

Local affordability issues for working households buying their first home

This study provides a range of analyses of the difficulties working households, aged 20 to 39, faced in buying a first home in every local authority area of Great Britain in 2005. It follows on from earlier studies conducted for the JRF in each year since 2002. It includes an assessment of the scope for 'intermediate housing market' products, to help working households which cannot afford to buy in the open market, and shows the impact of mobility in London as a means of coping with affordability problems.

- House-price-to-household-income ratios for all working households are at record levels. While the impact of higher house prices was softened by low interest rates in 2005, mortgage-cost-to-income ratios reached the same peak levels as those experienced in 1990.
- House-price-to-household-income ratios for younger working households exceeded five to one in 78 areas; more than twice as many as in 2004. The highest 2005 ratios were in Kensington & Chelsea, North Cornwall, Ryedale, North Norfolk and the City of London.
- In 51 areas more than two in five younger working households have incomes sufficient to pay a social rent without relying on housing benefit, but still cannot afford to buy at lowest decile house prices. The least affordable areas on this measure are Penwith, Carrick, South Buckinghamshire, Kerrier and Mole Valley.
- While house-price-to-income ratios are highest in London, access to home ownership is most problematic in the South West. The South East as a whole is almost as unaffordable as London and the South West, and there are unaffordable 'hot spots' in all regions.
- After allowing for the potential for households in London to move to a cheaper nearby area, the least affordable base areas are Brent and Waltham Forest. In contrast, residents of Hammersmith & Fulham could move to much cheaper accommodation in Hounslow, significantly increasing the proportion of working households that could buy at the lower end of the market.



The full report includes an analysis of house-price-to-income ratios, and mortgage-cost-to-income ratios over time, and a local analysis of house-price-to-income ratios in every local authority area in Great Britain (except the Isles of Scilly) in 2005 (covered by the first two bullet points on the front page of this *Findings*).

However, most of this *Findings* focuses on the analysis of intermediate housing markets, and the potential for housing mobility to ease affordability constraints, especially in large conurbations.

The intermediate housing market

The local authority analyses are based on local prices for two- and three-bedroom homes and the incomes of younger working households aged 20-39 (the vast majority of first-time buyers). While the house-price-to-income ratios are based on mean average house prices, the intermediate housing market (IHM) analysis is based on lowest decile and lower quarter house prices.

The report measures the IHM in each local authority in two ways:

- **Broad definition:** the proportion of working households in each area unable to purchase at lower quarter house prices for two- and three-bedroom homes.
- **Narrow definition:** the proportion of working households in each area who can afford to pay a social rent without housing benefit but cannot buy at lowest decile house prices for two- and three-bedroom homes.

Figure 1 shows the relationship between these measures.

Based on recent averages, this analysis assumes first-time buyers have: a maximum mortgage of 3.75 times household income for households with one adult earner, or 3.25 times household income for those with two (or more) adult earners; an 18 per cent deposit.

Regional intermediate housing markets

Almost three out of every five younger working households in London, the South East and the South West cannot afford to buy at lower quarter house prices, and fall into the broader IHM (see Figure 2). While in 2004 London was the least affordable region on this measure, in 2005 the South West became marginally less affordable than London and the South East. In the South West, 11 per cent could not pay a social rent without housing benefit, 37 per cent fell into the narrow IHM, and 9 per cent could afford to buy at lowest decile house prices, but not at lower quarter prices.

On the average house-price-to-income ratios measure, the South West was marginally less affordable than London. This is reversed in the IHM analyses, due to rather greater differentials in both house prices and incomes in London compared with the South West. These different results analyses indicate the limitations of any policy based on a single measure of affordability.

However, in overall terms, affordability worsened in 2005. There are more working households in the IHM than in 2004, and more areas with very high proportions of working households in the IHM. In 2004 there were 40 areas with more than 40 per cent of all younger working households in the IHM; in 2005 there were 51.

Local intermediate housing markets

Table 1 shows all the areas where over 45 per cent of younger working households can afford to pay a social rent without housing benefit but cannot buy at lowest decile house prices for two- and three-bedroom homes (the 'narrow IHM'). Over half of these are in the South West (13), with 8 in the South East and 2 in London, joined by North Norfolk in the East and Ryedale in Yorkshire & Humber.

Figure 1: **Broad and narrow intermediate housing markets**

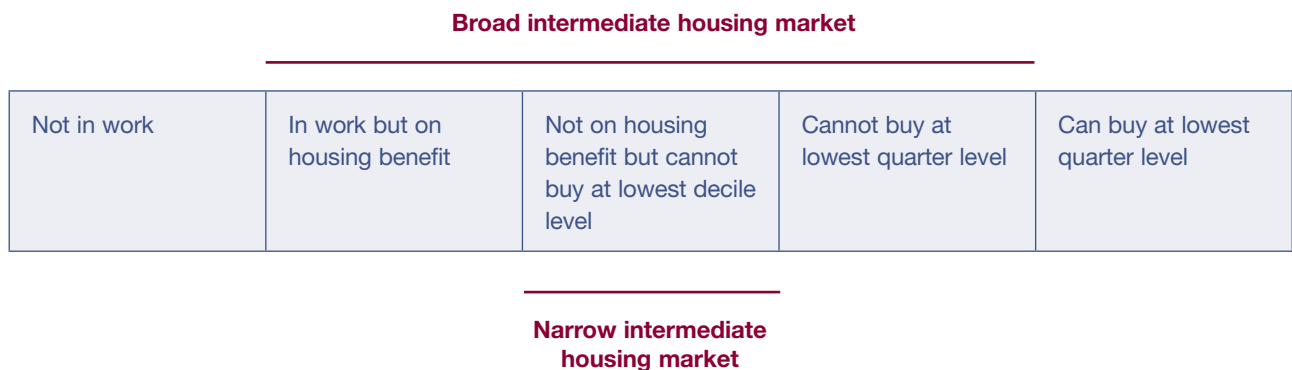
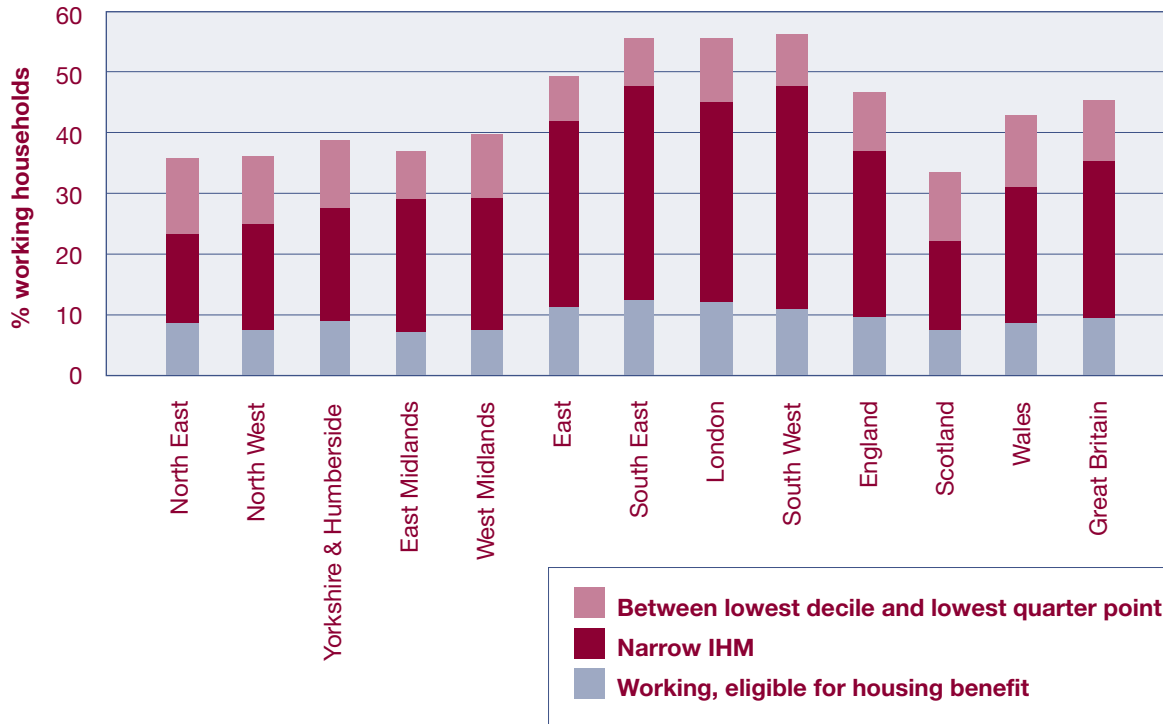


Figure 2: **Broad and narrow intermediate housing market**



The two authorities with the highest proportion of younger working households in the narrow IHM are both in the South West (Penwith and Carrick); in eight areas more than a half of all younger working households fall within the narrow IHM. In London, Kensington & Chelsea and Hammersmith & Fulham and, in the South East, South Buckinghamshire and Mole Valley are the highest ranked.

Map 1 shows the extent of the narrowly defined IHM in every local authority area in Great Britain. Two areas – Burnley and Shetland Islands – have no narrowly defined IHM (any household that can afford to pay a social rent without housing benefit can automatically afford to buy at lowest decile house prices). The narrow IHM comprised no more than 5 per cent of all younger working households in a further ten areas. Overall, Scotland is the most affordable part of Great Britain.

The mobility option

Many households resolve the dilemma of affordability by moving to a cheaper area. This is clearly easier in large cities with good transport, where it is relatively easy to commute to work.

The opposite is the case in many rural areas: small towns and villages may be both remote from their nearest neighbour and poorly served (if at all) by public transport. In those areas this report, based on local-authority-wide measures, will tend to understate the extent of the very localised difficulties that require investment in affordable rural housing schemes.

To illustrate the potential impact of mobility in easing affordability in large cities analysis of the IHM in London took an alternative approach. This assumed that the younger working households in London could move to a contiguous borough (or district) if there were cheaper housing in that area. The results from this analysis are significantly different to those examining households' capacity to purchase only within their current locality. Table 2 compares the rankings.

Hammersmith & Fulham is the least affordable area in terms of the proportion of younger working households able to buy at lowest quarter house prices. However, if those households are able and willing to move to the cheaper contiguous borough of Hounslow their prospects of buying are significantly enhanced. On that basis Hammersmith & Fulham slips to 17th place in the affordability rankings in London.

Similarly, Camden is the second least affordable area for younger working households. However, if they can move to next-door Haringey their prospects of buying improve to the extent that Camden slips to 23rd place in the affordability rankings in London.

Conversely residents in some of the (relatively) cheaper areas in London cannot improve their housing prospects in this way as they are bordered by more expensive boroughs. For example, Barking & Dagenham, ranked only 26th in London on the basis of the ability of working households to buy locally, moves up to 11th if account

Table 1: Areas with the highest proportion of younger working households in the ‘narrow’ intermediate housing market (Percentage of working households)

	Local authority	Region	The intermediate housing market			
			Narrow definition	Broad definition	Can afford social rent without housing benefit but not to buy at lowest decile	Can buy in lowest decile but not lowest quarter
1	Penwith	SW	55.7	73.2	8.6	8.9
2	Carrick	SW	54.0	71.8	8.3	9.5
3	South Bucks	SE	52.1	66.0	7.5	6.5
4	Kerrier	SW	52.0	70.0	9.7	8.3
5	Mole Valley	SE	51.1	72.0	14.4	6.5
6	Brighton & Hove	SE	50.8	71.3	9.9	10.6
7	Kensington & Chelsea	Lon	50.6	68.4	6.4	11.4
8	Christchurch	SW	50.2	77.0	16.6	10.3
9	Adur	SE	49.7	76.1	19.5	6.9
10	Torridge	SW	49.5	68.0	9.6	8.9
11	East Devon	SW	49.5	66.4	10.9	6.0
12	Restormel	SW	48.3	67.8	14.0	5.5
13	Teignbridge	SW	48.3	67.5	10.6	8.6
14	Epsom & Ewell	SE	48.0	65.8	11.1	6.6
15	West Somerset	SW	47.5	72.2	13.4	11.2
16	Bournemouth	SW	47.5	75.0	17.1	10.5
17	North Norfolk	East	46.4	74.1	14.8	12.9
18	Waverley	SE	46.0	61.4	7.4	7.9
19	North Cornwall	SW	45.8	69.6	14.1	9.7
20	Ryedale	Y&H	45.5	75.3	19.6	10.1
21	Weymouth & Portland	SW	45.3	62.4	10.4	6.7
22	Worthing	SE	45.2	60.8	9.5	6.1
23	Hammersmith & Fulham	Lon	45.1	75.4	11.6	18.7
24	Woking	SE	45.0	60.6	11.0	4.6
25	Exeter	SW	45.0	64.9	9.9	10.0

is taken of the potential for households to move to cheaper contiguous areas.

However, under this measure, the least affordable areas in London are those where neighbouring areas are only marginally cheaper. On this basis the least affordable area in London is Brent, even after taking account of the potential for moving to slightly cheaper Haringey. Similarly Waltham Forest becomes the second least affordable area in London, taking account of the potential for moving to Hackney and Newham.

Taking London as a whole, some 46 per cent of younger working households could still not afford to buy at lower quarter house prices even if they were able to move to a cheaper contiguous area, compared with 56 per cent who could not afford to buy locally. Similarly, some 36 per cent could not afford to buy

at even lowest decile prices by moving to a cheaper neighbouring area, compared with 45% that could not afford to buy at those prices locally. In other words, even assuming this degree of mobility, affordability in London remains highly problematic.

About the project

The study was undertaken by Professor Steve Wilcox of the Centre for Housing Policy, University of York. It broadly follows, but refines, the 2002, 2003 and 2004 analyses previously undertaken for the JRF. It draws on Survey of Mortgage Lender house price data, and Expenditure and Food Survey, Labour Force Survey and New Earnings Survey data to compute local household incomes.

Map 1: **Percentage of younger working households in the 'narrow intermediate housing market'**

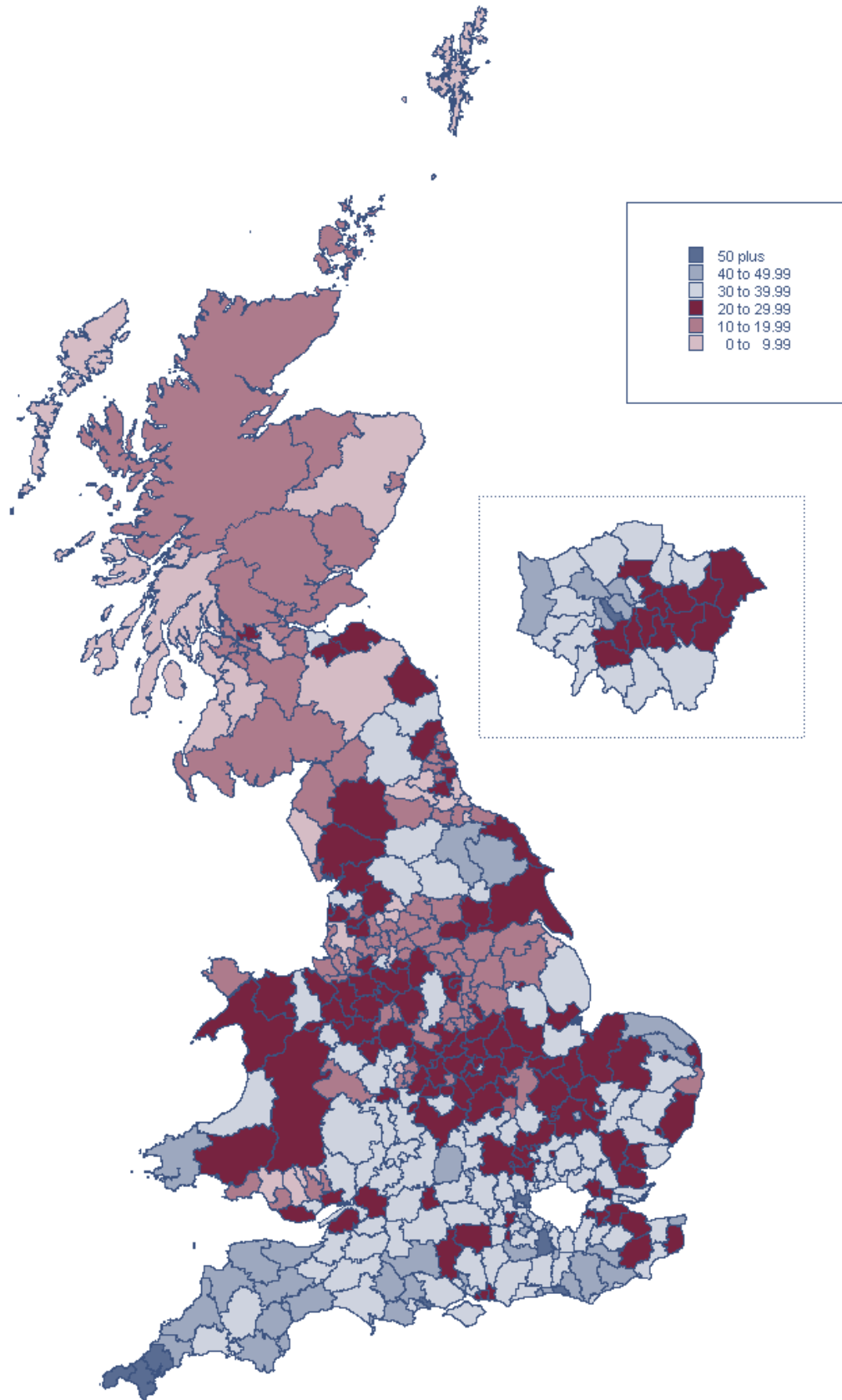


Table 2: Proportion of younger working households in London unable to buy at lower quarter house prices

	In local area		In local or contiguous area	
	%	Ranking	%	Ranking
Barking & Dagenham	50.2	26	50.2	11
Barnet	60.7	8	50.5	10
Bexley	39.4	32	35.3	30
Brent	68.2	5	60.2	1
Bromley	52.0	23	39.7	24
Camden	70.3	2	41.3	23
City of London	69.1	3	34.3	32
Croydon	53.0	20	53.1	5
Ealing	57.9	13	51.8	7
Enfield	60.1	9	56.6	3
Greenwich	47.3	30	41.9	22
Hackney	54.4	18	51.4	8
Hammersmith & Fulham	75.4	1	46.1	17
Haringey	57.2	15	51.8	6
Harrow	56.2	16	47.5	15
Havering	35.5	33	29.7	33
Hillingdon	55.9	17	53.7	4
Hounslow	58.6	11	48.0	13
Islington	59.4	10	37.5	28
Kensington & Chelsea	68.4	4	35.6	29
Kingston upon Thames	53.4	19	42.7	21
Lambeth	51.1	24	46.4	16
Lewisham	50.6	25	47.5	14
Merton	44.8	31	39.4	25
Newham	58.3	12	50.8	9
Redbridge	57.7	14	43.5	20
Richmond-upon-Thames	49.3	27	34.6	31
Southwark	53.0	21	48.1	12
Sutton	47.4	29	45.8	18
Tower Hamlets	49.1	28	45.2	19
Waltham Forest	66.1	6	58.7	2
Wandsworth	52.1	22	38.3	27
Westminster	63.7	7	38.4	26

For more information

The full report, **The geography of affordable and unaffordable housing: Local measures of the limits to the ability of working households to become home owners** by Steve Wilcox, is published by the Joseph Rowntree Foundation.

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