

Limits to working households' ability to become home-owners

This study, by Steve Wilcox, analyses the difficulties working households under 40 face in becoming home-owners. Looking at 360 local authority areas of Great Britain, it quantifies the proportions of younger working households who cannot afford full ownership in the open market, with a view to better informing housing policies targeted at this 'intermediate housing market'. The analyses are based on 2004 local prices for two- to three-bedroom homes and the earnings of working households in each local authority area. The study found:

- In 40 local authority areas, 40 per cent or more of all younger working households can afford to pay more than a social sector rent, but still cannot afford to buy at the lowest decile (10 per cent) point of local house prices. These authorities are spread between London (13), the South East (15) and the South West (11), joined by Ryedale (Yorkshire & Humber). The least affordable areas are Weymouth & Portland, Bournemouth (both Dorset), South Buckinghamshire, Carrick (Cornwall), and Kensington & Chelsea and Harrow (both London).
- Affordability is most problematic in London, with house-price-to-household-income ratios lower than four to one in only two areas (Bexley and Havering). Outside London, affordability is as problematic in the South West as in the South East.
- By contrast, in 13 areas only 1 per cent or less of all younger working households cannot afford to buy at the lowest decile point of local house prices. Financial support for home-ownership in those areas might best be justified in terms of social inclusion or regeneration objectives rather than in terms of affordability.
- The researcher suggests redefining intermediate housing markets as 'working households able to pay a social rent without relying on housing benefit, but unable to afford to buy at the lowest decile point of local house prices'. This market comprises just over a fifth of all younger working households in Great Britain, ranging from 35 per cent in London to just 7 per cent in the North East of England.



Background

The full study involved an analysis of house-price-to-income ratios, 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 2004. Detailed figures are available in the full report. This *Findings* focuses on the report’s analysis of ‘intermediate housing markets’ – working households who cannot afford full ownership.

Previous analyses have measured intermediate housing markets by, in effect, taking a given product (for example, shared ownership) and identifying the households able to afford that particular product but unable to buy a home outright. This study takes a new approach. It aims to provide a more comprehensive, needs-based assessment of the intermediate housing market; this might inform better targeting of housing market policies and products.

The 2004 analyses in the study are based on local house prices for two- and three-bedroom homes and the incomes of younger working households aged 20-39 (the vast majority of first-time buyers). They comprise:

- The house-price-to-income ratios analysis: mean average household incomes and house prices.
- The intermediate housing market (IHM) analysis: working households unable to buy at the lowest decile and lower quarter points of local prices.

Measuring the intermediate housing market (IHM)

The study identifies two ways of measuring the IHM in each local authority:

- **Broad definition:** the proportion of working households in each area who cannot afford to buy at the lower quarter point of house prices for two- and three-bedroom homes. This includes three sub-sectors: working households unable to afford social housing rent without housing benefit; households in the narrowly defined IHM (see below); and households able to afford to buy the lowest decile point of house prices, but not at the lowest quarter point.
- **Narrow definition:** the proportion of working households in each area who can afford social housing rent without housing benefit but cannot afford to buy at the lowest decile point of house prices for two- and three-bedroom dwellings.

Figure 1 shows the relationship between these measures.

Based on 2004 data on mortgage advances, this analysis assumes a maximum mortgage of 3.75 x household income for working households with one earner and 3.25 x household income for households with two (or more) earners. The analysis also assumes an 18 per cent deposit (the recent average level for deposits by first-time buyers).

Regional intermediate housing markets

Three out of five younger working households in London cannot afford to buy at the lowest quarter point of house prices and thus fall into the broader IHM (see Figure 2). Of this group:

- 12 per cent cannot afford social housing rent without housing benefit.

Figure 1: Broad and narrow intermediate housing markets

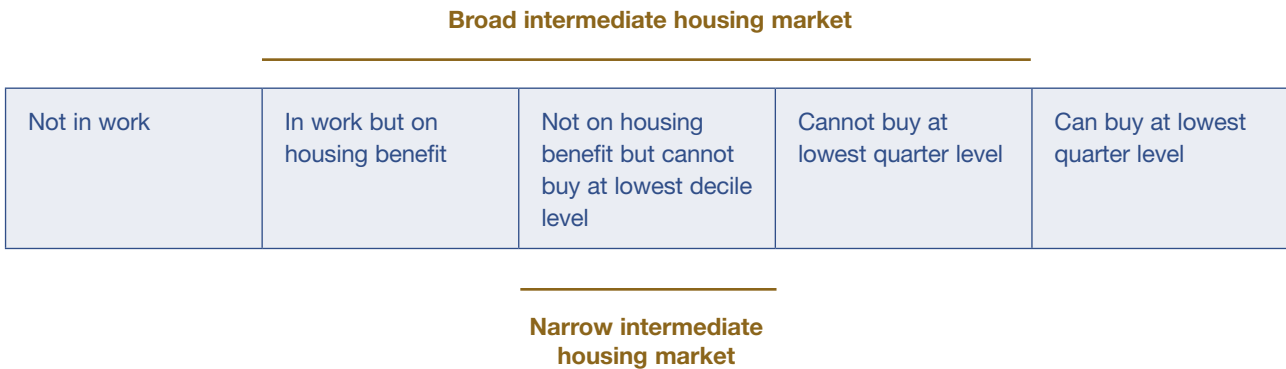
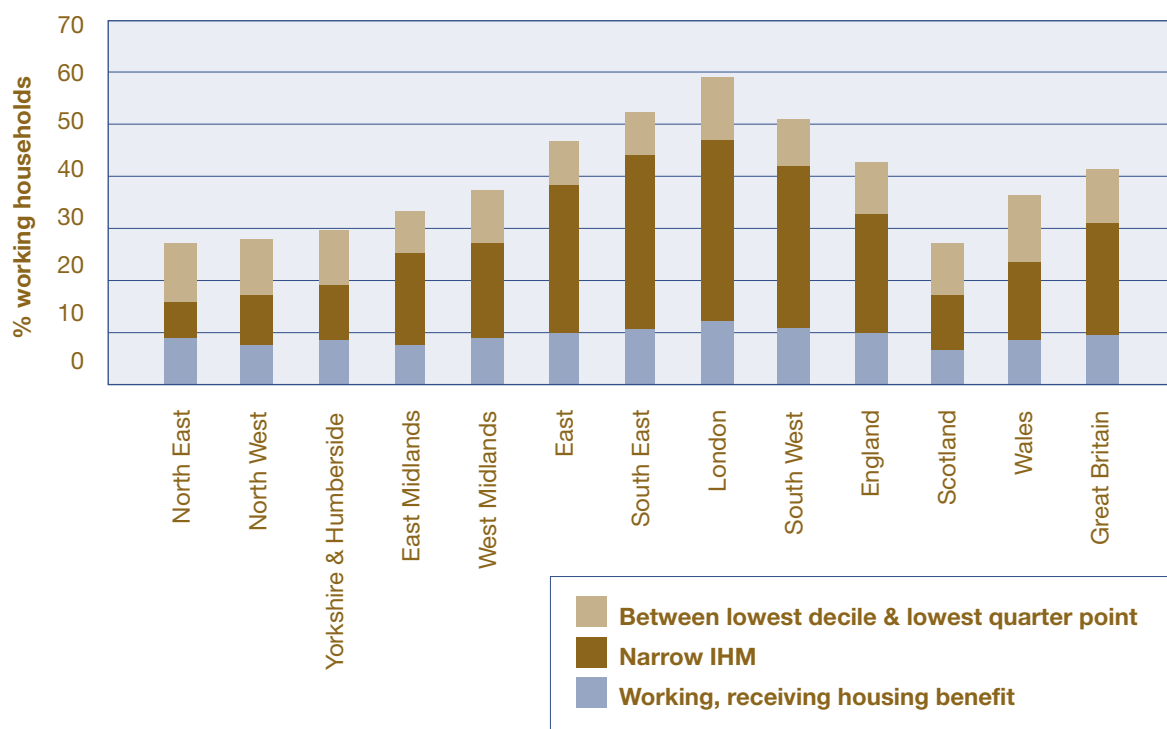


Figure 2: Broad and narrow intermediate housing markets



- 35 per cent can afford social housing rent without housing benefit but cannot afford to buy at the lowest decile (10 per cent) point of local house prices.
- 12.5 per cent can afford to buy at the lowest decile point of local house prices but not at the lowest quarter point.

Outside London, the South East and the South West have the highest proportion of younger working households falling into an intermediate housing market. Under this analysis, slightly more younger buyers face affordability difficulties in the South East (52.9 per cent) than do in the South West (51.5 per cent).

In contrast, average house-price-to-working-household-income ratios are higher in the South West than in the South East. These different results are due to the greater differential between lowest decile point, lowest quarter point, and mean house prices in the South West compared with the South East, and the broader range of earnings in the South East compared with the South West.

The different results from these two analyses indicate the limitations of any policy based solely on a single measure of housing market affordability.

Local intermediate housing markets

Table 1 shows the top 40 authorities ranked by the (highest) proportion of younger working households within the narrow IHM. These represent all the areas where the narrow IHM represents 40 per cent or more of all younger working households. These authorities are pretty evenly split between London (13), the South East (15) and the South West (11), joined by Ryedale from Yorkshire & Humber region.

Three of the four authorities with the highest proportion of younger working households in the narrow IHM are in the South West. In two of those areas (Weymouth & Portland and Bournemouth) more than half of all younger working households fall into the narrow IHM.

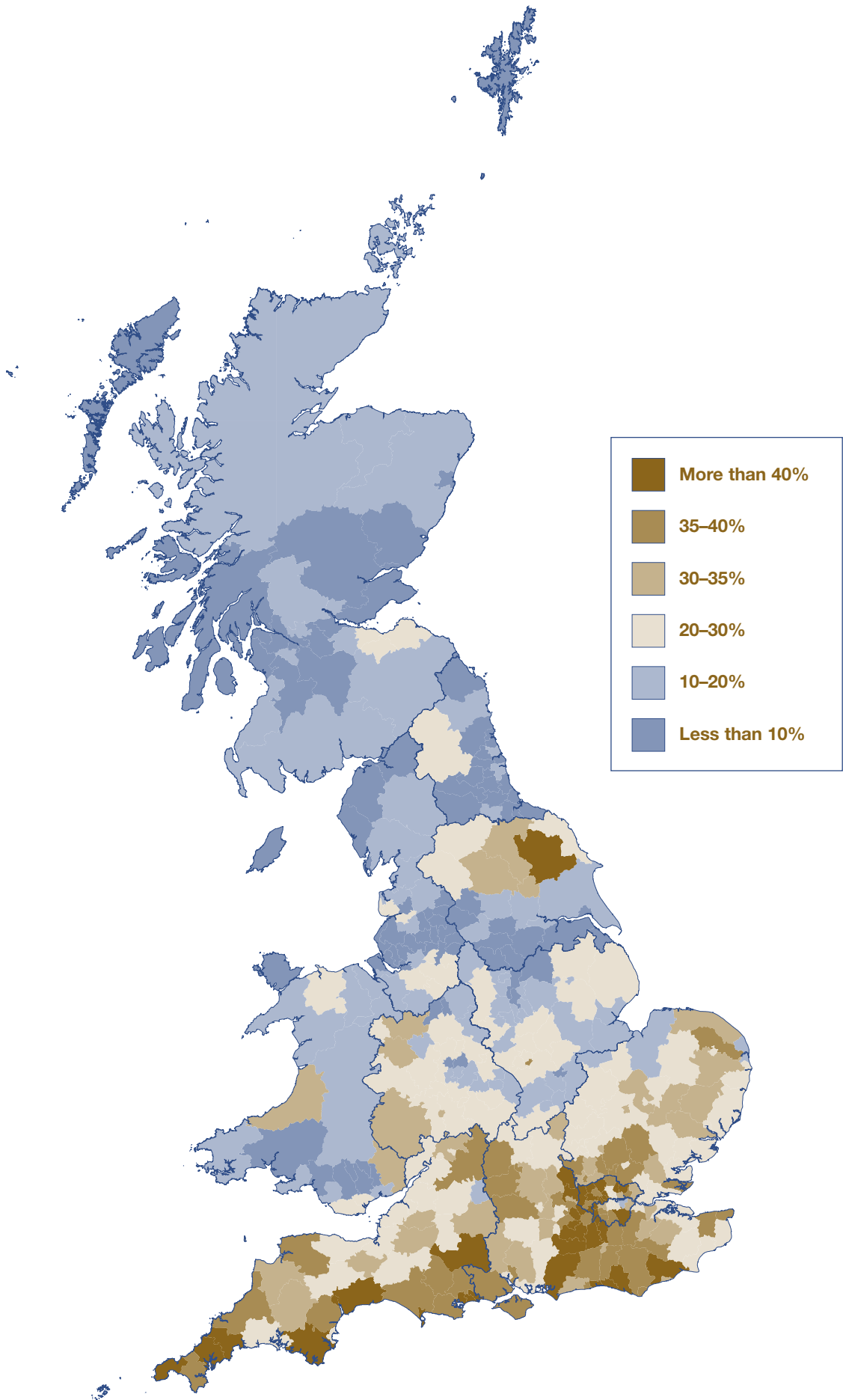
In London, the areas with the largest proportions in the narrow IHM are Kensington & Chelsea and Harrow. In the South East, the areas with the largest proportions are Mole Valley and Brighton & Hove.

Table 1: Households under 40 in the ‘narrow’ Intermediate Housing Market

	Local authority area	Region	The ‘narrow’ Intermediate Housing Market*
1	Weymouth & Portland	SW	54.6
2	Bournemouth UA	SW	51.6
3	South Buckinghamshire	SE	49.2
4	Carrick	SW	49.0
5	Kensington & Chelsea	Lon	48.8
6	Harrow	Lon	48.8
7	Restormel	SW	48.7
8	Mole Valley	SE	47.7
9	South Hams	SW	47.7
10	Brighton & Hove UA	SE	47.3
11	Chichester	SE	47.1
12	Penwith	SW	47.0
13	Epsom & Ewell	SE	46.2
14	Barnet	Lon	46.0
15	Kingston upon Thames	Lon	45.6
16	Hillingdon	Lon	45.4
17	Christchurch	SW	44.6
18	Westminster	Lon	44.2
19	Salisbury	SW	43.7
20	Adur	SE	43.5
21	Guildford	SE	43.3
22	Runnymede	SE	42.7
23	Hammersmith & Fulham	Lon	42.3
24	Camden	Lon	42.0
25	Richmond upon Thames	Lon	41.8
26	Waltham Forest	Lon	41.7
27	Exeter	SW	41.4
28	Woking	SE	41.2
29	Reigate & Banstead	SE	41.0
30	Waverley	SE	40.9
31	Rother	SE	40.8
32	Bromley	Lon	40.8
33	Spelthorne	SE	40.7
34	Ryedale	Y&H	40.6
35	Poole UA	SW	40.6
36	Redbridge	Lon	40.5
37	East Devon	SW	40.5
38	Chiltern	SE	40.3
39	Ealing	Lon	40.2
40	Lewes	SE	40.0

* Percentage of working households under 40 with enough income to pay a social housing rent without relying on housing benefit, but unable to afford the lowest 10 per cent of house prices for local two- and three-bedroom homes.

Map 1: The extent of the narrow intermediate housing market for younger working households



In three areas - Copeland, Pendle and Middlesbrough - there is no intermediate housing market under the narrow definition. There are a further ten areas where the narrow IHM comprises only 1 per cent of all younger working households. Any investment in intermediate housing market products in those areas would clearly need to be justified primarily in terms of social inclusion or regeneration objectives.

The extent of the narrowly defined IHM in every local authority area in Great Britain is shown in Map 1.

Some policy issues

The analyses in the report amply make the case that, in many parts of Great Britain, there is a very large potential market for IHM schemes to bridge the divide between social renting and home-ownership. However, it adds the caution that many households may prefer to move to less expensive areas in order to become home-owners, rather than take up shared ownership or other IHM schemes in the area where they currently reside. This option is clearly more available in conurbations such as London and areas with good transport links, and far less so in rural districts.

It also argues that IHM schemes should try to focus more on the households that cannot afford to purchase at the very lowest end of the market (i.e. at the lowest decile price). IHM schemes which enable households who could, in any event, afford to purchase at the very lowest end of the market to move into more expensive areas do have a social inclusion rationale, but they contribute more to meeting household preferences than housing needs.

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, 2002 and 2003 analyses previously undertaken for the Foundation. 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.

For further information

The full report, **Affordability and the intermediate housing market: Local measures for all local authority areas in Great Britain** by Steve Wilcox, is published by the Joseph Rowntree Foundation (ISBN 1 85935 242 1, price £9.95).

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