

# Phase 1: Housing Delivery on the Isle of Wight

Dr Adam Cox, Dr Alan Leonard and Professor David Pickernell



**UNIVERSITY OF  
PORTSMOUTH**

Prepared on behalf of the University of Portsmouth  
Enterprise Ltd.  
by the Economics and Finance Department,  
Portsmouth Business and Law School,  
University of Portsmouth.

## Phase 1: Housing Delivery on the Isle of Wight

### Executive Summary

- This project delivers an assessment of the impact of physical separation from the UK mainland on the delivery of housing on the Isle of Wight.
- In order to undertake this it develops a resource that describe the social, economic and environmental impact of physical separation on the island relative to nearby mainland areas and comparable places in England, and applies this specifically in relation to the delivery of new housing on the Island.
- It is an independent and objective assessment, based on data and information that is analysed and explained, resulting in a more informed and credible understanding of these factors, that can underpin and influence strategic planning and actions at a local and national level.

### **Phase One**, delivered 30<sup>th</sup> August 2019,

- Identifies and explains the significant factors that impact housing delivery on the Isle of Wight, focusing on the direct impacts of physical separation.
- The significance of these factors as influences on the delivery of housing is rated, with the findings presented in a SWOT analysis with a summary analysis of each factor.
- This report draws on academic literature, consultancy reports and policy papers to identify and guide the key factors, with direction from the Island Plan Review Board group to determine the Island specific nature of factors. The available data and information from various sources has been combined and analysed to produce objective insights and conclusions.
- The current situation is considered, including
  - How much and the type of housing that is being delivered versus housing need.
  - The relative cost and availability of input factors,
  - Available infrastructure
  - Demand for housing
  - Ability to pay
  - Planning,
  - Land banking
  - Actions of housing associations and housebuilders on the Island.

### **Phase Two**, due 31<sup>st</sup> October 2019

- Phase Two will evaluate the priorities identified and agreed in Phase 1 using established econometrics techniques and / or more qualitative techniques such as interviews.
- A detailed analysis and in-depth investigation of significant and critical factors will be conducted.
- Possible remedies and opportunities will be presented.

## **Phase One**

### **1. Introduction**

This report draws on academic literature, consultancy reports and policy papers to identify and guide the key factors, with direction from the Island Plan Review Board group to determine the Island specific nature of factors. The available data and information from various sources has been combined and analysed to produce objective insights and conclusions.

Key elements of relevance include, the consequences of the Isle of Wight's island status, the demand for housing in the context of demographic trends, the nature of the supply side for housing in the context of the structure of the construction industry, and the availability of the required supporting infrastructures in the context of post 2008 economic crisis government policies.

### **2. The significant factors that impact housing delivery on the Isle of Wight, based on analysis of the current situation.**

#### ***a. The direct impacts of physical separation***

A recent study conducted into the economic impacts of island status by several of the authors (Cox, Leonard & Wohlschlegel, 2019), identified the costs of being an island. If the Isle of Wight were attached to the mainland (i.e. not an island), then it would need to spend between 17-26% less on public service provision. In addition, however, among businesses currently operating on the Island there also appears to be a common perception of unavoidable limits to achieving economies of scale or scope. This leads to stable but slow growth, where companies engaged in the local market are limited by the size of it and those engaged with external markets are limited by constraints in the input of production (mainly, but not solely human-capital related).

Moreover, the extra cost of importing materials and skills is reflected in the discussion of supply constraints below. Given the lack of a fixed link, and the lack of Island production of many of the raw materials used in housebuilding, there is a clear additional cost to importing materials. While there is a direct cost impact in terms of additional haulage/delivery, there will likely be further indirect costs related to the additional time for critical items and materials to be sourced and the subsequent further delays in construction.

#### ***b. Demand: How much and the type of housing that is being delivered versus housing need.***

The objectively assessed housing requirement identified using the Government's Standard methodology has increased the number of houses the Council needs to ensure are built from 525 to 641 per year. However, this does not take into account the large deficit built up over the period of the current Core Strategy (adopted March 2012). The Council states in its draft island planning strategy that there has been a shortfall in delivery against the identified objectively assessed need figure on the Island during the life of the Island Plan Core Strategy. Their Monitoring Report indicates that there seems to be a ceiling when it comes to the delivery of housing, as it has averaged around the 400 dwellings per year mark over this period (which is clearly substantially below the 525 target and even further below the new 675 target. This clearly identifies the scale of the challenge being faced, suggesting the requirement for a 60% increase in the actual annual housebuilding taking place.

**Table 1: Housing Completions since the adoption of the Island Plan Core Strategy**

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Market	222	268	298	246	382	287	342	
Affordable	196	141	112	150	35	34	18	
Total	418	409	410	396	417	321	360	407 (projected)

In the Council report, it is suggested that this might indicate a saturation point for the Island's housing market. As can be seen in Table 1, however, there has been a very significant reduction in the amount of “affordable” housing being built, which is key in this debate. Currently there are 2,525 households on the housing register (August 2019). With 300 to 400 re-lets per year, it is clear that there is a much greater need for affordable housing than is being met within the current housing stock.

The situation with regards to market housing demand is also complicated by issues of migration and changing demographics. Specifically, property prices on the Isle of Wight, although cheaper than many areas of the South East remain unaffordable for many local households.<sup>1</sup> The Island's affordability ratio has actually worsened across the whole market over the last decade. The affordability conundrum is further explored in section 6.

Conversely, the Isle of Wight is an attractive place to live, particularly for retirees who are less affected by the transport issues created by the transport infrastructure for commuting and the relatively narrow employment opportunities offered on the Island compared to the South East region. The commuting limitation is illustrated by only 5.5% of Island residents in employment relying on ferries for daily commuting to the mainland, while less than 4% of Island jobs are taken by in-commuters.

For every 1,000 usual residents on the Isle of Wight, 48 people from outside the area have a second home on the Island. This is the largest proportion for any Unitary Authority in the South East, and is the joint 18th highest in England, similar to North Dorset and East Devon. However, most telling is that 48% of these are for holiday homes, and only 4% for work, compared to the national average of 11% and 12%.<sup>2</sup> The proportion of non-residents with second homes on the Isle of Wight specifically for holidays was the joint ninth highest in England, similar to the Cotswolds and greater than Cornwall. This is equivalent to 3,177 people from outside the local area with holiday homes on the Island.

Furthermore, the tourism industry may have some adverse effects on housing in terms of the existing stock being used for tourism purposes, rather than the needs of local residents, and the loss of potential building land to campsites and caravan pitches (see TSE Research, 2017).

Whilst the Island has long been one of the UK's most popular holiday destinations for people of all ages, the local residential population is heavily skewed towards those over 65. The average age

<sup>1</sup> Median house prices are a third lower on the Island than those in the neighbouring South East.

<sup>2</sup> 2011 Census: Number of people with second addresses in local authorities in England and Wales, March 2011

<https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/2011censusnumberofpeoplewithsecondaddressesinlocalauthoritiesinenglandandwales/2012-10-22>

on the Island is 44.5 years, putting it in the oldest 20% of local authority areas nationally and significantly older than other local areas. The growth in the Isle of Wight's resident population has been driven by the expansion in the number of residents aged over 65, with an absolute decline in those of working age and below. Furthermore, those of working age are often in seasonal, low paid jobs and there is a perceived brain drain of young educated people. These trends are predicted to continue for the next two decades, in part due to the Island's attractiveness as a retirement location.<sup>3</sup> Therefore, the population of the Island shows an increasingly ageing demographic profile with significant levels of chronic disease. This, of course, creates specific issues concerning housebuilding (e.g. accessibility) as outlined in the Island's Extra Care Strategy.

What this suggests, therefore, is that under current assumptions the strongest local need for housing is likely to be in the affordable housing category, whilst higher priced market housing is more likely driven by the continuing ageing demographic and retirement with a consequent need for housing types with the facilities to cater for that demographic in particular.

**c. Supply: The relative cost and availability of input factors**

Added to these demand side issues there are also supply side factors, often exacerbated by the island status. In summary, these are identified as being:

- Relative lack of construction skills on the Island
- Extra cost of importing materials and skills
- Unrealistic land values
- Limited appropriate land (over half the Island is designated areas of outstanding natural beauty (AONB)).
- Lack of, or slow delivery of permissions
- Lower returns on investment which affects the type of housebuilders available
- Actions of housing associations and housebuilders on the Island.

In terms of construction, in the 1960s and 1970s, competition in the construction industry tended to be between companies (those who made components and finished products), resulting in large integrated enterprises. The 1980 and 1990s saw the occurrence of outsourcing of components and assembly work, creating *extended enterprises* made up of multiple firms along an extended supply chain. The structure of the industry, across Britain, has thus seen dramatic changes from one dominated by large contractors to a 'highly flexible system that uses subcontractors for a large percentage of the work' (Miller et al 2001:16). Competition, therefore, is now 'between clusters of interrelated organisations that add and generate value through co-operation' (Carrie, 1999:45:50). This move towards integrated business activity, Carrie (1999:45:50) states, demands that managers 'recognise the interdependence of all the stakeholders in the economic infrastructure of their part of the world'. Given the small firm nature of the industry, it is unsurprising that there are particular training issues in the construction industry. Kitching (2008) noted that, in contrast to larger organisations, the small and medium sized enterprise (SME) sector generally has been characterised as having fewer dedicated training departments and budgets (Kitching & Blackburn, 2002), inferior levels of work-based training provision (Hoque and Bacon, 2006), lower numbers of qualified employees (Kitson & Wilkinson, 2003), and less participation in government training schemes (Matlay, 2004). Miller et al (2004) identified that the government itself (DfEE (2000a) argued that the skills required by the construction industry were escalating at a time when

---

<sup>3</sup> Isle of Wight Council, Isle of Wight Regeneration Strategy: Inspiration Island, 2019.

spending on training has been reduced. Indeed, construction suffers more than most industries from skills shortages and lack of training, as far back as 2000 the industry having the highest percentage of skills shortages within the UK, with Small Construction Enterprises in particular failing to train employees in both technical and generic skills (DfEE, 2000a, 2000b).

As Miller et al (2004) also point out, however, given the adversarial nature of the industry, which is dominated by 'arms-length' contracts not conducive to high survival rates; it is likely that training initiatives could consequently easily be rendered ineffective. Given the nature of the market and the skills issue, it is important to note that the council itself is moving to establish a housing delivery company that can use public sector assets as pump primers. Whilst it is exploring accelerating delivery by using modular construction methods, it could also look at ways to encourage and develop the skills base, particularly where a greater supply of more socially owned housing may create increased and long term demand for repair and maintenance construction activities that may be attractive as a way to encourage supply of construction workers. Currently the relatively high use of off island construction labour (at likely premium cost for housebuilders in comparison with costs faced in Hampshire for example), is likely to also increase overall construction costs.

Given the lack of a fixed link, and the lack of on-island production of many of the raw materials used in housebuilding, there is a clear additional cost to import materials.

Considering the above, land values can be seen to be unrealistically high. This is understandable given the perceived relative lack of land available for development, given much of the island's AONB status. This is exacerbated by relatively slow permissions to build being granted, though it must also be highlighted that there are also over 2,000 homes consented across the Island, which are yet to be commenced (equivalent to 5 years supply at current build rates). Furthermore, planning is not deemed a particularly powerful hindrance to housing construction according to national comparators on the speed and quality of local planning decisions.<sup>4</sup> However, the nature of changes to housing policy and national planning policy is cited by some as a contribution to lower delivery of affordable housing.<sup>5</sup> Moreover, such planning constraints do not appear to be because of the island status, or at least are not unique to the Isle of Wight.

Collectively, this highlights the increased costs/limitations of physically building new housing on the Island.<sup>6</sup> Furthermore, house prices and rental rates are deemed to be relatively high compared to Island income, but are relatively low if looking at return on investment.<sup>7</sup> These two issues combine to create the perfect storm of low returns on investment. This in turn severely limits the attractiveness of the Isle of Wight as a place to build, and further reduces the interest of the larger housebuilders from delivering on the Island.

---

<sup>4</sup> Isle of Wight: 84.4% within 13 weeks or within agreed time without penalty for missing data (2017-2019), only slightly below the national average of 88%, or 241st out of 338 districts. Table P151: district and 'county matters' planning authorities performance - speed of major development decisions

Quality of decisions (% overturned at appeal) - IoW only 3% for district, (but highest (33%) at county level - although only based on 1 out of 3 applications. Table P152: district and 'county matters' planning authorities performance - quality of major development decisions

<sup>5</sup> Isle of Wight Council, Delivering Affordable Homes For Island Families, 2017.

<sup>6</sup> Isle of Wight Council, Delivering Affordable Homes For Island Families, 2017.

"All providers were agreed that build costs on the Isle of Wight are significantly higher than on the mainland and that this problem was exacerbated by a lack of labour skills, exaggerated expectations of land value from landowners, lower rental streams and lower sales values of finished properties compared to the mainland."

<sup>7</sup> Isle of Wight Council, Delivering Affordable Homes For Island Families, 2017. "ONS: For 2016 the sale value per square metre of properties on the Isle of Wight was £2188. In comparison sale value in Portsmouth was £2400, in Southampton £2647, in Havant £2747 and in East Hampshire £3545."

Because of the relatively low returns likely generated by the combination of higher land values and building costs, it is therefore perhaps unsurprising if a degree of landbanking is occurring. Similarly, that only one major UK housebuilder (Barratts David Wilson) exists on the Island. The consequence being that the vast majority of the housing developments under way or planned are being delivered by small housebuilders (including self-build) resulting in very small number of houses per year being delivered per site, and a lack of economies of scale possible (See Phase 1 & 2: Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery). In terms of evidence, in 2015 the BCIS completed a report into housing costs on small development sites, concluding that building costs on sites of 10 or fewer homes were 6% higher than the norm, the large proportion of developments on the Island being sites such as this exacerbating the problem. Furthermore, a period of removing the contribution towards affordable housing paid by developers on small scale (9 or fewer homes) projects further restricted the delivery of affordable housing in recent years. However, financial contributions towards affordable housing from all relevant development schemes are being collected again, see adopted Core Strategy policy DM4.

The Isle of Wight currently has four registered providers of specialist and affordable housing. Sovereign Housing association, Southern Housing association, Vectis Housing and Island Cottages. Clearly, the figures show that there has been a particular issue concerning the building of social housing. For example, costs are typically higher, with a market built house costing £/sqm 1,070 whilst Housing Association houses cost £/sqm 1,330, not least because housing association specification are often higher than market housing, due to inclusion of renewable energy provision, high levels on insulation, disabled accessible bathrooms and kitchens etc. Interestingly, of course, it is these provisions that may also become increasingly necessary for market housing on the Isle of Wight, given the demographic situation. In addition, whilst the Isle of Wight Council currently has a target of 35% of all new homes being affordable, the 'Campaign to Protect Rural England' recently carried out research that suggested that the average rural authority needed 68% of new homes to be affordable. Whilst this figure is more reflective of the reality for the Isle of Wight also, with developers arguing that even the 35% target is not achievable due to viability problems, it is unrealistic to set a higher target despite the need, creating an obvious, real and growing problem.

One solution that might bring these issues together would be a prefabrication based solution. Creating a prefabrication factory on the Island (either from scratch or by partnering with an existing manufacturer to open their own factory on the Island to deliver prefabricated homes) would require the factory to produce and deliver at least 100 units per annum to achieve viability. The most obvious solution would be a council led / supported-social housing based solution which might also have the advantage of reducing the "burden" on private housebuilders to deliver social housing which affects their returns on investment.

#### ***d. Available infrastructure***

The availability of the necessary supporting infrastructure is also more difficult to provide on the Island. This is strongly related to island status that makes road infrastructure more difficult to fund, but also includes the "soft infrastructure services" that increased housebuilding and the ageing demographic will also require. Due to generally lower wages on the Island and lower levels of performance in areas such as education and health provision, it has been difficult to attract professionals, including doctors, dentists, and teachers.

Employment on the Isle of Wight is expected to increase by approximately 230 jobs a year to 2036, a growth rate of nearly 8%, which is broadly similar to the LEP average, but is nowhere near as

great as the increased population estimates.<sup>8</sup> Unsurprisingly, most of this growth is anticipated in areas reflecting the ageing population trend and tourism sectors. Whilst improving the housing stock and offering the right types of accommodation in locations that will attract such professionals, can contribute to improving the situation, the increasing housing stock itself requires improved health and education infrastructure to support it. These services are predominantly public sector driven and thus subject to the fiscal constraints imposed since the 2008 financial crisis.

---

<sup>8</sup> Oxford Economics in Isle of Wight Council, Draft Island Planning Strategy Development Plan, 2018.



### 3. The impact on the wider economy

Prior to rating the significance of factors as influences on the delivery of housing, consideration needs to be given to the potential impact on the economy. The opportunity to use housing to generate economic growth is likely to be facilitated by measures to increase employment, community involvement, and the standard of local services.

The statistics show that on the Isle of Wight, there is a relatively low economic activity rate; relatively low unemployment; high numbers in self-employment and high numbers in part-time work. The figures also show that relatively few people on the Isle of Wight are employed in construction.

**Table 2: 2018 Statistics For Isle of Wight Compared to UK, South East and Cornwall**

Variable	Isle of Wight (%)	UK (%)	South East (%)	Cornwall (%)
All People Aged 16-64	57.1	62.9	61.8	58.6
Economically Active:	77.1	78.7	81.1	78.4
In employment	73.6	75.4	78.4	76.4
Employees	59.6	64.4	66.2	59.3
Self Employed	13.6	10.7	11.9	16.6
Unemployed	3.7	4.1	3.3	2.7
Economically Inactive (selected)				
Retired (Aged 16-64)	15.8	13.1	15.6	16.4
Long term Sick	28.4	22.9	18.9	27.6
Want a job	33.6	20.6	22.0	29.4
Of those in Employment:-				
Part Time	40.8	32.5	33.8	39.6
Employed in Construction	4.6	4.8	5.5	6.3

Source: <https://www.nomisweb.co.uk/reports/lmp/la/1946157281/report.aspx>

The general implications of this labour market structure for the Isle of Wight are:

- The local multipliers from construction related activities will be lowered to the extent that skills shortages necessitate bringing in workers from outside the area.
- Conversely, this may be seen as an opportunity to strengthen full time work (construction disproportionately being full time oriented), and build on the already strong self-employed sector of the economy.

Policies to develop the efficiency, competitiveness and size of the construction sector through investment will therefore be important in both maximising the impact of housing investment, and determining the extent to which the targets for housebuilding can be met.

- Initial assessments suggest current contracting arrangements are often undertaken with businesses outside of the Isle of Wight but within the Solent LEP area. Evidence also suggests that there is significant porosity in the boundaries of the Isle of Wight council in relation to the construction industry.
- The ageing population demographic suggests there is less 'slack' in the labour market within the Isle of Wight than is typically the case in the UK more broadly. This means that there are fewer unemployed residents who will be available to undertake training places within the construction industry where these are related to housing investment.
- Construction industry firms are generally small. This indicates that there is a need to develop external support mechanisms for training and development stages of programmes to maximise economic impact and ensure delivery of housing.
- There are opportunities for expanding expertise within local companies on the Isle of Wight, which are necessary given the limited ability to subsequently win work in neighbouring local authorities because of the implications of island status.

Maximising the benefit of housing investment for the Isle of Wight is in part dependent on ensuring that the demand for additional employment in the construction sector to meet the housing targets is met by local supply. This could be through demand being met by local business as opposed to external contractors, thus limiting the leakage of profits. In addition, there is the potential to meet local employment and training outcomes by linking these with contractual specifications. Possible mechanisms through which to develop local economic benefits from housing investment are as follows:-

### **Local Labour in Construction (LLiC)- Typeschemes**

The LLiC approach works by specifying local labour requirements (normally focused on unemployed local residents) in tenders or contracts with builders and suppliers. LLiCs link local job training, apprenticeship and job matching schemes to construction contracts.

### **Intermediate Labour Markets (ILMs)**

ILMs also aim to achieve economic and social regeneration through employment training and physical improvement. ILM schemes tend to focus on social housing estates, and seek to develop the standard of housing and the environment, while simultaneously producing training and employment outcomes. They do this by offering a bridge back to the world of work by improving participants' general employability through 'real world' work experience.

### **Resident Services Organisation (RSO) models**

RSOs are community-led organisations that aim to create employment from ongoing revenue sources such as taking on local repairs and maintenance contracts. Because of this, RSOs can set much longer-term goals and programmes. A RSO normally focuses on a particular neighbourhood, delivering services that are either needed but not being provided, or are being provided but inadequately and could be provided better by local people. RSOs work by employing local residents, and by targeting jobs and training at those who might otherwise remain excluded from the labour market. By doing so, an RSO aims to create transitional employment, offering some of its jobs as a stepping-stone to help trainee employees move on to other, more secure jobs outside the neighbourhood.

### **The Social Economy**

The wider social economy could also offer mechanisms through which to maximise the economic impact of housing investment. Core social economy activities include New Mutuals (specifically

credit unions); Community Regeneration Organisations and Social Trading Organisations. Where housing investment is forthcoming, there is the potential for direct and indirect interventions by the social economy to help retain that investment in the most deprived areas, promoting long-term economic stability. The social economy is capable of creating a number of job and training opportunities; providing local services that may not be supplied by the private or public sectors; creating the conditions for an enterprise culture; creating and retaining wealth in communities through financial and recycling projects; and reinvesting profit in the specified area or community to promote social values

### **Procurement strategies to meet community needs**

Procurement strategies that offer economies of scale, such as through joint purchasing can offer economic benefit to the Isle of Wight. In addition, LLiCs, ILMs, RSOs and the social economy can benefit from procurement strategies pursued by local authorities or registered providers of social housing (RPs). However, the legal framework for procurement is complex and limits how community benefit may be gained. Community benefit clauses and other innovative forms of contracting can help to provide greater local economic and community benefit, particularly from investment in social housing. However, these clauses within contracts must be applied in accordance with procurement rules that have been created by the EU and UK governments.

#### 4. SWOT Analysis

The findings are presented in a SWOT analysis, below, with a summary analysis of each factor.

**Table: SWOT Analysis of Housing Related Issues on Isle of Wight**

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>● <b>Supply Side</b> <ul style="list-style-type: none"> <li>○ Range of small local market housebuilders</li> <li>○ Number of social housing associations</li> </ul> </li> <li>● <b>Demand Side</b> <ul style="list-style-type: none"> <li>○ Abundant demand from non-residents, the Island remains an attractive place to live</li> </ul> </li> <li>● Detailed existing analysis by council of the issues surrounding housing provision</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>● <b>Supply Side</b> <ul style="list-style-type: none"> <li>○ Relative lack of construction skills and raw materials</li> <li>○ Extra cost of importing materials and skills</li> <li>○ Unrealistically high land values</li> <li>○ Perception of limited appropriate land (over half the Island is designated AONB)</li> <li>○ Lack of, or slow delivery of permissions</li> <li>○ Lower returns on investment which affects the type of housebuilders available</li> <li>○ Limited current activities of both housing associations and market house builders on the Island.</li> </ul> </li> <li>● <b>Demand side</b> patterns in terms of cost of housing relative to ability to pay affecting attractiveness of market housing and consequent demand for social / affordable housing</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>● Potential of Council-driven housing delivery company</li> <li>● Prefabrication factory on the Island, with related social housing and skills development abilities and economic development maximisation capabilities</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>● Uncompensated Island Status issues (particularly those related to public sector provision)</li> <li>● Availability of supporting infrastructures (Transport, Health, Education provisions) given their reliance on government policy</li> <li>● Continuation of current employment and demographic trends</li> <li>● Imposition of a high requirement for housing delivery that even if deliverable, may not improve affordability for Island residents.</li> </ul>

This analysis shows, unsurprisingly, the much greater number of weaknesses and threats when compared to strengths and opportunities respectively.

In terms of weaknesses

- **Supply side** weaknesses are multiple and currently (along with demand patterns) create a multiple set of feedbacks leading to a system that is unlikely unable to deliver the housebuilding required to meet targets. The relative lack of construction skills and raw materials available on the island leads to the incursion of extra construction costs due to the need to import materials and skills at higher cost. This is compounded by the higher costs of land due to unrealistically high land values, perceptions of limited appropriate land, and lack of, or slow delivery of permissions, which given the inability to pass on in the form of higher house prices (for reasons discussed in the demand weaknesses below), leads to lower returns on investment, affecting the type of housebuilders available, specifically reducing the current activities of both housing associations and market house builders on the Island, and leading there to be only one scale housebuilder to be currently building.
- **Demand side patterns** complete this negative system by removing the ability to compensate for higher housebuilding costs in higher prices, because of the high cost of existing housing relative to ability to pay, which reduces the attractiveness of market housing and increases the consequent demand for social / affordable housing. Current demographic trends reinforce this.

In terms of threats

- **Uncompensated Island Status** issues (particularly those related to public sector provision) threaten the ability of the Council to deliver the necessary supporting infrastructures (Transport, Health, Education provisions),
- The capacity for self-generation of the necessary funds to deliver the **supporting infrastructures** is limited by the Island's economic structures and consequent reliance on UK government policy which must be considered uncertain in the current economic and political environment,
- The continuation of current relatively low **paid employment and ageing demographic trends** is likely to exacerbate demand patterns in particular,
- The imposition of a **high requirement for housing delivery** that even if deliverable, may not improve affordability for Island residents if they continue to be bought as second homes / retirement properties by non-residents. Moreover, the imposition of a higher housing requirement (above the ceiling of circa 400 properties a year) may result in a detrimental change to the unique character and nature of the Island that is key to its attractiveness. Furthermore, this would feedback to the overstretched supporting infrastructure of the Island.

In terms of strengths,

- Supply side strengths include the **range of small housebuilders**, currently in operation on the Island, which might make them more amenable to council-driven housebuilding policy, particularly where this can be linked to mutual benefit. Similarly there are a **range of social housing associations** operating on the Island, the current lack of social housebuilding, again possibly making them more amenable to a council supported housebuilding policy, if it can be seen to deliver the quantity and quality of social housing required through a partnership-based approach,
- The demand side strengths are that the Island remains an attractive and competitively priced **destination for non-residents**. There is plentiful demand for a range of housing on the Island, from professionals looking for larger family homes to those wishing to retire

there, and those wanting second homes for holidays. This could be interpreted as a threat if it negatively impacts or severely distorts the local housing market.

- The **detailed analysis** of the housebuilding situation provides a key strength in terms of providing an evidence and strategy base from which future policy could be developed.

In terms of opportunities

There is some clear evidence of market failure in the Island's housing market. This demonstrates the need, and strengthens the argument, for some form of intervention.

- There is clear potential for a **Council-driven housing delivery company**.
- The pent up demand for affordable housing is also an opportunity that can be exploited to provide an ongoing pipeline of developments to attract a prefabrication factory to the Island.

These opportunities, in concert with the Regeneration Strategy for the Island, can work towards making the Island an inspiring place to live, work and visit. Furthermore, there are direct impacts in terms of addressing supply side skills development, and promoting greater local economic development through construction and maintenance activities that can ultimately support higher locally sourced activities and locally retained taxation returns.

Moreover, there are opportunities for other ways to intervene in the housing market, such as supporting the demand side in terms of affordability and enabling access to finance, e.g. through help-to-buy and shared ownership schemes, local building societies or community banks.

## 5. Rating the significance of factors as influences on the delivery of housing

Factor	Significance of constraint on delivery of housing	Island specific issue / unique to the authority	Overall rating
The relative cost and availability of input factors: construction materials	High	Island specific issue	<b>Red</b>
The relative cost and availability of input factors: labour	High	Island specific issue & unique to the authority	<b>Red:</b> Could be overcome with appropriate training
The relative cost and availability of input factors: land	High	Not entirely unique, but exacerbates other factors	<b>Amber</b>
Available infrastructure	Low	Some Island specific difficulties regarding highways & limited spillover opportunities	<b>Green/Amber:</b> Could be overcome with appropriate funding
Demand for housing: residents  In terms of the inability to command high rental and sales prices	High	High demand for affordable housing not unique to the Isle of Wight, but the barriers to accessing alternative housing/locations is an Island specific issue	<b>Red</b>
Demand for housing: non-residents	Medium	High demand from non-residents, particularly as second homes or retirement properties, not unique to the Island, but does exacerbate other factors	<b>Amber:</b> While demand for housing by non-residents has significant knock-on effects on affordability for residents, and the type of housing provided, it does positively affect the number of houses delivered.
Demand for housing: the type of housing	High	Yes - in terms of the more extreme ageing demography, although is also observed in some other authorities.	<b>Red</b>
Planning	Low	Not unique to the Island	<b>Green</b>

Factor	Significance of constraint on delivery of housing	Island specific issue / unique to the authority	Overall rating
Land banking	Medium	Not unique to the Island	<b>Green:</b> Seen as a symptom more than a cause.
Actions of housing associations and house builders on the Island.	Medium/High	Unique to the Island	<b>Amber:</b> Seen as a symptom more than a cause.
Return on investment	High	Unique to the Island: in terms of the extreme combinations of high cost and low revenue, particularly within the regional context (higher return on investment in the South East region).	<b>Red</b>

### Summary

There are a number of highly significant constraints to delivering housing on the Island, that are either unique to the Island or the local authority. However it is the combination of these adverse factors that collectively and cumulatively contribute to the low delivery of housing.

This is perhaps best summarised by the perceived low return on investment. By definition, this is a measure made up of contributing factors, in this case high cost and low revenue. The high cost appears to be driven in large part, but not entirely, by the physical separation of the Island. The potentially low revenue is driven by the market conditions. Housing on the Island typically has a lower sales price, compared to neighbouring areas and at a regional level, but is still unaffordable to those working on the Island. It is believed that this low return on investment, a measure which can easily be compared to other competing areas/projects, is acting as a deterrent to other national housebuilders from entering the market.

However, there are developers and housing associations that do continue to operate on the Island, so there are clearly other limitations to delivering housing on the Island.

The second phase will delve deeper into these factors and aim to answer the following questions:

- What is limiting those that do operate on the Island?
- What is stopping other developers and national housebuilders from operating on the Island?

Furthermore, phase two will scope out some of the potential opportunities and options available, including the impact of a prefabrication factory located on the Island.



## 6. Understanding the local housing need figure (Standard Method)

The National Planning Policy Framework expects authorities to follow the standard method to calculate a minimum annual local housing need figure.

The Standard Method is not mandatory, and alternative calculations can be used in exceptional circumstances but will be scrutinised more closely at examination. The authority would need to demonstrate, using robust evidence, that the figure is based on realistic assumptions of demographic growth and that there are exceptional local circumstances.<sup>9</sup>

The standard method begins with the average annual household growth projections over a ten year period. This figure is then adjusted upwards to account for affordability. For every 1% the most recent median workplace-based affordability ratios is over 4, there is an upwards adjustment of 0.25% to the average annual household growth figure.

The Housing Need Assessment prepared by GL Hearn (2018) calculated the minimum annual local housing need figure as 641. This was based on 2014-based Household Projections of an additional 525 households per annum, and a 2016 workplace-based affordability ratio on the Island of 7.52, resulting in an adjustment factor of 22%. No cap was applied.

Using the most up to date (allowable) data equates to a minimum annual local housing need figure of 610. This is determined by a lower household growth rate of 483 households a year (based on the time period 2019-2029 using the 2014 based household projections), but a higher median workplace-based affordability ratio in 2018 of 8.2, resulting in a higher upwards adjustment of 26.3%.

In essence, the Standard Method is based on meeting the household growth prediction and an additional penalty (more housing required) if the area is deemed unaffordable (based on the ratio of median workplace-based earnings to house prices). The rationale being that an increase in the number of homes built will reduce house prices and rebalance the affordability ratio.

Therefore, there are two potentially discriminatory assumptions that need to be understood. Firstly, the household growth projection on the Island includes in-migration.

Secondly, there is an assumption that the affordability of local residents (workplace based) is a meaningful measure and can be tackled by building more homes, even if those residents are not the ones buying them. Ironically, the second assumption actually does consider an authority as an isolated island<sup>10</sup> where there is little opportunity for in- or out-migration. In the case of the Isle of Wight, there is considerable evidence that there is strong demand from outside the authority. Part of the reason for this being the already low house prices and favourable affordability ratios when compared to the wider region. Furthermore, it appears to be the case that local working age residents are leaving the Island in order to pursue higher incomes and opportunities only available on the mainland.

---

<sup>9</sup> Scope for challenges to the methodology as there have already been some adjustments by central government. For example, restricting the household projections to 2014, rather than the more recent (2016), but lower, projections that would have resulted in missing the national housebuilding target.

<sup>10</sup> An argument that the Isle of Wight Council has been putting forward in regards to the increased cost that isolation imposes on public sector service provision.

### ***Affordability***

It is useful to see the 'affordability' of the Island in the wider context of housing demand coming from the mainland. For example, median earnings in Hampshire and the South East are close to 25% higher than the Isle of Wight, and house prices on the Isle of Wight are more than a third cheaper.

Therefore, if Hampshire or South East England median workplace-based earnings are used in place of the Island figures, then the affordability ratio of the Island comes closer to 6.6 in 2018. Furthermore, this is in comparison to a ratio of over 10 in these areas on the mainland. While the difference between the Isle of Wight and the England average is less stark, Isle of Wight house prices are still 15% cheaper and median earnings in England close to 20% higher. The affordability ratio using national average earnings also drops to 6.8 on the Island, down from 8 nationally.

Therefore, the second phase intends to address the following question: If more housing was delivered, and this resulted in lower house prices on the Island, would this allow local residents to purchase them or would this simply fuel the demand from the mainland? The outcome of the latter being that local residents would still not benefit from the lower house prices. In order to address this question, the second phase will delve more deeply into the inward and outward migration figures on the Island and assess the impact on the housing market.

## References

Cox, A., Leonard, A., & Wohlschlegel, A. (2019). Quantifying the cost of foregone public goods spillovers on an island. *Regional Studies*, 53(8), 1170-1182.

Bendoni, G., Cox, A., Leonard, A., & Wohlschlegel, A. (2017). Phase 1 & 2: Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery.

Carrie, A. (1999), Integrated clusters – the future basis of competition. *International Journal of Agile Management Systems*, 1(1), 45-50

DCLG (2017), Fixing our broken housing market.

DfEE (2000a) Skills for All, Research report from the National Skills Task Force, DfEE, London.

DfEE (2000b) Skills Dialogues: Listening to Employers. An Assessment of Skill Needs in Construction and Related Industries, DfEE, London.

GL Hearn (2018), Housing Need Assessment Final Report, Isle of Wight.

GVA Grimley (2008), Isle of Wight Council Housing Development Viability Testing Study.

Hoque, K., Bacon, N. (2006). The antecedents of training activity in British small and medium-sized enterprises. *Work, Employment and Society*, 20, 531–552.

Isle of Wight Council, Core Strategy: Monitoring Reports for 2017/18.

Isle of Wight Council, Delivering Affordable Homes For Island Families: The report of the Task and Finish group on Affordable Housing for the Policy and Scrutiny Committee for Regeneration, Housing, Planning and the Environment, 2017.

Isle of Wight Council, Delivering the Housing We Need: Policies background paper, 2018.

Isle of Wight Council, Draft Island Planning Strategy Development Plan, 2018.

Isle of Wight Council, Extra Care Housing Strategy 2017-2032.

Isle of Wight Council, Five Year Land Supply Update 2018.

Isle of Wight Council, Island Plan: The Isle of Wight Council Core Strategy (including Minerals & Waste) and Development Management Policies DPD adopted March 2012.

Isle of Wight Council, Isle of Wight Regeneration Strategy: Inspiration Island, 2019.

Isle of Wight Council, Strategic Housing Land Availability Assessment, 2018.

Kitching, J. (2008). Rethinking UK small employers' skills policies and the role of workplace learning. *International Journal of Training and Development*, 12, 100–120.

Kitching, J., Blackburn, R. (1999). Management training and networking in small and medium-sized enterprises in three European regions: implications for business support. *Environment and Planning C: Government and Policy*, 17, 621–635.

Kitson, M., Wilkinson, F. (2003). “Labour mobility, training and labour force flexibility”, in Enterprise Challenged Eds A Cosh, A Hughes (ESRC Centre for Business Research, Cambridge University), 32–44.

Matlay, H., (2004), Contemporary training initiatives in Britain: a small business perspective. *Journal of Small Business and Enterprise Development*, 11, 504–513.

Miller, C., Packham, G., and Thomas, B. (2001). Understanding Small Construction Enterprises in Wales. In Miller, Packham and Thomas (2001). *The Small Business of Construction*. Welsh Enterprise Institute Monograph. University of Glamorgan Business School, October 2001.

Miller, C. J., Packham, G. A., Pickernell, D. G., & MCGovern, M. (2004). Building for the future: the potential importance of the construction industry in Welsh economic development policy. *Construction Management and Economics*, 22(5), 533-540.

TSE Research, Isle of Wight Visitor Accommodation Audit 2017.