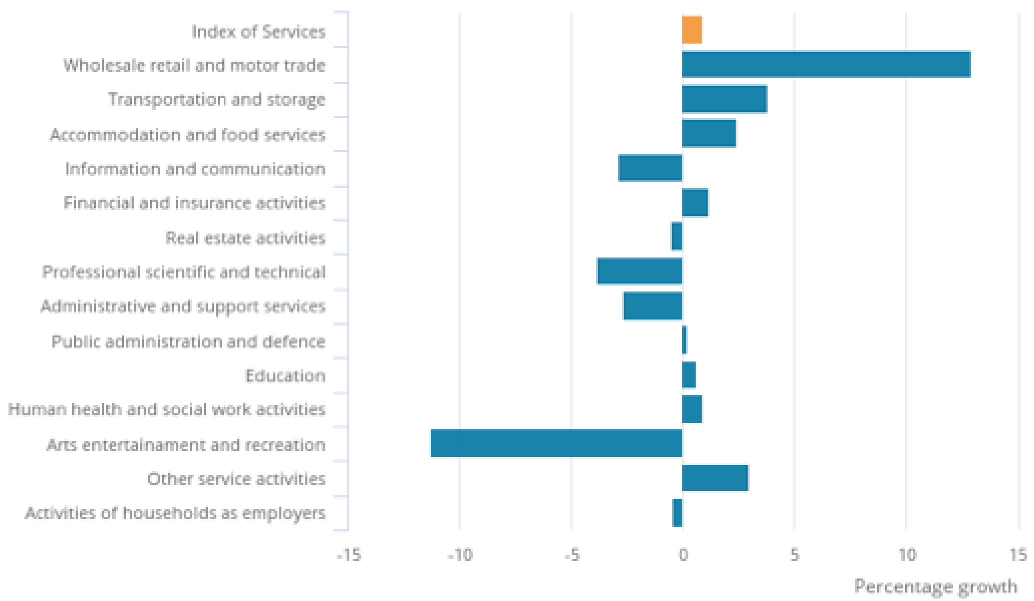
[18] https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/august/monetary-policy-report-august-2020.pdf?la=en&hash=75D62D3B4C23A8D30D94F9B79FC47249000422FE

uncertainty remains about the prospects for employment after those support schemes unwind. They suggested that the unemployment rate would increase to around 7.5% by the end of 2020. That is a more positive estimate than the OBR 'Upside' scenario.

The figure below shows the uneven growth in May 2020.

Figure 5: In May 2020, 8 of the 14 services sectors grew

Index of Services, main sectors, month-on-month growth, seasonally adjusted, UK, May 2020



Source: Office for National Statistics – Index of Services

The arts, entertainment and recreation continued to be most adversely affected in May while wholesale, retail and motor services grew most[19].

19 https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/coronavirusandtheimpactonoutputintheukeconomy/may2020

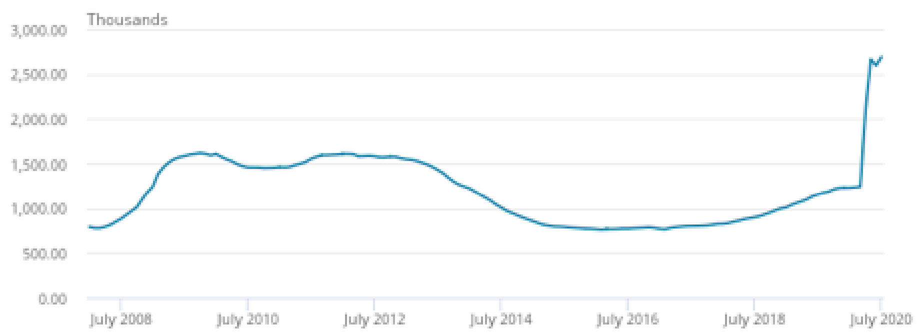
Of businesses currently trading, 45% reported their turnover exceeded their operating costs, compared with 16% who reported their operating costs exceeded their turnover, according to the Business Impact of Coronavirus (COVID-19) Survey (BICS)[20].

The latest data release from ONS on employment[21] suggested that early indicators for July 2020 suggest that the number of employees in the UK on payrolls was down around 730,000 compared with March 2020. Flows analysis suggested that the falls in May, June and July were mainly because of fewer people moving into payrolled employment. ONS reported that employment was weakening but unemployment was largely unchanged because of increases in economic inactivity, with people out of work but not currently looking for work. A large number of people were estimated to be temporarily away from work, including furloughed workers; approximately 7.5 million in June 2020 with over 3 million of these being away for three months or more. New ONS analysis showed that the youngest workers, oldest workers and those in manual or elementary occupations were those most likely to be temporarily away from paid work during the coronavirus (COVID-19) pandemic.

Meanwhile, the claimant count increased by almost 117% between March and July 2020.

Figure 12: UK Claimant Count level increased by 116.8% since March 2020

UK Claimant Count, seasonally adjusted, January 2008 to July 2020



Source: Department for Work and Pensions

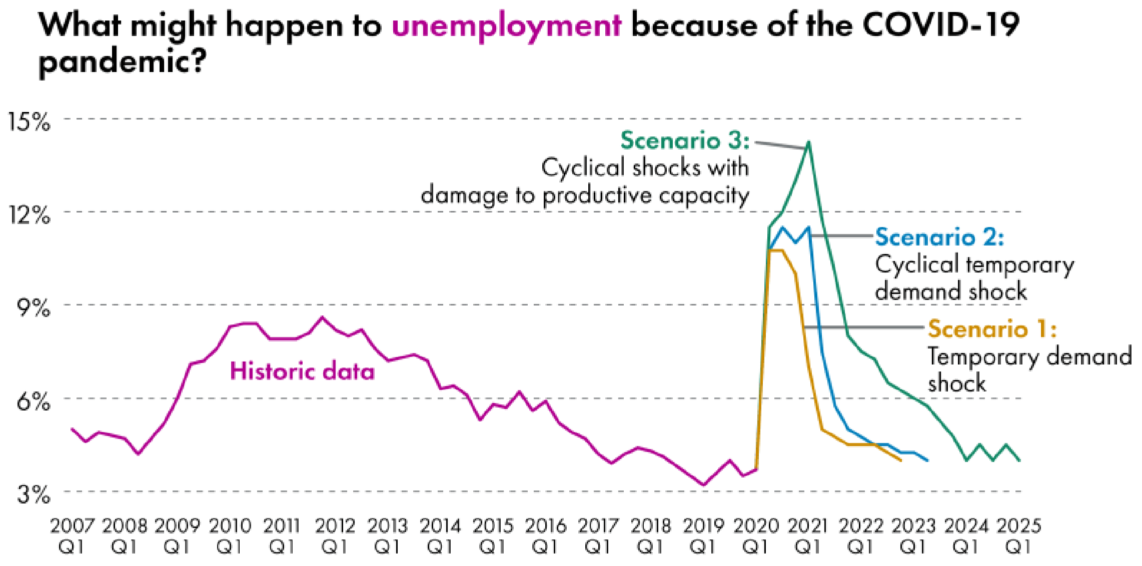
20 https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukeconomyandsocietyfasterindicators/latest

21 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/august2020

The Scottish Economy

The latest Scottish Government 'State of the Economy' report in April 2020 estimated that GDP would fall by 33% over 3 months of lock-down (although lock-down lasted longer, in fact)[22]. This was based on a 10% fall in March followed by a 25% fall in April, with no further change until GDP begins to increase in July.

The report estimated that the industries which have been specifically requested to cease public facing operations, account for around 22% of the economy in Scotland. This directly impacts around 144,000 businesses and 920,000 jobs, including 'non-essential' retail, leisure and hospitality, construction and education. Some of these industries have partially mitigated the impact of closure through online sales or distance learning.



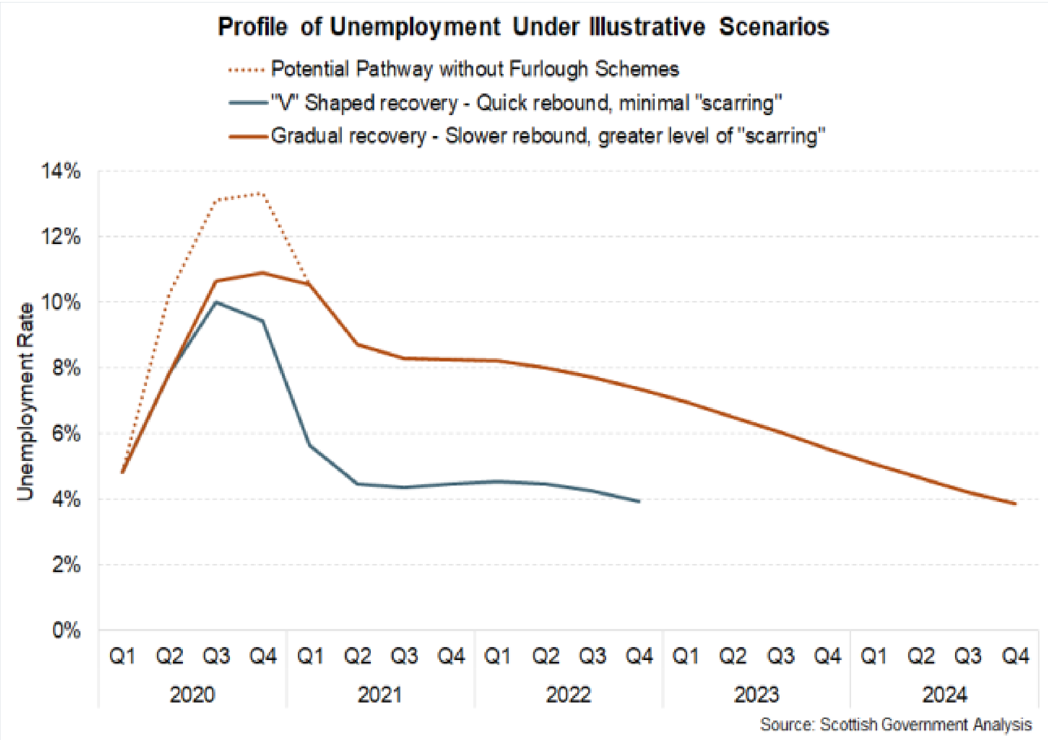
The three possible scenarios for unemployment laid out by the Scottish Government are shown in the diagram above by SPICE [23]. The three possible paths for unemployment in Scotland during the pandemic depend on the severity of the economic shock caused by the pandemic and the public health response to it. The most optimistic scenario sees a huge increase in unemployment, which peaks at 10% in Q2 and Q3 2020, before declining rapidly towards four per cent.

In the most optimistic scenario, unemployment reaches a level far higher than any recent data shows. The more pessimistic scenarios expect a similar trend for the initial rise in unemployment, but the steady recovery is interrupted by supply side shocks (sudden changes in commodity prices or wages) which result in further increases, and delays to the recovery. In this scenario, unemployment could peak at over 14 per cent.

[22] https://www.gov.scot/publications/state-economy-april-2020/
[23] https://spice-spotlight.scot/2020/05/07/coronavirus-covid-19-and-scotlands-economy/

However, even in the most pessimistic scenario the rate of unemployment recovers to a more normal level within around three years. Looking at the data for 2008 onwards, that would be a quicker recovery that after the 2008 financial crisis.

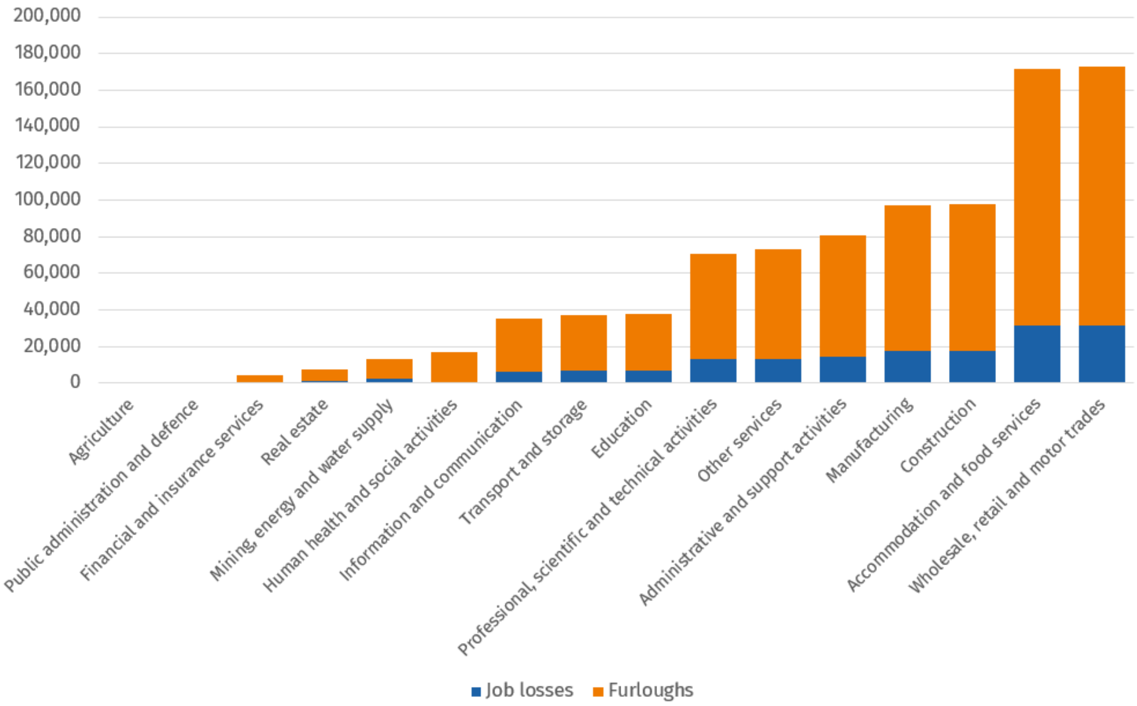
A later scenario analysis published in June 2020[24] suggested that GDP could fall by 14% in 2020 and unemployment could rise above 10%, and that a gradual recovery in which output and employment doesn't get back to pre-crisis levels until 2023-24 is increasingly likely.



In May, IPPR[25] estimated that based on the Office for Budget Responsibility (OBR) UK-wide forecast, 750,000 employees in Scotland will be enrolled on the Jobs Retention Scheme over the next few months. They estimated that a further 150,000 jobs in Scotland would be lost, as some employers fail to weather the crisis. They predicted different sectors to face very different prospects, with accommodation and food services and wholesale, retail and motor trades worst affected.

[24] https://www.gov.scot/publications/monthly-economic-brief-2/
[25] https://www.ippr.org/blog/outlook-for-scotlands-workforce-furlough-job-losses

Figure 2: IPPR estimates on job losses and furloughs



Notes: IPPR analysis. Total figures for job losses based on UK OBR estimate of job losses apportioned to Scotland based on ratio of Scotland unemployment to UK unemployment. Total figures for furlough based on OBR estimate of 30 per cent of employees expected to be furloughed. Job loss figures apportioned to different sectors by multiplying job numbers in Scotland by sector with forecasted UK percentage output changes, and then scaling to total number of job losses – with different assumptions used in Public Admin, Education and Health to reflect expected differing relationship between output and job losses as large public sector employers. Furlough figures are a constant multiple of job losses in each sector such that total furloughs are equal to the overall Scotland estimate, with the exception of health where we assume 10 per cent of private sector health workers will be furloughed. Estimates relate to the next quarter.

By the end of June 2020, there were 69,500 furloughed jobs in Edinburgh, an estimated 28% of all jobs (compared with 30% across Scotland)[26].

Travel and tourism

The latest 'State of the Economy' publication for Scotland noted that COVID-19 is expected to significantly impact international travel and tourism during 2020. The OECD estimate declines of 45 per cent to 70 per cent in international tourism in 2020, depending on the crisis' duration and the speed with which tourism recovers. Tourism analysts suggest it may be several years before international tourism volumes return to 2019 levels. This will all depend on the timing of relaxation of domestic social distancing and international movement controls, the timing of economic recovery, and by tourists' attitudes to travel. The OECD highlight the important role of domestic tourism in supporting recovery, but caution it may be difficult for this to fully compensate for reduced international visitor flows[27].

The publication noted that the impact of COVID-19 on Scotland's tourism sector has been rapid and significant. High profile events have been affected, including the Edinburgh Festivals in August and

[26] https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-june-2020
[27] https://www.gov.scot/publications/state-economy-april-2020/

COP26 in Glasgow in November. STR data for w/b 22nd March suggests hotel occupancy and room revenues in Scotland were around 80 per cent lower on average compared against the same week in 2019. Forward booking data for Edinburgh from STR also suggests lower levels of bookings under contract for May and June, compared against 2019[28].

The Council's Tourism and Hospitality Sector Recovery Plan[29] highlighted the significant impacts of Covid-19 on the City's tourism and hospitality sector:

- A reduction of between 50% - 70% in international arrival and tourism receipts (the Organisation of Economic Co-ordination and Development (OECD));
- Estimates of almost £1bn in visitor expenditure lost from the city's economy in 2020 (based on 2018 Performance Monitoring statistics);
- This loss equates to around 18,500 FTE; and
- Due to the dependence on international visitors, Edinburgh is facing a higher impact and potentially slower recovery than the rest of Scotland.

The plan developed by the Edinburgh Tourism Action Group (ETAG) working to the tourism Strategic Implementation Group (SIG) highlights the need for a collaborative approach for Edinburgh for resilience, reboot and recovery which recognises:

- The immediate priority is to protect public safety and public health and, as recovery begins, to recognise the impact that the pandemic will have on people's health and wellbeing over a significant period of time; and
- The need to move quickly to support the sector at this time but recognising that the plan must be built on strong foundations to support the longer-term ambitions set out in Edinburgh's 2030 Tourism Strategy with a partnership approach which focuses on sustainable, responsible tourism development and prioritises people, place, environment and reputation.

The Edinburgh economy

The latest Economic Briefing for Edinburgh (Sustainable economic recovery – insights and engagement), which mapped the latest Scotland projections onto Edinburgh, suggested that unemployment in Edinburgh would peak at between 7%-10% in late 2020, more than double the 2.8% rate recorded in 2019. That report identified almost 100,000 jobs in Edinburgh as in sectors rated as 'high risk' for coronavirus related disruption. It noted that 46% of businesses still trading in the UK had either no cash reserves or not enough to last the next 6 months. In Edinburgh that would equate to some 10,100 enterprises.

[28] STR, Weekly Accommodation Report, w/b 22nd March 2020 & STR, Business on the Books Report for Edinburgh, April 2020
[29] https://democracy.edinburgh.gov.uk/documents/s24327/6.9%20-%20Tourism%20and%20Hospitality%20Sector%20Recovery%20Plan-FINAL.pdf

The Economic Briefing notes that OCED analysis was carried out to identify the sectors in Scotland's labour market which are at highest risk. Those sectors at risk were identified as follows:

- Manufacturing – representing 9,000 jobs in Edinburgh
- Construction – 9,000 jobs in Edinburgh
- Retail and Wholesale – 36,000 jobs in Edinburgh
- Accommodation and food services (hotels, catering, and restaurants) – 33,000 jobs in Edinburgh
- Arts, entertainment and recreation – 11,000 jobs in Edinburgh

Around 28.3% of all jobs in Edinburgh are concentrated in these most exposed sectors, around 100,000 jobs in Edinburgh in total.

Sectors with lowest exposure to the impact of the Coronavirus include:

- Utilities supply and management - 4,000 jobs in Edinburgh
- Transport and Storage – 12,000 jobs in Edinburgh
- Information and Communication – 22,000 jobs in Edinburgh
- Financial, business and technical services – 72,000 jobs in Edinburgh

Collectively, these sectors represent a total of 110,000 jobs in Edinburgh.

Edinburgh's employment growth prior to 2019 was notably better than the Scottish average. Between 2010 and 2019, the number of people employed in Edinburgh has increased by 23% in Edinburgh compared to growth of 6% across Scotland as a whole[30].

The latest modelling suggests that if Edinburgh's economy follows this national trend that would represent a £3.5bn drop in output year on year, broadly equivalent to 50,000 jobs in the city. A longer recovery phase than previously anticipated is increasingly likely given the loss of productive capacity and the change in market conditions for many sectors of the economy.

[30] https://fraserofallander.org/scottish-economy/the-economic-rise-of-the-east-scotlands-powerhouse-region/

Incomes and poverty

Latest data from the Standard Life Foundation survey[31] in April 2020 showed that half of UK households thought they would struggle to meet financial commitments while 25% had lost a significant portion of their earnings since lock-down.

Analysis by the Treasury[32] of the potential impact of government interventions - additional benefits, the Job Retention Scheme and support for self-employed people have:

- supported the poorest working households the most (as a proportion of February income)
- been worth around a fifth of incomes for working households (on average)
- reduced the scale of losses for working households by up to two-thirds.

This provides some insights into the potential impacts of the removal of these support measures, over coming months.

Modelling by the National Institute for Economic and Social Research (NIESR)[33] predicted that, at the aggregate level, destitution is projected to be about three times higher than the non-COVID counterfactual level in Q2 of 2020, as well as substantially higher than the non-COVID case for the remainder of the year. This increased destitution is initially largely due to the effect on the self-employed, and as the Furlough scheme is drawn down, also on the unemployed. Those from disadvantaged areas and backgrounds, such as those from poorer families, most affected industrial sectors and low-paid employees are suffering most.

Research by IPPR also considered the impacts of Covid-19 on poverty. The key results from that analysis estimate that over 1 million more people will be under the pre-Covid poverty line compared to a situation where the pandemic had not occurred, including 200,000 children, at the end of 2020. This central scenario estimate also suggests an unemployment rate of 9.8% and 10% of private sector employees having a reduction in their working hours[34].

The Resolution Foundation also found that nearly one-third of lower-paid employees had lost jobs or been furloughed, compared to less than one-in-ten top earners, with these experiences also more common among atypical employees (including those with variable hours and zero-hour contracts)[35].

In Edinburgh[36] the Edinburgh Poverty Commission has examined Poverty and Coronavirus in Edinburgh and found evidence to suggest that the impact of the COVID measures on income security and

[31] https://www.standardlifefoundation.org.uk/our-work/financial-tracker/coronavirus-financial-tracker/april
[32] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/898420/Impact_of_COVID-19_on_working_household_incomes.pdf
[33] https://www.niesr.ac.uk/publications/covid-19-impacts-destitution-uk
[34] https://www.ippr.org/files/2020-06/estimating-poverty-impacts-of-coronavirus.pdf
[35] https://www.resolutionfoundation.org/publications/the-effects-of-the-coronavirus-crisis-on-workers/
[36] https://democracy.edinburgh.gov.uk/documents/s24320/6.6%20-%20Edinburgh%20Poverty%20Commission%20report%20and%20appendix.docx.pdf

unemployment and economic activity in Edinburgh will be unprecedented. The report noted a body of concerning evidence:

- Scottish unemployment expected to more than double...which could mean an additional 13,000 people unemployed in Edinburgh during 2020
- 23% of UK businesses have paused or ceased trading, while 29% are 'not sure' their business has the financial resources to survive this crisis
- 1,200 Scottish Welfare Fund applications per week in Edinburgh since lockdown began – 3 times the usual average
- Universal Credit claims at peak were up by eight to nine times the volume immediately pre-crisis, while the number of advance payments peaked at five to six times the pre-crisis number.

They report data from the Standard Life Foundation on financial difficulties -

- More than half of all households believe they will struggle to meet their financial commitments during this crisis
- 64% of those in serious financial difficulty are renters, 31% are homeowners
- 1 in 5 have already used credit to pay for food and other expenses[37].

The commission report also noted Resolution Foundation research that low earners, women, parents, and young people are most likely to be exposed to loss of income and increased health risk during this crisis[38]:

- People on low incomes are 2.4 times more likely to work in shutdown sectors, than higher earners
- 23% of women work in shutdown sectors, compared to 16% of men
- 16-24-year-olds workers are twice as likely to be working in shutdown sectors as the rest of the workforce
- Nearly half of all people on zero-hours contracts work in shutdown sectors
- Two-thirds of working single parents are in jobs bearing the greatest economic and health risks.

The report also highlights research on the relative disadvantage experienced by young black, Asian and ethnic minority workers, being more likely to be on a zero hours contract and less likely to have a permanent contract than their white peer group[39]. UK BAME groups are also at a significantly higher

[37] https://www.standardlifefoundation.org.uk/our-work/financial-tracker/coronavirus-financial-tracker/april
[38] https://www.resolutionfoundation.org/publications/risky-business/
[39] https://www.ucl.ac.uk/news/2020/mar/bame-millennials-greater-risk-being-unstable-employment

risk of developing and dying from coronavirus[40]. There is also a higher impact on health in the most deprived areas, with death rates in those areas more than double the rate recorded in affluent areas[41].

The Poverty Commission report noted that rapid and compassionate steps were taken by City of Edinburgh Council and the Scottish Government to provide security for those concerned about rent arrears, those in temporary accommodation and rough sleeping. The report identifies the challenge of responding to people who fear having stored up debt during this period, or who may revert back to previous insecurity.

The commission report notes the need to ensure continuity in supports in place and gains made in temporary accommodation and rough-sleeping, to work with employers and rebuild the economy to be fairer, with a decent income for all. They call for bold action and radical thinking, such as a Citizen's Basic Income and a redesign of systems and culture to build wellbeing for individuals and communities.

[40] https://www.kingsfund.org.uk/blog/2020/04/ethnic-minority-deaths-covid-19

[41] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deathsinvolvingcovid19bylocalareasanddeprivation/deathsoccurringbetween1marchand17april#english-index-of-multiple-deprivation