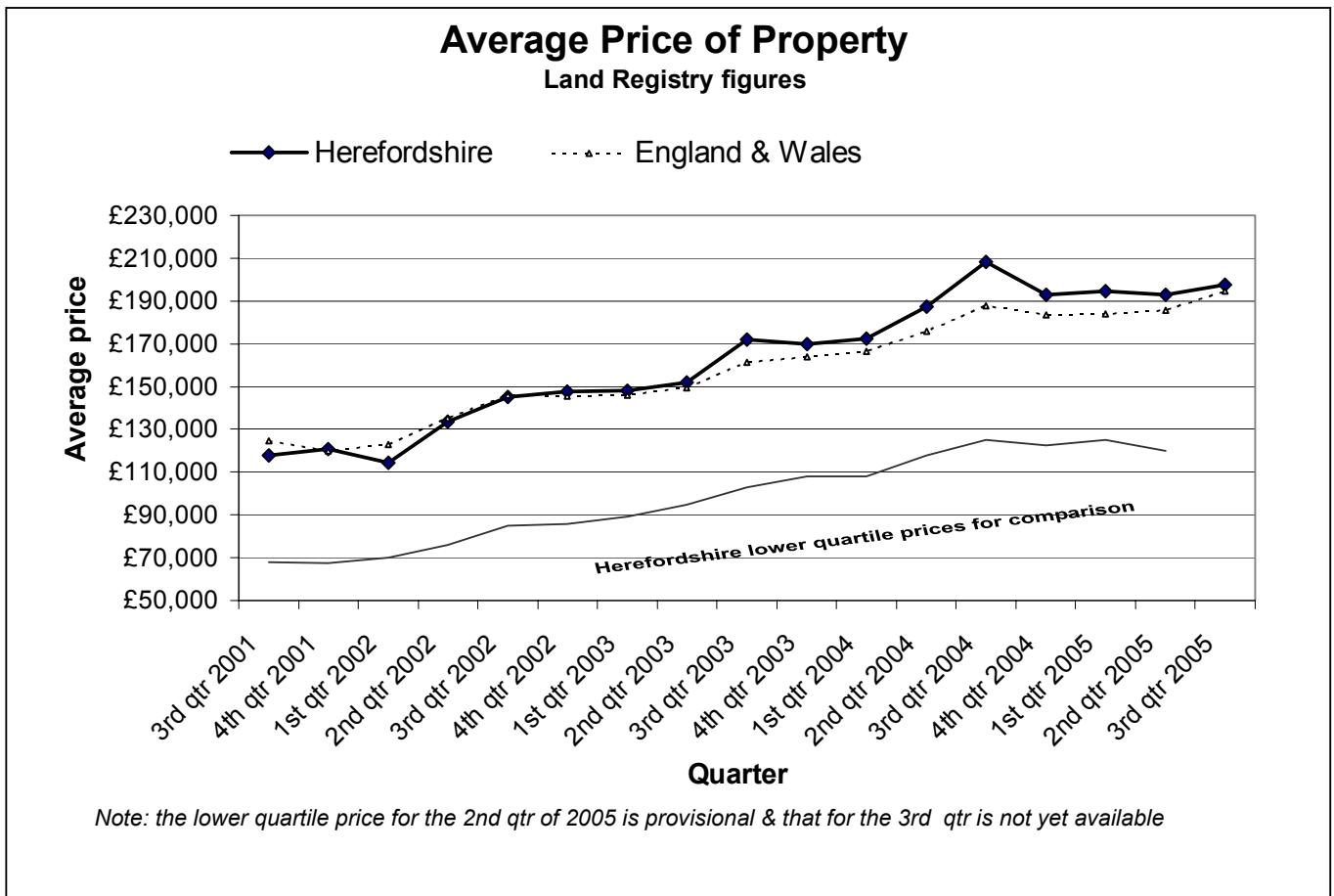


## PROPERTY PRICES

This quarter, the Property Price article is in two parts. First, a summary and analysis of house price figures just released by the Land Registry, and secondly a report of a recent study from the Joseph Rowntree Foundation on housing affordability.

### 1. LAND REGISTRY FIGURES

HM Land Registry collects data on house prices from all house sales in England and Wales and the data is published quarterly - the most recent figures were released on 8th November, and cover July to September 2005<sup>1</sup>. The graph below shows how Herefordshire house prices have changed over the last four years, with a second line showing the average for England and Wales as a comparison. Lower quartile prices (see definition on page 36) for Herefordshire are also shown on this graph.



<sup>1</sup> Note: these figures are subject to slight change with the next release in February 2006 as not all the data is available by the Land Registry's publication date of 8<sup>th</sup> November, but the amount of change has typically been no more than 1%.

## Herefordshire Partnership NOV QER 2005

In the 3<sup>rd</sup> quarter of 2005, the average price of a property in Herefordshire was **£197,618** – this is the average calculated from the 780 individual sales that took place. This figure is very close to the overall average property price for England and Wales which was £194,589. The average price across the West Midlands region over the same period was lower at £161,076.

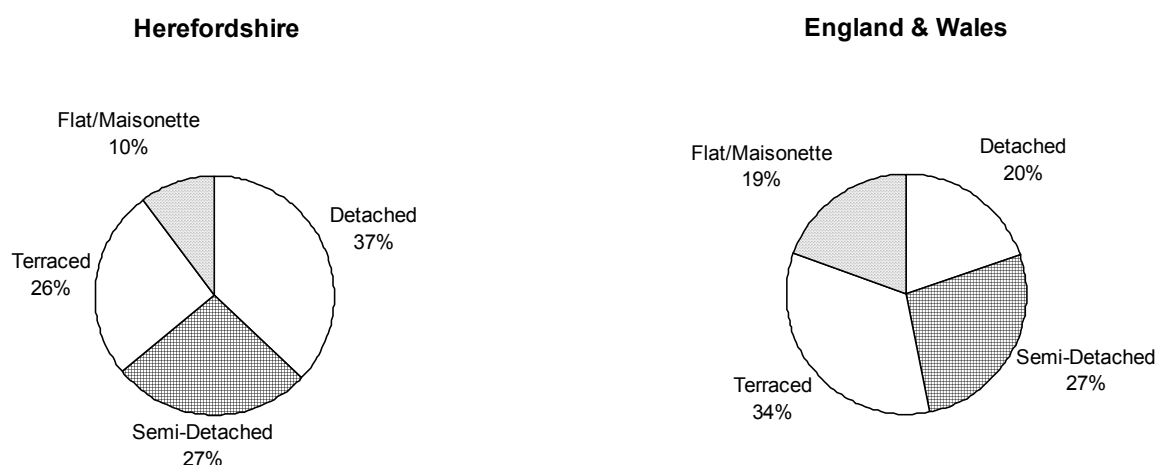
The Herefordshire average price had dropped by 5.0% over the year compared to an annual increase of 3.5% for England & Wales and 1.2% for the West Midlands region.

Table 1 below gives Herefordshire prices broken down by property types compared to England and Wales, and the pie charts below show the mix of sales.

**Table 1: Average prices of different types of property in Herefordshire, and England & Wales**

	Detached House	Semi-Detached House	Terraced House	Flat / Maisonette	Overall average price
Jul - Sep 2004	£285,575	£174,683	£143,406	£104,193	£208,057
Apr - Jun 2005	£284,704	£158,505	£133,016	£101,943	£192,879
Jul - Sep 2005 <sup>2</sup>	<b>£287,491</b>	<b>£161,882</b>	<b>£139,358</b>	<b>£110,254</b>	<b>£197,618</b>
% Change over the year	+1%	-7%	-3%	+6%	-5%
Average for England & Wales Jul - Sep 2005 <sup>2</sup>	301,771	177,087	151,826	174,886	194,589

**Volume of sales by property type, April to June 2005<sup>3</sup>  
Herefordshire compared to England & Wales**



<sup>2</sup> Figures subject to slight change when updated in February 2006

<sup>3</sup> In this case, because we are counting number of sales, the Land Registry's fully updated figures are used, the most recently available being for the 2nd quarter of 2005

Table 1 above shows that in Herefordshire, prices for individual property types are lower than for England and Wales, but the “property mix” in Herefordshire means that Herefordshire’s average is slightly above the national average. The pie charts above illustrate the high volume of sales of detached properties in Herefordshire as compared to England and Wales, which has the effect of inflating Herefordshire’s average price. Comparison with earlier years shows that the proportion of Herefordshire sales which are detached properties has in fact dropped slightly over the last few years, and the proportion of sales of flats / maisonettes has risen slightly. The property mix in the county may change slightly over the years due to new build, and conversions of single dwellings into flats or apartments, but most of the housing stock will remain unconverted and so Herefordshire will continue to have a high proportion of detached properties.

### Lower quartile prices

The lower quartile price is the figure a quarter of the way along the price spectrum, such that three quarters of prices are higher than this reference point and a quarter of the prices are lower than this. As it represents the lower end of the housing market, it is a useful figure to use when looking at affordability. Lower quartile prices are derived from Land Registry data and are available after a time lag compared to average prices (means) as quoted above. The table below shows the latest available lower quartile prices. These are markedly higher for Herefordshire than for England & Wales as a whole, whereas Herefordshire earnings are lower than the national average, making access to housing difficult in the county.

**Table 2: Lower quartile property prices**

	Jan – Mar 2005	Apr – Jun 2005 (provisional figure)
<b>Herefordshire</b>	£125,000	£120,000
<b>England &amp; Wales</b>	£105,000	£109,950

Source: ODPM web site: <http://www.odpm.gov.uk/index.asp?id=1156110>

### The national picture

The latest house price figures show that house prices in Wales have recently been the fastest growing in the UK, increasing by 7.4% over the past year from £135,162 to £145,188. Blaenau Gwent and Merthyr Tydfil both recorded increases of more than 27%. An Estate Agents’ spokesman commented that there was high demand from people working in Cardiff or Newport but unable to afford properties close to their place of work, causing a “ripple effect” up into the Valleys. The north of England also showed substantial price rises with an annual increase of 5.9% for the North Region, and 6.0% for Yorks and Humberside. The increase in London was 4.5%.

## 2. FINDINGS FROM A RECENT STUDY BY THE JOSEPH ROWNTREE FOUNDATION

The Joseph Rowntree Foundation (JRF) published a study in October 2005 looking at the affordability of housing across the country: '**Affordability and the intermediate housing market**' by Steve Wilcox. (Accessible via [www.jrf.org.uk](http://www.jrf.org.uk)). It follows on from 2 previous studies which were reported in earlier editions of the Quarterly Economic Report – August 2003 and November 2004.

A quote from the introduction to this report summarises the context as follows.

*"The average age of a first-time buyer is now 34. The proportion of new homes sold to first-time buyers is the lowest since records began. And the switch to renting is seen in the extraordinary investment in buy to let.....Against this backdrop of a major shift from owning to renting, the Government has set itself a new target for increasing owner occupation in the UK. The hope is that it will rise from today's 70 percent to 75 per cent, giving more people asset-based wealth. Now this latest report from Professor Steve Wilcox shows just how many people in work cannot afford a property even in the cheapest 10 per cent in their area. These are the people with incomes too high for them to secure rented accommodation from a housing association or local authority. They are stuck in the middle in an 'intermediate housing market'. The Wilcox report shows just how big this."*

### House price data used by JRF

The JRF study provides us with more detailed information on housing affordability in the county than do the Land Registry figures reported in section 1. This is because the JRF house price data comes from a specially commissioned data set from the Survey of Mortgage Lenders (SML). This data set can provide mean prices, lower quartile prices and lower decile<sup>4</sup> prices for every local authority area in Britain **for a typical smaller dwelling**. (This was done by obtaining the appropriate statistic for two-bedroom dwellings and for three-bedroom dwellings and then averaging these two figures). Land registry data cannot provide price data according to dwelling size.

### Calculation of household income for younger working households

The other way in which the JRF study provides affordability data which is not available elsewhere, is that it calculates estimates of **household income for working households where the adult or adults are aged between 20 and 39**.

Household earnings (as opposed to individual earnings) are notoriously difficult to estimate. For the method used by the JRF study, see the Note at the end of this article.

The study focuses on the 20 to 39 age group so as to quantify affordability problems for first time buyers in particular.

The JRF study provides data in two forms – firstly, house price to income ratios, and secondly the proportion of younger working households who make up the "Intermediate Housing Market" (IHM) ie. they earn too much to qualify for Housing Benefit, but not enough to be able to purchase even the cheapest housing in their area.

### House price to income ratios

A ratio of house price to income was calculated for all local authorities. The ratio was based on the average (mean) price of a smaller dwelling and the average (mean) household income of younger working households as defined above.

<sup>4</sup> *The lower decile price is the figure a tenth of the way along the price spectrum, such that 90% of prices are higher than this reference point.*

The JRF report gives a table of those authorities where the ratio of average house prices to the incomes of younger working households exceeds 5.5 to 1. There are 37 authorities in this bracket, out of a total of 375 authorities in England & Wales, and Herefordshire is included among these, see Table 4. Table 3 below shows in which Regions the 37 authorities are situated.

**Table 3: Authorities with the highest (worst) price to earnings ratio, by Region**

Region	Number of Authorities in this Region with affordability ratio exceeding 5.5
South West	16
South East	8
London	5
West Midlands	2 <i>(Herefordshire &amp; South Shropshire)</i>
Wales	2
Yorkshire & Humberside	2
North East	1
East	1

Two West Midlands authorities feature in the table above - Herefordshire and South Shropshire, along with two Welsh authorities - Pembrokeshire and Ceredigion.

**Table 4: West Midlands Authorities with the highest house price to income ratio**

Authority	Average price of 2 & 3 bedroom dwelling (2004 prices)	Average household earnings for a younger working household	Ratio of house price to income
South Shropshire	173,691	31,413	5.53
<b>Herefordshire</b>	<b>154,550</b>	<b>28,027</b>	<b>5.51</b>
Stratford-on-Avon	185,828	41,261	4.50
Shrewsbury & Atcham	143,596	32,026	4.48
North Shropshire	143,979	32,820	4.39
Solihull	163,672	37,583	4.35
Warwick	175,590	40,838	4.30

Using the smaller house price to younger working household income ratio, Herefordshire comes out as the least affordable authority in the West Midlands region with the exception of our neighbour, South Shropshire.

**Table 5: West Midlands Authorities with the lowest house price to income ratio**

Authority	Average price of 2/3 bedroom dwelling (2003 prices)	Average household income for a younger working household	Ratio of house price to income
Wolverhampton	93,919	27,780	3.38
Staffs Moorlands	119,254	36,095	3.30
Rugby	134,199	45,267	2.96
Stoke-on-Trent	82,235	28,027	2.93

### Analysis of the intermediate housing market

The intermediate housing market (IHM) analysis relies on the same data sources as the ratios analysis. However it uses lowest decile and lower quartile house price figures (these terms are defined earlier in this article) rather than the mean house price figures used in the ratios analysis. The research pinpointed how many younger working households fall into an “affordability trap” whereby they earn too much to qualify for housing benefit but could nevertheless not afford to buy a two or three bedroom house in their area. (Calculated as unable to afford local prices at the lowest decile for two- and three-bedroom dwellings). The IHM analysis assumes an 18% deposit, based on the recent average level for deposits by first-time buyers, as researched by JRF.

The research identifies 40 districts where 40% or more of younger working households who earn too much to qualify for housing benefit are unable to purchase a two or three bedroom house. Of these 40 districts, 14 are in South East Region, 13 are in London, 12 are in the South West Region, and one is within Yorkshire & Humberside Region. The position in the West Midlands Region is shown in Tables 6 and 7 below – in Herefordshire over a third of these younger working households are unable to purchase, and this is the highest proportion out of all the authorities in this Region.

**Table 6: West Midlands Authorities with the lowest proportion of younger working households caught in the “affordability trap”**

Authority	Lower decile house price for a smaller dwelling <sup>5</sup> , 2004 prices	Income required to purchase - Single earner household	Income required to purchase - Dual earner household	% of those younger working households who are not eligible for housing benefit who cannot afford a 2 or 3 bedroom house at the lower decile price
Sandwell	£64,000	£13,995	£16,148	12.0%
Newcastle-under-Lyme	£52,025	£11,376	£13,126	9.4%
Walsall	£58,285	£12,745	£14,706	8.5%
Stoke-on-Trent	£42,500	£9,293	£10,723	3.0%
Wolverhampton	£46,488	£10,165	£11,729	3.0%

<sup>5</sup> See definition on page 37

**Table 7: West Midlands Authorities with the highest proportion of younger working households caught in the “affordability trap”**

Authority	Lower decile house price for a smaller dwelling <sup>6</sup> , 2004 prices	Income required to purchase - Single earner household	Income required to purchase - Dual earner household	% of those younger working households who are not eligible for housing benefit who cannot afford a 2 or 3 bedroom house at the lower decile price
Herefordshire	£98,050	£21,440	£24,739	33.4%
Shrewsbury & Atcham	£100,550	£21,987	£25,370	32.1%
North Shropshire	£92,500	£20,227	£23,338	31.1%
Worcester	£100,000	£21,867	£25,231	30.8%
South Shropshire	£98,700	£21,582	£24,903	29.8%
Malvern Hills	£111,321	£24,342	£28,087	28.9%
Stratford-on-Avon	£116,738	£25,527	£29,454	28.9%

**Explanation of calculation of income required to purchase as given in Tables 6 and 7 above**

As stated above, it is assumed that the purchaser will provide an 18% deposit, so the mortgage will need to cover 82% of the purchase price. It is also assumed that a single earner household will be able to obtain a mortgage of 3.75 times earnings, and a dual earner household will be offered 3.25 times earnings – this is based on current practice as researched by JRF.

- To take the example of Herefordshire, the lower decile house price is £90,050 and 82% of £90,050 is £80,401.
- To find the earnings needed by a single earner household in order to purchase this property, take £80,401 and divide it by 3.75 which gives £21,440 as given in the table above.
- To find the earnings needed by a dual earner household in order to purchase this property, take £80,401 and divide it by 3.25 which gives £24,739 as given in the table above.

**Note: Derivation of household income for working households aged 29 to 39**

The data used was as follows:

- the numbers of working households in the local authority area, taken from the Labour Force Survey (LFS)
- mean individual earnings in the local authority area (defined on the basis of place of residence) taken from Annual Survey of Hours & Earnings (ASHE)

The study computed local household income data by using the sources above in conjunction with regional data from the Expenditure & Food Survey. A distribution of household incomes was then plotted following the local distribution of individual earnings as given by ASHE.

**For further information on the data in this article, please contact the Research Team on 01432 260464, or e-mail [researchteam@herefordshire.gov.uk](mailto:researchteam@herefordshire.gov.uk)**

<sup>6</sup> See definition on page 37