

**“CAN’T BUY: CAN RENT” – A REPORT FROM THE JOSEPH ROWNTREE
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This report, by Steve Wilcox, is the latest in a series of reports about housing affordability, published annually by the Joseph Rowntree Foundation (JRF) since 2003. The sub-title is “The affordability of private housing in Great Britain”. All the data in the report relates to 2006.

The section on national and regional trends from the Executive Summary takes an overall look at this issue since 1990, and is worth quoting in full.

House prices have doubled relative to individual earnings since 1990, but this has been substantially offset by the reductions in interest rates in the early years of the 1990s. Mortgage costs have risen sharply as a percentage of earnings over the last decade and on average represented 32.5% of individual full time earnings by mid 2007. However this is still slightly below the peak level of 33.8% experienced in 1990.

A ‘North-South’ affordability gap opened up in the late 1990s, but in more recent years house price to earnings ratios have risen across Great Britain and the ‘North-South’ gap has begun to narrow. The exception to this is London, which experienced a sharp rise in house prices in 2006 and the first half of 2007.

While important, shortfalls in house building have only played a limited role in the rapid rise in house prices over the last decade. There was a national shortfall of house building (measured against household formation) in the 1980s, but not between 1991 and 2003.

Although there were substantial shortfalls in London and the South of England over those years, nationally they were offset by surpluses in new supply in other regions. Post 2003, however, there have been shortfalls in supply in all parts of the country, and these are set to continue for some years yet, despite the government’s new target of increasing the rate of new house building to 240,000 a year by 2016.

The growth of the ‘buy to let’ mortgage market has been an important factor in the private housing market over the last decade, and new investment in private renting saw the sector grow from just over 2 million dwellings in 2000 to 2.5 million in 2006. There were some 300,000 new buy to let mortgage advances recorded in 2006, compared to some 410,000 advances to first time buyers. While the private rented sector still only comprises 12% of the housing stock, because it is a growing sector, and has a more mobile population, it now accounts for nearly half of all household moves in a year.

While house prices have tripled in the years since 1994, private sector rents have only increased in line with earnings over the same period, and the costs of renting have consequently declined relative to the costs of buying.

House price, private rents, and earnings data used by JRF

- Data on house prices and private rents, covering the whole of 2006, was provided by the organisation Hometrack. The study looks at “smaller family dwellings” defined as those with 2 and 3 bedrooms and, for the house prices, new-build dwellings were excluded from the analysis. For both prices and rental figures, the study obtained a figure for 2 bedrooms, and a figure for 3 bedrooms and then took the mean of these 2 figures.
- Using the house prices, estimates were made of mortgage costs. The assumption here was a 25 year repayment mortgage covering 100% of the purchase price, based on an interest rate of 5.3%, which was the average building society mortgage rate at the end of 2006.

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- When estimating the amount that could be borrowed by a household, the analysis assumes a maximum mortgage of 3.75 times household earnings for the households with a single earner and 3.25 times household earnings for households with two (or more) adult earners. The report states that this is based on 2004 data showing that only a quarter of all first time buyers were able to secure advances at higher levels than this, relative to their earnings. The analysis further assumes that a deposit of 18% of the purchase price will be available, stating that this is based on the recent average level for deposits by first time buyers.
- The earnings data is derived from the Annual Survey of Hours and Earnings (ASHE), and covers earnings of younger working households (those with members aged 20 to 39). The ASHE data used is the residence-based data set for 2006.
- Taking the ASHE data as a starting point, regional data obtained from the national Expenditure and Food survey was used to calculate estimates of household earnings down to District and Unitary Authority level. The resulting estimates of household earnings include earnings from self-employment, which are excluded from the ASHE figures.

Analysis of data on private rents

Table 1 below shows the data on private rents for the West Midlands Region. 24 Authorities are listed out of a total of 34, as the remaining 10 Authorities are too small to yield reliable rental data in this case. The "Mortgage costs" column is calculated using the assumptions given above. This table shows average rents as a % of estimated average household earnings for a younger working household, sorted by to show the Authority with the lowest rent relative to earnings at the top, and the Authority with the highest rent relative to earnings at the bottom.

Table 1: Private rentals for 24 authorities in the West Midlands Region with comparisons against household earnings and mortgage costs

Authority	Estimate of hh earnings for a younger working hh	Avg Monthly rent for a 2/3 bed dwelling	Avg Monthly mortgage costs for a 2/3 bed dwelling	Rents as a % of mortgage costs	Rents as a % of household earnings
Coventry	32,207	373	755	49.4	13.9
North Shropshire	42,668	503	944	53.3	14.1
Solihull	45,991	552	1,049	52.6	14.4
Dudley	37,864	479	792	60.4	15.2
Stratford-on-Avon	48,164	613	1,216	50.4	15.3
Rugby	43,698	574	868	66.1	15.7
Stafford	41,447	542	853	63.6	15.7
South Shropshire	42,478	569	1,162	49	16.1
Stoke-on-Trent	31,056	418	566	73.8	16.2
Malvern Hills	39,832	546	1,128	48.4	16.4
East Staffordshire	38,022	522	750	69.5	16.5
Staffordshire Moorlands	35,484	492	837	58.7	16.6
Walsall	34,784	491	743	66.1	16.9
South Staffordshire	36,950	534	925	57.7	17.3
Warwick	45,903	660	1,170	56.4	17.3
Bromsgrove	41,838	619	948	65.3	17.8
Worcester	40,708	611	924	66.1	18
Oswestry	30,463	473	817	57.8	18.6
Newcastle-under-Lyme	34,738	549	729	75.3	19.0
Wolverhampton	31,388	503	703	71.4	19.2
Sandwell	31,346	502	714	70.3	19.2
Herefordshire	33,944	551	1,038	53.1	19.5
Birmingham	34,723	590	801	73.7	20.4
Redditch	34,142	591	814	72.6	20.8

The Hometrack data indicated that the mean rental for 2 and 3 bedroom houses in Herefordshire was £551 per calendar month. This places Herefordshire as 10th most expensive out of the 24 Authorities. Coventry had the lowest private rental figure, £373 per calendar month, and Warwick the most expensive, at £660 per month.

However, when the rental is compared to mean earnings for younger working households, Herefordshire comes out as the third most expensive – the rental figure is 19.5% of the gross household earnings figure, only slightly below Birmingham and Redditch. By contrast, in Coventry, rental of a 2/3 bedroom dwelling worked out at 13.9% of the estimated average gross household earnings for a younger working household.

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Affordability of rents

A rental figure has been taken to be affordable if it works out at no more than 25% of the gross household earnings (Source: Housing Market Assessments, Draft Practice Guidance, ODPM December 2005). On this measure, the average private rent of a 2/3 bedroom dwelling would appear to be affordable for a younger working household on average earnings, across the West Midlands Region.

By contrast, the JRF study found 30 areas in England and Wales where average local rents represented more than 24% of average working household earnings. 13 of these were in London boroughs, 11 were in the South East Region, 4 were in the South West Region and 2 were in the East Region.

Comparison of costs of renting and house purchase

When rentals are compared to estimated mortgage costs for a similar dwelling, the study found that the mortgage cost was nearly double the rental cost in Herefordshire, and similar ratios were found for Shropshire (North and South), Coventry, Solihull, Malvern Hills, and Stratford on Avon (see Table 1). When the cost of maintenance and repairs to the property is considered, in addition to the mortgage cost, this makes home ownership even more expensive relative to renting.

The JRF study draws conclusions as follows.

“The most notable finding is that in all regions – and in the great majority of local authority areas – the costs of private rents are significantly lower than the costs of house purchase. Across England as a whole private rents are less than two thirds of the costs of house purchase.”

“It follows from these analyses that while in many areas there are substantial proportions of younger working households unable to buy in their local housing market, in many of those cases they will, however, be able to afford to rent in the private sector. With the growth of private renting it is important that local housing market analyses consider the affordability of private rents as well as house prices. Analyses based solely on house prices can provide an assessment of the capacity of households to enter home ownership; but they cannot provide a more rounded account of the capacity of households to secure accommodation in the private sector.”

House price to earnings ratios based on mean house prices

The JRF report gives house price to earnings ratios based on the mean house price figures for a 2/3 bed house and estimates for mean household earnings of younger working households as defined at the beginning of this article.

Table 2 lists all 34 Authorities within the West Midlands Region sorted according to the house price to earnings ratio. Herefordshire is close to being the least affordable Authority with a ratio of 5.00; only Bridgnorth (Shropshire) has a worse ratio, at 5.48

Table 2: House Price to earnings Ratios in the West Midlands Region for younger working households buying 2/3 bed houses in 2006

Authority	No. of younger working households	Mean household earnings	Mean house price for a 2/3 bed dwelling	House price to earnings ratio
Stoke-on-Trent	24,447	31,056	92,694	2.98
Telford & the Wrekin	19,373	39,723	119,909	3.02
Nuneaton and Bedworth	10,914	37,445	119,594	3.19
East Staffordshire	11,370	38,022	122,832	3.23
Rugby	8,736	43,698	142,070	3.25
Stafford	12,895	41,447	139,594	3.37
Dudley	27,993	37,864	129,564	3.42
Newcastle-under-Lyme	10,803	34,738	119,384	3.44
Walsall	23,519	34,784	121,604	3.50
Cannock Chase	11,644	35,688	125,374	3.51
Tamworth	8,355	36,987	131,549	3.56
Lichfield	7,939	46,303	166,277	3.59
Wyre Forest	9,074	39,593	142,877	3.61
North Shropshire	5,675	42,668	154,531	3.62
Wolverhampton	21,962	31,346	115,122	3.67
Worcester	12,293	40,708	151,225	3.71
Bromsgrove	7,785	41,838	155,231	3.71
Sandwell	28,623	31,388	116,836	3.72
Solihull	16,765	45,991	171,620	3.73
Birmingham	84,482	34,723	131,042	3.77
Coventry	27,515	32,207	123,553	3.84
Staffordshire Moorlands	7,260	35,484	136,960	3.86
Redditch	6,673	34,142	133,253	3.90
North Warwickshire	4,593	36,228	143,125	3.95
South Staffordshire	8,337	36,950	151,350	4.10
Stratford-on-Avon	7,423	48,164	198,999	4.13
Warwick	15,219	45,903	191,528	4.17
Wychavon	10,849	39,580	165,734	4.19
Oswestry	3,810	30,463	133,725	4.39
South Shropshire	3,879	42,478	190,189	4.48
Malvern Hills	4,933	39,832	184,673	4.64
Shrewsbury & Atcham	12,454	33,190	160,491	4.84
Herefordshire	14,620	33,944	169,865	5.00
Bridgnorth	4,146	33,943	185,897	5.48

The estimates of household earnings show Herefordshire to be in joint 7th place (with Bridgnorth) from the bottom out of the 34 authorities, with estimated household earnings of £33,944 for younger working households. The authority with the lowest estimate is Oswestry (£30,463) and that with the highest is Stratford-on-Avon (£48,164).

Lower quartile, and lowest decile, house prices

Table 2 is based on mean house prices – the JRF report also quotes lower quartile and lowest decile prices, by Authority, again for 2 / 3 bedroom dwellings.

The lower quartile price is the price a quarter of the way along the price spectrum, such that ¼ of all the prices are less than this value, and ¾ are greater.

The lowest decile price is the price a tenth of the way along the price spectrum, such that 1/10 of all the prices are less than this value, and 9/10 are greater.

Table 3 below shows the lower quartile price and the lowest decile price for these “smaller family dwellings”, and the household earnings needed to purchase in each case (using the assumption of 3.25 or 3.75 times earnings and an 18% deposit - see beginning of this article under “Data used by JRF”)

Table 3: Household earnings needed to purchase a smaller family dwelling at the lower quartile, and lowest decile prices in 2006

Authority	2/3 bed dwelling - lowest decile price	2/3 bed dwelling - lower quartile price	HH Earnings needed to purchase at LD for HH with single earner	HH Earnings needed to purchase at LD for HH with 2 earners	HH Earnings needed to purchase at LQ for HH with single earner	HH Earnings needed to purchase at LD for HH with 2 earners
Stoke-on-Trent	62,776	72,500	13,727	15,839	15,853	18,292
Wolverhampton	78,950	89,188	17,264	19,920	19,502	22,503
East Staffordshire	78,725	90,021	17,215	19,863	19,685	22,713
Newcastle-under-Lyme	80,000	92,500	17,493	20,185	20,227	23,338
Walsall	83,050	93,750	18,160	20,954	20,500	23,654
Nuneaton & Bedworth	84,510	96,875	18,480	21,323	21,183	24,442
Telford & Wrekin	81,250	97,233	17,767	20,500	21,262	24,533
Sandwell	84,500	97,500	18,477	21,320	21,320	24,600
Coventry	89,250	101,375	19,516	22,518	22,167	25,578
Birmingham	91,750	103,500	20,063	23,149	22,632	26,114
Staffordshire Moorlands	85,950	104,750	18,794	21,686	22,905	26,429
Cannock Chase	93,075	105,313	20,352	23,484	23,028	26,571
Dudley	91,000	105,488	19,899	22,960	23,067	26,615
Oswestry	97,015	109,874	21,214	24,478	24,026	27,722
Redditch	95,966	110,000	20,985	24,213	24,053	27,754
Tamworth	95,700	111,313	20,926	24,146	24,340	28,085
North Warwickshire	95,177	112,500	20,812	24,014	24,600	28,385
Stafford	90,998	112,500	19,898	22,959	24,600	28,385
Rugby	101,500	114,253	22,195	25,609	24,983	28,827
WyreForest	102,830	116,050	22,485	25,945	25,376	29,280 <i>/cont. over page</i>

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Authority	2/3 bed dwelling - lowest decile price	2/3 bed dwelling - lower quartile price	HH Earnings needed to purchase at LD for HH with single earner	HH Earnings needed to purchase at LD for HH with 2 earners	HH Earnings needed to purchase at LQ for HH with single earner	HH Earnings needed to purchase at LD for HH with 2 earners
Bromsgrove	102,613	119,250	22,438	25,890	26,076	30,088
NorthShropshire	110,000	123,063	24,053	27,754	26,910	31,050
SouthStaffordshire	105,488	123,500	23,067	26,615	27,005	31,160
Worcester	113,975	128,000	24,923	28,757	27,989	32,295
Lichfield	110,000	129,000	24,053	27,754	28,208	32,548
ShrewsburyandAtc ham	119,000	131,438	26,021	30,025	28,741	33,163
Herefordshire	120,000	134,500	26,240	30,277	29,411	33,935
Wychavon	115,000	135,188	25,147	29,015	29,561	34,109
Solihull	95,950	135,375	20,981	24,209	29,602	34,156
SouthShropshire	122,275	136,750	26,737	30,851	29,903	34,503
Bridgnorth	125,000	142,500	27,333	31,538	31,160	35,954
MalvernHills	128,150	143,975	28,022	32,333	31,483	36,326
Stratford-on-Avon	138,000	155,950	30,176	34,818	34,101	39,347
Warwick	136,350	156,697	29,815	34,402	34,264	39,536

Within the West Midlands Region, Herefordshire is ranked 8th from the most expensive authority for the lower quartile price for a 2/3 bed dwelling (£134,500), and 6th from the most expensive for the lowest decile price (£120,000). The earnings needed to purchase therefore have the same rankings.

Within Herefordshire, the household earnings needed to purchase in 2006 work out at:

- £26,250 to purchase at the lowest decile where there is 1 earner in the household
- £30,277 to purchase at the lowest decile where there are 2 or more earners in the household
- £29,411 to purchase at the lower quartile where there is 1 earner in the household
- £33,935 to purchase at the lower quartile where there are 2 or more earners in the household

By comparison, in 2006, median earnings in Herefordshire were £20,130. (This figure is for **all** workers in Herefordshire, rather than the younger household with members aged 20 to 39 which is used in the JRF report). So a household with one earner on median county earnings would not be able to purchase a family house of 2/3 bedrooms, even at the lowest decile.

The median earnings figure of £20,130 would give household earned income of £30,200 for a household with one person on median earnings, and a second person working half time, also on median earnings. This type of household might just about be able to purchase a 2/3 bed house at the lowest end of the market (lowest decile).

The Intermediate Housing Market

The term “intermediate housing market” (IHM) is generally taken to refer to those households who can afford to pay more than a social rent for their housing, but who cannot afford to purchase a home in their local area.

The JRF study uses a more precise definition and defines a Broad and a Narrow IHM as follows.

- The Broad IHM in each local authority area is defined as the range of household earnings from households in work but nevertheless on housing benefit at the bottom of the range, up to those whose earnings are only just below the level needed to purchase at lower quartile house prices for two and three bedroom dwellings, at the top of the range.
- The Narrow IHM in each local authority area is defined as the range of household earnings which are above housing benefit level but nevertheless too low to allow the household to purchase at lowest decile house prices for two and three bedroom dwellings.

Table 4 below lists the 34 Authorities in the West Midlands Region, showing the percentage of younger working households estimated to fall within the Intermediate Housing Market. Taking the Broad IHM, Stoke-on-Trent has the lowest percentage (20.2%), and Malvern Hills District has the highest percentage (57.1%). Herefordshire has the third highest percentage in this category, with 52.0% of all younger working households classed as being in the Intermediate Housing Market as broadly defined.

Table 4: % of younger working households within the Intermediate Housing Market

Authority	Percentage of younger working households who			Total % of younger working households classed as being in the Intermediate Housing Market (Broad IHM)
	are claiming housing benefit	are within the Intermediate Housing Market as Narrowly defined	can buy at Lowest Decile house price but not at Lower Quartile price	
Stoke-on-Trent	3.5	10.0	6.6	20.2
East Staffordshire	3.0	13.0	5.3	21.3
Telford & the Wrekin	4.7	13.3	7.4	25.3
Newcastle-under-Lyme	4.8	17.3	5.8	28.0
Walsall	7.8	15.9	5.0	28.7
Stafford	3.1	16.3	9.3	28.8
Wyre Forest	1.2	21.5	6.8	29.4
Nuneaton & Bedworth	12.2	12.6	4.6	29.5
Rugby	4.6	21.3	4.8	30.8
Dudley	5.4	19.0	7.2	31.6
Wolverhampton	8.0	17.4	6.4	31.8
North Shropshire	4.7	22.5	4.8	32.0
Staffordshire Moorlands	7.1	17.8	7.4	32.3
Cannock Chase	6.1	20.5	6.6	33.3
Lichfield	4.4	22.0	7.1	33.5 <i>/cont. over page</i>

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Authority	Percentage of younger working households who			Total % of younger working households classed as being in the Intermediate Housing Market (Broad IHM)
	are claiming housing benefit	are within the Intermediate Housing Market as Narrowly defined	can buy at Lowest Decile house price but not at Lower Quartile price	
Bromsgrove	5.4	22.3	6.4	34.0
Coventry	8.2	21.4	5.5	35.0
Birmingham	10.0	19.8	5.7	35.6
Sandwell	10.1	17.8	7.9	35.8
Tamworth	7.5	22.3	6.0	35.8
North Warwickshire	8.5	20.1	7.5	36.1
South Shropshire	5.4	25.3	5.5	36.1
Worcester	3.5	27.1	6.1	36.7
Redditch	7.0	22.4	7.5	36.9
Solihull	7.0	16.2	13.7	36.9
Warwick	7.7	25.6	7.3	40.6
Oswestry	7.8	26.4	6.6	40.8
South Staffordshire	7.5	24.9	8.4	40.8
Stratford-on-Avon	7.1	27.7	6.4	41.2
Wychavon	10.4	28.0	6.6	45.0
Shrewsbury & Atcham	9.2	33.8	5.9	48.9
Herefordshire	11.8	32.7	7.4	52.0
Bridgnorth	10.4	35.9	8.0	54.3
Malvern Hills	10.9	38.0	8.3	57.1

For further information on the data in this article, please contact the Research Team on 01432 260464 or e-mail researchteam@herefordshire.gov.uk