

Affordability differences by area for working households buying their homes

This study comprises three complementary analyses that demonstrate the local difficulties working households face in accessing home ownership in every local authority area in England. The study, by Steve Wilcox at the University of York, is based on local prices for four/five-room dwellings at the end of 2002. It includes residence-based data from the New Earnings Survey not previously available. The results challenge prevailing assumptions and policies.

-  The ratio of house price to household income for working households (aged between 20 and 39) exceeds five to one in thirty-three local authority areas in England. The highest ratios are in Westminster, Camden, Islington, Kensington & Chelsea, Hackney and Purbeck in Dorset.
-  Fewer than one in five working households can afford to buy properties at the lower quartile of house prices in nineteen authorities. The least affordable areas are Westminster, Purbeck, Camden, Hammersmith & Fulham, Islington and North Devon.
-  Access to home ownership is most difficult in London, with house price to household income ratios below four to one in only three authorities: City of London, Barking & Dagenham and Merton. Only in six areas can more than thirty per cent of all working households afford to buy at lower quartile house prices.
-  Outside London, access to home ownership is more difficult in the South West Region than in the South East. The house price to household income ratio exceeds five to one in twelve areas in the South West, in one area in the South East, and in four areas in the East Region. Fewer than one in five working households can afford to buy in nine areas of the South West, but in only two areas in the South East and East Regions.
-  Affordability issues for key workers, however, are most acute in London and the South East. This is because their earnings are based on national pay scales, and London and other related salary supplements are insufficient to offset the higher housing costs in those areas. In forty-six areas, even a key worker couple with two incomes could not afford to buy at lower quartile house prices.

Background

This study comprises three separate but related analyses to provide consistent measures of the relative difficulties working households face in securing access to home ownership in each local authority in England. It is based on house prices for four/five-room dwellings in each area in the fourth quartile of 2002. It makes use of newly available residence-based local earnings data to calculate local household incomes for all working households with a household representative aged between 20 and 39.

The three analyses are:

- **The ratios analysis.** This computes house price to income ratios for every local authority in England. These are based on average house prices for four/five-room dwellings, and average household incomes for working households.
- **The access analysis.** This computes the proportion of working households in each local authority that would be unable to purchase a local four/five-room dwelling based on lower quartile prices.
- **The key worker analysis.** This identifies those local authorities where specified key workers would be unable to purchase a local four/five-room property based on lower quartile prices.

The ratios analysis

The average ratio of house price to income in England was 3.4 to 1, while regional average ratios range from 4.8 to 1 in London to just 2.3 to 1 in the North East Region.

It is of particular note that house price to income ratios are higher in the South West than in the South East. The average ratio in the South West is 4.2 to 1, while in the South East it is just 4.0 to 1. This is despite the average house price in the South East (£152,555) being 22.5% higher than that in the South West (£124,508).

However, the differential between the incomes of working households in the two regions are greater still. The average income of working households in the South East (£38,478) is 29.9% higher than that in the South West (£29,626). The forty individual areas with the highest ratios are ranked in Table 1.

The access analysis

The access analysis essentially relies on the same data sources as the ratios analysis. However, it uses *lower quartile* house price figures rather than the *mean* prices used in the ratios analysis.

It provides a measure of the numbers and

proportions of households that would be unable to purchase a four/five-room dwelling at the lowest price quartile. This provides a consistent relative measure of the difficulty in accessing home ownership in every local authority area in England.

The analysis assumes a maximum mortgage of three times household income for the working households with one representative in the 20-39 age bracket. This is based on long-standing lender conventions. A case could be made for assuming a slightly higher mortgage to income lender ratio, given the decline in interest rates. However, the 3 to 1 assumption is still significantly higher than the average for first-time buyers in 2001, which was just 2.3 to 1.

It should be recognised that a further proportion of working households would be able to purchase dwellings with prices below the lower quartile level for four/five-room dwellings. In many cases these would be smaller properties. Additionally, some households will be able to purchase where they can use significant savings to supplement their mortgage. The access calculations assume a deposit of only five per cent, roundly based on the lower quartile figure for deposits by first-time buyers.

If the analysis does not then provide an *absolute* measure of working households unable to purchase in any circumstances, it does provide a consistent measure of the *relative* difficulty of accessing even the lower end of the housing market. Table 2 shows the top forty authorities ranked by the proportion of working households unable to purchase. While many of the high-ranking authorities in the ratios analysis also have high ranking in the access analysis, there are some marked differences. These reflect variations in the distribution of house prices and incomes within each area.

Implications of ratios and access analyses

These findings contrast with the assertion in the government's recent sustainable communities report (*Sustainable communities: Building for the future*) that affordability issues are more acute in the South East than the South West. However, the analyses in that report were based on Land Registry house price data, which reflect the much smaller proportion of small dwellings in the South East compared to London and the South West.

The sustainable communities analysis was also based on regional earnings data based on the place of work. This therefore fails to take account of the impact of the predominantly high earners who commute into London from the South East. Place of

Table 1: Authorities with the highest house price to income ratios

Authority	Region	2002 prices for 4/5 room dwellings £	Working household incomes £	House price to income ratio
1 Westminster	Lon	448,382	56,625	7.92
2 Camden	Lon	439,968	62,061	7.09
3 Islington	Lon	329,198	47,360	6.95
4 Kensington & Chelsea	Lon	617,433	98,553	6.26
5 Hackney	Lon	203,570	34,902	5.83
6 Purbeck*	SW	151,386	27,154	5.58
7 Richmond Upon Thames	Lon	303,997	54,716	5.56
8 Ealing	Lon	233,428	42,587	5.48
9 Haringey	Lon	207,884	38,153	5.45
10 East Dorset	SW	176,639	32,440	5.45
11 Hillingdon	Lon	193,556	35,681	5.42
12 Harrow	Lon	205,974	38,437	5.36
13 Epsom & Ewell	SE	203,895	38,177	5.34
14 Three Rivers	East	205,715	38,861	5.29
15 Tower Hamlets	Lon	233,415	44,260	5.27
16 Hounslow	Lon	207,868	39,512	5.26
17 Cotswold	SW	166,013	31,641	5.25
18 Southwark	Lon	202,909	38,710	5.24
19 Hertsmere	East	191,924	36,796	5.22
20 Torbay	SW	115,953	22,293	5.20
21 North Cornwall*	SW	120,835	23,347	5.18
22 Salisbury	SW	152,723	29,612	5.16
23 Welwyn Hatfield	East	172,890	33,558	5.15
24 Lambeth	Lon	212,974	41,695	5.11
25 North Devon	SW	117,723	23,082	5.10
26 West Dorset	SW	139,340	27,427	5.08
27 Bournemouth	SW	145,507	28,645	5.08
28 Poole	SW	152,292	30,081	5.06
29 Brent	Lon	209,742	41,465	5.06
30 Barnet	Lon	226,881	45,010	5.04
31 Torridge*	SW	107,415	21,323	5.04
32 Cambridge	East	159,048	31,608	5.03
33 Carrick	SW	123,590	24,679	5.01
34 Runnymede	SE	206,377	41,643	4.96
35 Oxford	SE	178,220	36,287	4.91
36 Gloucester	SW	128,754	26,255	4.90
37 North Dorset	SW	135,809	27,891	4.87
38 Weymouth & Portland	SW	117,926	24,245	4.86
39 South Bucks	SE	231,833	48,068	4.82
40 Penwith*	SW	110,574	22,961	4.82

* Note: The sample sizes for these authorities are particularly small, and the results should therefore be treated with caution.

Table 2: Authorities with the highest proportion of households unable to purchase a home in the lowest price quartile

Authority	Region	Lowest quartile house price £	Adults in employment in each household		Households unable to purchase by number of working adults			
			One	Two or more	One	Two or more	All	All (%)
1 Westminster	Lon	310,482	15,574	11,090	15,129	8,872	24,001	90.0
2 Purbeck*	SW	122,153	1,373	2,152	1,263	1,894	3,157	89.6
3 Camden	Lon	314,740	15,696	10,970	14,715	8,685	23,400	87.8
4 Hammersmith & Fulham	Lon	283,235	14,515	13,064	13,644	10,016	23,660	85.8
5 Islington	Lon	239,616	14,062	10,877	13,039	8,306	21,345	85.6
6 North Devon*	SW	96,240	3,353	4,297	3,148	3,245	6,392	83.6
7 Brent	Lon	165,220	13,150	13,526	12,474	9,816	22,290	83.6
8 East Dorset	SW	139,331	2,165	3,531	2,027	2,705	4,731	83.1
9 Runnymede	SE	173,438	3,379	4,349	3,229	3,189	6,418	83.0
10 Penwith*	SW	89,342	2,121	2,560	2,025	1,862	3,886	83.0
11 Harrow	Lon	172,419	8,354	11,944	8,175	8,361	16,536	81.5
12 West Dorset	SW	115,374	2,721	4,291	2,603	3,078	5,681	81.0
13 Salisbury	SW	127,931	4,564	7,002	4,189	5,180	9,368	81.0
14 North Cornwall*	SW	92,871	2,817	3,657	2,504	2,709	5,213	80.5
15 South Hams	SW	109,559	3,206	3,695	2,859	2,696	5,556	80.5
16 Bournemouth	SW	121,598	12,158	14,133	11,363	9,774	21,137	80.4
17 Three Rivers	East	162,426	3,994	4,558	3,674	3,191	6,865	80.3
18 Hackney	Lon	156,047	14,125	10,279	13,197	6,377	19,575	80.2
19 Hertsmere	East	157,384	4,712	5,711	4,445	3,879	8,324	79.9
20 Ealing	Lon	173,806	14,510	18,087	13,681	12,329	26,010	79.8
21 Kensington & Chelsea	Lon	425,475	15,390	9,203	13,067	6,512	19,579	79.6
22 Lambeth	Lon	155,292	22,999	19,142	21,155	12,357	33,513	79.5
23 South Bucks	SE	174,712	2,774	3,414	2,503	2,415	4,918	79.5
24 Cotswold	SW	135,300	3,743	4,252	3,410	2,929	6,339	79.3
25 Epsom & Ewell	SE	164,082	2,657	3,176	2,362	2,258	4,620	79.2
26 Barnet	Lon	179,676	15,064	16,147	13,809	10,765	24,573	78.7
27 Torbay	SW	90,637	7,721	6,354	7,258	3,812	11,070	78.7
28 Hillingdon	Lon	156,192	11,167	15,719	11,012	10,115	21,127	78.6
29 Weymouth & Portland	SW	96,207	2,414	3,573	2,272	2,417	4,689	78.3
30 Guildford	SE	167,361	5,869	7,137	5,210	4,952	10,162	78.1
31 Sutton	Lon	149,666	8,641	11,123	8,283	7,134	15,418	78.0
32 North Dorset	SW	109,625	1,852	2,718	1,693	1,864	3,557	77.8
33 Richmond Upon Thames	Lon	220,438	9,082	10,487	8,429	6,782	15,211	77.7
34 Cambridge	East	131,887	7,056	6,675	6,392	4,241	10,632	77.4
35 Elmbridge	SE	181,923	5,352	5,627	4,587	3,885	8,473	77.2
36 Welwyn Hatfield	East	138,795	5,166	6,429	4,723	4,225	8,948	77.2
37 St. Albans	East	173,267	6,937	8,895	6,046	6,120	12,166	76.8
38 Carrick	SW	98,526	3,003	4,003	2,863	2,514	5,377	76.7
39 Woking	SE	159,534	4,508	5,600	3,902	3,845	7,747	76.6
40 Poole	SW	121,500	5,619	9,014	5,089	6,123	11,212	76.6

* Note: The sample sizes for these authorities are particularly small, and the results should therefore be treated with caution.

Table 3: Key worker incomes relative to income needed to purchase (based on lowest quartile house prices for four/five-room dwellings and a 3 to 1 house price to income multiple)

Authority	Region	2002 price, Q4, £	Income required to purchase £	Income of key workers as a percentage of income required to purchase					
				Teacher %	Police officer %	Social worker %	Nurse %	Average case %	
1	Kensington & Chelsea	Lon	425,475	134,734	20.0	21.6	16.7	17.0	18.8
2	Camden	Lon	314,740	99,668	27.0	29.3	22.6	23.0	25.5
3	Westminster	Lon	310,482	98,319	27.4	29.7	22.9	23.3	25.8
4	Hammersmith & Fulham	Lon	283,235	89,691	30.0	32.5	25.1	25.6	28.3
5	City Of London	Lon	239,616	75,879	35.5	38.4	28.0	30.3	33.0
6	Islington	Lon	239,616	75,878	35.5	38.4	29.7	30.3	33.5
7	Richmond Upon Thames	Lon	220,438	69,805	37.1	41.8	30.4	31.9	35.3
8	Wandsworth	Lon	213,467	67,598	39.9	43.1	33.3	34.0	37.6
9	Mole Valley	SE	179,903	56,969	43.2	43.9	35.5	34.1	39.2
10	Windsor & Maidenhead	SE	179,229	56,756	43.4	44.0	35.7	35.5	39.6
11	Elmbridge	SE	181,923	57,609	42.7	43.4	35.5	38.6	40.1
12	South Bucks	SE	174,712	55,326	44.5	45.2	36.9	35.1	40.4
13	Runnymede	SE	173,438	54,922	44.8	45.5	36.8	35.4	40.6
14	St. Albans	East	173,267	54,868	44.9	45.5	36.9	36.7	41.0
15	Guildford	SE	167,361	52,998	46.5	47.2	38.2	36.7	42.1
16	Waverley	SE	166,941	52,865	46.6	47.3	38.3	36.8	42.2
17	Kingston upon Thames	Lon	181,946	57,616	44.9	50.6	36.9	38.6	42.8
18	Chiltern	SE	163,840	51,883	47.5	48.2	39.0	37.5	43.0
19	Epsom & Ewell	SE	164,082	51,959	47.4	48.1	39.3	37.4	43.1
20	Surrey Heath	SE	163,624	51,814	47.5	48.2	39.1	37.5	43.1
21	Barnet	Lon	179,676	56,897	45.5	51.2	37.3	39.1	43.3
22	Hart	SE	158,569	50,214	47.5	47.8	39.4	38.7	43.3
23	Wokingham	SE	159,045	50,364	47.3	49.6	39.3	38.6	43.7
24	Three Rivers	East	162,426	51,435	47.9	48.6	39.7	39.2	43.8
25	Woking	SE	159,534	50,519	48.7	49.5	40.1	38.5	44.2
26	Harrow	Lon	172,419	54,599	47.4	53.4	38.9	40.8	45.1
27	Spelthorne	SE	161,708	51,208	48.1	48.8	39.9	43.5	45.1
28	Ealing	Lon	173,806	55,038	48.9	53.0	38.6	40.4	45.2
29	Hertsmere	East	157,384	49,838	49.4	50.1	41.0	40.4	45.3
30	Winchester	SE	146,616	46,428	51.3	51.7	42.6	41.9	46.9
31	West Berkshire	SE	147,184	46,608	51.1	53.6	42.4	41.7	47.2
32	Reigate & Banstead	SE	149,369	47,300	52.1	52.8	43.2	41.1	47.3
33	Brent	Lon	165,220	52,320	51.5	55.7	40.6	42.5	47.6
34	Wycombe	SE	145,746	46,153	51.6	54.2	42.8	42.1	47.7
35	Oxford	SE	145,321	46,018	51.8	54.3	43.0	42.3	47.8
36	Horsham	SE	142,499	45,125	52.8	53.2	43.8	43.1	48.2
37	Sevenoaks	SE	145,766	46,159	53.4	54.1	43.8	42.1	48.4
38	East Dorset	SW	139,331	44,121	54.0	52.1	44.8	43.0	48.5
39	Tandridge	SE	145,162	45,968	53.6	54.4	44.0	42.3	48.6
40	Epping Forest	East	146,131	46,275	53.2	54.0	44.2	43.5	48.7

work earnings figures exaggerate the average earned incomes of individuals residing in London, while at the same time substantially underestimating the earned incomes of individuals living in the South East and the East.

The use of newly available earnings data based on the place of residence (used in this study), rather than

the conventional place of work based data, thus has a significant impact on the resulting regional ratios of house prices to earnings.

It follows from these new analyses that there is a strong case for reviewing the Office of the Deputy Prime Minister's sustainable communities policy to focus a significant measure of growth in the provision

of new affordable housing on London and the 'wider south east', leaving investment in the rest of England, including the South West, to mark time with inflation.

The key worker analysis

This analysis focuses on the ability of identified key workers in the public sector to access the local home ownership market. As with the 'access' analysis above, this is defined in terms of whether or not their incomes are sufficient to purchase a four/five-room dwelling at lower quartile prices. The analysis also shows the extent to which key workers' incomes fall short of, or exceed, the level required for such a purchase.

Four key worker cases are analysed: nurse, police officer, social worker and teacher. In each case, a point on the salary scale has been selected to correspond with a key worker who has been in post for three to four years and may be sufficiently settled to consider house purchase. The basic salaries have been supplemented, as appropriate, with London and South East weighting allowances, or other equivalent supplements, for those localities where they apply (based on the rates in October 2002).

Basic salaries are £18,870 for a nurse, £19,776 for a social worker, £22,992 for a police officer and £23,835 for a teacher. Inner London weightings and related salary supplements range from £2,751 for a social worker to £6,165 for a policeman. Supplements for selected areas outside London range from £462 to £2,000.

The forty areas where, on this basis, key workers' incomes fall furthest below the level required to purchase a four/five-room dwelling at local lower quartile prices are shown in Table 3. These are ranked on the basis of a composite index, which is a simple unweighted average of the four selected cases.

The results show that the most acute affordability issues for key workers are in London, notwithstanding the provision of London weighting and related payments. London accounts for the first eight authorities with the greatest shortfall against the incomes required to purchase at lower quartile prices. The next four authorities are in the South East.

Overall, twelve of the top-ranked authorities are in London, twenty-two are in the South East, four are in the Eastern Region, and just one is in the South West. The results here are in marked contrast to those for the wider population of working households, where the affordability issues have been seen to be greater in the South West than in the South East.

The critical factor is that there is very little difference in the salaries of key workers outside London, for instance between the South East and the South West. The 'fringe' area supplements to national scale rates paid outside London are relatively modest as a proportion of total salaries, and are not sufficient to offset the differences in house prices between different areas.

It should also be noted that in the forty-six authorities with the greatest shortfalls, the average incomes of our selected key workers do not even reach half (fifty per cent) of the level required to purchase a four/five-room dwelling at local lower quartile prices. It follows that, in those areas, even a dual earner key worker couple would still not have a sufficient income to purchase.

About the project

The study was undertaken by Professor Steve Wilcox of the Centre for Housing Policy at the University of York. It draws on house price data from Halifax Plc, and on data from the Government's Family Expenditure Survey, Census, Labour Force Survey and New Earnings Survey, to compute local household incomes. Earlier work in developing the methodology, and exploring the issues around the availability and limitations of different data sets that could be potentially used in the analysis, was funded by the Association of London Government.

How to get further information

The full report, **Can work – can't buy: Local measures of the ability of working households to become home owners** by Steve Wilcox, is published by the Joseph Rowntree Foundation (ISBN 1 85935 097 6, price £13.95).