Section 8: Profiling Affordability

Introduction

8.1 This section examines house purchase and rental prices and how they have changed over time. In general terms it explores the affordability of housing based on average prices. It examines the difference in average prices between brand new and second hand housing and the volume of transactions in the market sector. The chapter concludes by defining the thresholds between social rented and market housing, both for sale and rent and the incomes required to service these costs. This allows us to define the income level required for intermediate affordable housing to be an option.

Figure 85
Average Property Prices (third quarter 2008) (HM Land Registry)

	Detached	Semi-detached	Terraced	Flat/ maisonette
Dacorum	£529,423	£330,750	£237,382	£166,810
Hertsmere	£609,687	£338,159	£286,126	£224,041
St Albans	£653,420	£379,989	£312,720	£219,423
Three Rivers	£578,574	£308,637	£290,103	£233,656
Watford	£499,964	£278,952	£222,643	£180,116
Welwyn Hatfield	£508,100	£303,400	£215,100	£171,300
East of England	£346,300	£241,000	£180,400	£152,200
England & Wales	£345,400	£196,300	£177,700	£198,900

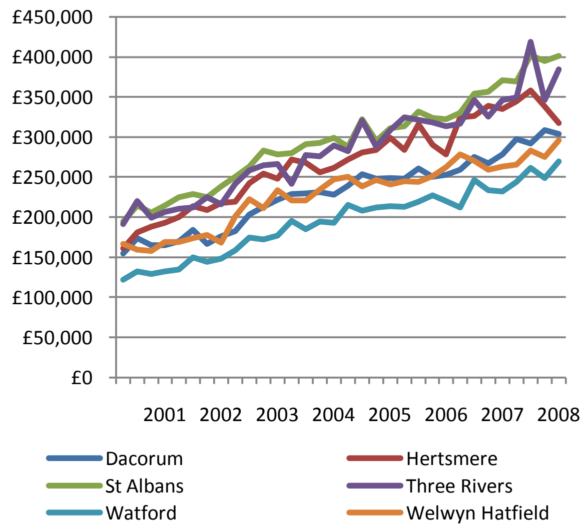
Local House Price Trends

Market housing for sale

8.2 Many parts of the LCB (West) sub-region offer premium market housing and are regarded by many as attractive places to live and work. House prices are significantly higher than national and regional averages (Figure 85).

8.3 Figure 86 shows the average house prices of housing for sale in each local authority area within the London Commuter Belt (West) sub-region. Excluded from these data are "right to buy" properties purchased at discount.

Figure 86
Average Price of Properties Sold by Local Authority: Q2 2000-Q3 2008 (Source: HM Land Registry))



8.4 Between 2000 and 2008, the average property price in London Commuter Belt (West) rose by 93%. The average property price in Dacorum rose by 96%, in Hertsmere by 105%, in St Albans by 95%, in Three Rivers by 84%, in Watford by 93% and in Welwyn Hatfield by 73%.

8.5 Average property price data for an area only provides a limited amount of information about a local housing market. The overall picture of the housing market is much more dependent upon the volume of transactions, the range of property prices which are to be found in it and how these relate to incomes in the area. The housing market of any area is also dependent upon other key national and global factors such as interest rates, inflation, tax changes and more recently, the affects of the credit crunch, which are considered separately in following chapters.

8.6 Figure 86 above shows the volatility of house prices over time and how there was some reaction to the beginning of credit crunch at Q3 2008 in Hertsmere and St Albans.

8.7 The relationship between local house prices and local earnings is clearly an important comparator. Figure 87 shows how median property prices in the sub-area compare to median workplace full time earnings.

Figure 87

Ratio of median house price to median workplace full time individual earnings by local authority compared to national and Hertfordshire averages (Source: CLG: table 577, housing research, housing statistics)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
England	3.54	3.67	3.86	4.21	4.47	5.07	5.83	6.58	6.81	6.91	7.26	6.94
Hertfordshire	4.34	4.71	4.92	5.81	5.94	6.58	7.64	8.18	8.16	8.41	9.09	8.94
Dacorum	4.28	4.72	5.00	5.86	5.77	6.02	7.19	7.78	8.27	8.00	8.19	8.87
Hertsmere	5.01	5.22	5.74	6.39	6.96	7.36	9.89	8.99	10.30	10.17	10.64	10.49
St. Albans	5.81	6.66	6.66	8.69	8.88	9.30	10.37	10.75	11.05	11.46	12.45	12.07
Three Rivers	5.07	4.99	5.15	6.39	6.46	6.47	6.56	7.82	7.55	7.24	8.23	9.08
Watford	3.16	3.70	3.95	4.68	5.05	6.13	7.40	7.68	7.26	7.60	9.41	8.67
Welwyn Hatfield	4.22	4.50	4.50	5.13	5.27	5.69	6.97	7.84	6.94	8.07	7.49	7.97

8.8 In 1997 the median price of property in Watford was around 3.2 times the median earnings of someone working full-time in the area. By 2007 this had risen to around 9.4 times the median full-time earnings. In St Albans, the ratio was around 5.8 in 1997, rising to just under 12.5 in 2007, (Figure 87).

8.9 Figure 87 only shows part of the picture because a household's capacity to borrow is only one of the elements that determine affordability. Other factors include the number of earners within a household, the presence of savings or equity and debt. Also, households may not earn a median income or seek to purchase an average price home.

8.10 The relationship between house prices and earnings is particularly relevant for households with little equity as they often rely more on their income to support their capacity to borrow. An examination of the ratio of lower quartile house prices to lower quartile earnings as another measure of affordability shows that over the last eleven years (1997 – 2008), affordability has increasingly become an issue for lower-earning households (Figure 88).

Figure 88

Ratio of lower quartile house prices to lower quartile earnings by local authority compared to national and Hertfordshire averages (Source: CLG: table 576, housing research, housing statistics)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
England	3.65	3.65	3.84	3.98	4.22	4.72	5.23	6.27	6.82	7.12	7.25	6.98
Hertfordshire	4.48	4.90	5.28	5.99	6.40	7.63	8.39	9.07	9.47	9.39	10.00	10.08
Dacorum	4.59	5.14	5.48	6.05	6.45	7.38	8.57	9.15	9.21	9.02	9.52	9.15
Hertsmere	5.35	5.38	5.95	6.83	7.64	8.97	11.98	10.39	12.78	12.11	13.20	12.36
St. Albans	5.93	6.52	7.59	8.05	8.33	9.60	10.44	11.38	12.42	12.09	13.43	12.78
Three Rivers	6.07	5.70	6.32	6.98	6.97	7.69	7.71	8.30	7.78	7.81	9.43	9.63
Watford	3.89	4.39	4.51	5.79	6.41	7.62	7.89	9.24	9.35	9.08	11.69	10.15
Welwyn Hatfield	4.87	4.82	5.42	5.75	6.33	6.95	8.03	8.64	8.81	9.86	8.87	9.52

8.11 Affordability is marginally better for median earners compared to the median property prices. However, even these ratios show that affordability issues are generally more pronounced in the LCB (West) sub-region than across the East of England.

8.12 It is also useful to explore the volume and composition of sales, as this can reveal more about the dynamics of the housing market in an area. Figure 89 shows new and second-hand average prices and volumes for new and second hand dwellings.

Figure 89

Average Price of Properties Sold by age and type: Q2 2007-Q3 2008 **across the LCB (West).** (Source: HM Land Registry)

Property Type	Average Second hand Value £	Average New build Value £	Second hand Transactions	New build Transactions	New Build Premium
Detached	640,809	802,508	2386	52	25%
Flat	190,159	250,268	3460	645	31%
Semi	332,159	405,244	3180	52	22%
Terrace	254,643	406,115	4347	132	59%

8.13 Figure 89 shows that in 2007/8 there was, on average, a significant price difference between new and second hand housing for sale particularly in relation to terraced housing. There were significantly more transactions of terraced houses than other property types amongst second hand than new build housing. There are between 5 and 60 times more transactions of second hand homes to new homes

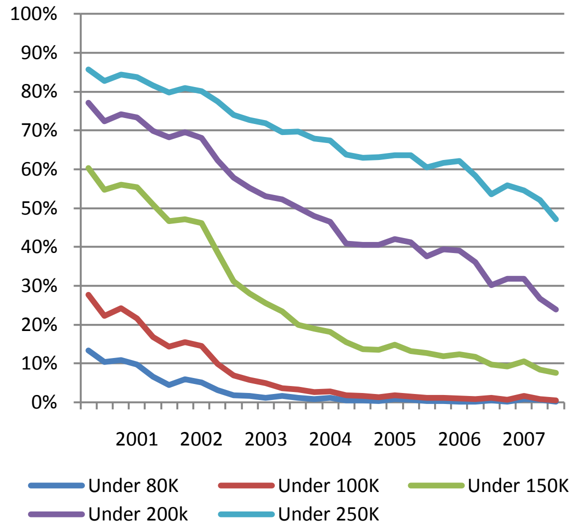
8.14 Figure 90 illustrates the small and diminishing proportion of lower priced properties coming to the market in the London Commuter Belt (West). Whilst in the second quarter of 2000 over 25% of all completed property sales were priced at less than £100,000, this proportion fell to below 5% from 2004 onwards.

8.15 £100,000 is around the maximum mortgage which is likely to be available to single first-time buyers with incomes of around £25,000-£30,000. It is apparent that the affordability of housing for sale for this group of workers has declined sharply. Conversely, the number of dwellings selling for over £200,000 rose from just over 20% of all sales to around 75% over the period Q2 2000-Q3 2007.

8.16 Figure 91 shows the volume of annual property sales since 2001. The number of completed sales peaked at over 16,000 in 2002. There was a slightly smaller peak over the 12 month period from late

2003 to early 2004, but after this time, the number of sales declined to around 12,000 transactions in the year to mid 2005, which coincided with a levelling off of property prices. The slowdown in the number of completed sales may reflect a lessening of demand in the housing market, with potential buyers thinking the market was over-priced. However, this proved to be a temporary pause and both prices and transactions increased in 2006, continuing to do so into 2007. However, during late 2008 there was a dramatic fall in transactions due largely to the shortage of mortgages caused by the credit crunch and the banking crisis.

Figure 90
Percentage of Houses Sold for Less Than Key Price Bands in LCB (West): Q2 2000-Q3 2007 (Source: HM Land Registry)



8.17 Figure 92 shows the distribution of all property transactions in London Commuter Belt (West) registered with the Land Registry for the period September 2006 to August 2007 broken down by price band. There were just over 15,000 transactions in the period. The largest volume of sales took place in the £225,000-249,999 band. This will be a reflection of the type of stock coming to the market in the sub-area, the demand for this stock in this price range and the influence of the increasing rate of stamp duty levied on sales above £250,000. 11.5% of all sales were over £500,000, reflecting the very high house prices in areas such as St. Albans and Hertsmere.

Figure 91
Number of Properties Sold in LCB (West): Q2 2000-Q3 2007
(Source: HM Land Registry. Note: Figures show rolling annual total based on quarterly data)

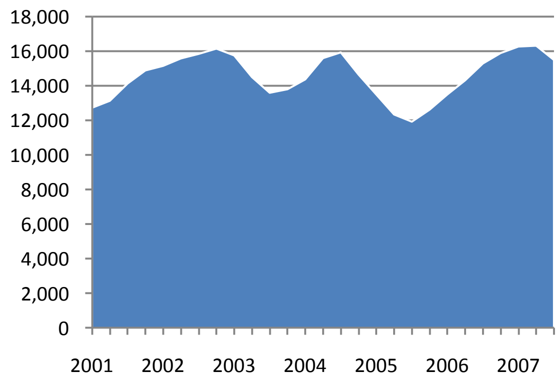
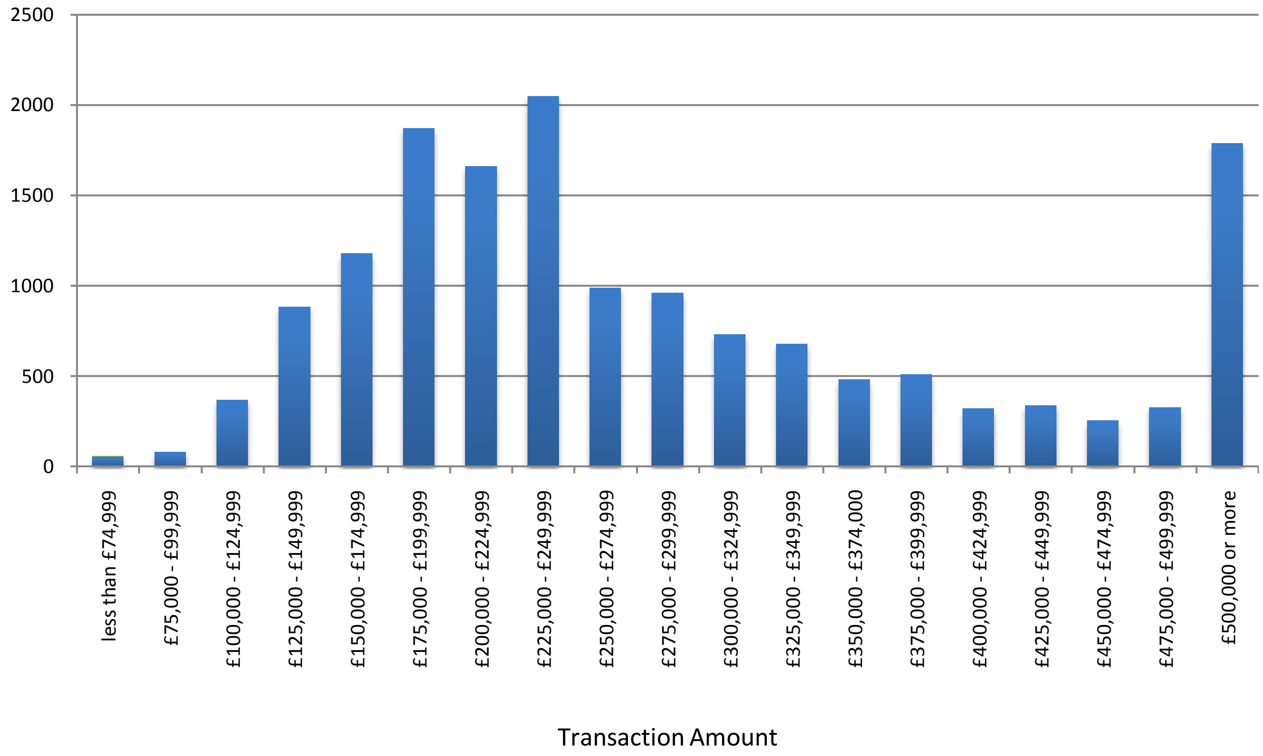


Figure 92

Volume of Property Sale Transactions in price bands for London Commuter Belt (West) 2006-07 (Source: HM Land Registry, All Transactions from September 2005 to August 2007)



8.18 The data table feeding the above chart is noteworthy because it provides a cumulative picture.

Price band	Number	Cumulative	Cumulative %
less than £74,999	54	54	0.35
£75,000 - £99,999	80	134	0.86
£100,000 - £124,999	366	500	3.22
£125,000 - £149,999	883	1,383	8.92
£150,000 - £174,999	1,178	2,561	16.51
£175,000 - £199,999	1,871	4,432	28.58
£200,000 - £224,999	1,659	6,091	39.27
£225,000 - £249,999	2,048	8,139	52.48
£250,000 - £274,999	988	9,127	58.85
£275,000 - £299,999	960	10,087	65.04
£300,000 - £324,999	730	10,817	69.75
£325,000 - £349,999	678	11,495	74.12
£350,000 - £374,000	482	11,977	77.23
£375,000 - £399,999	509	12,486	80.51
£400,000 - £424,999	319	12,805	82.56
£425,000 - £449,999	337	13,142	84.74
£450,000 - £474,999	254	13,396	86.38
£475,000 - £499,999	327	13,723	88.48
£500,000 or more	1,786	15,509	100.00

8.19 It is apparent that there were very few transactions (8.9%) for less than £125,000 which is the upper limit of the zero rated stamp duty band at the time. The zero rated stamp duty threshold was raised to £175,000 on 3/8/2008 and remained at this temporary level until dropping to £125,000 once again from 1/1/10. 16.5% of properties sold for less than £175,000. The range of prices observed is also dependent upon the type of stock that is sold in any one period, so if, for example, one year a large number of smaller flats were sold, the transaction amount would reflect this. It has to be noted that at least some of these properties at the extreme end of the scale will be small, badly located or subject to disrepair and may require a significant amount of investment to bring them up to an appropriate standard.

8.20 This data reflects a time when the market was at its peak. The housing market changed dramatically the following year when supply, demand and prices all fell significantly. This report takes a long term view of the housing market so later analysis considers a number of price related scenarios as the rate of recovery of the housing market is uncertain.

Further Information: Market housing for rent

8.21 Figure 93 provides a range of average market rents by each local authority area as at August 2009.

Figure 93
Average advertised cost of private renting pcm in LCB (West) (Source: Rightmove August 2009)

Local Authority Area	1 bed flat (£)	2 bed flat (£)	3 bed house (£)	4 bed house (£)
Dacorum	620	821	935	1,564
Hertsmere	690	898	1,171	1,568
St. Albans	738	902	1,357	1,610
Three Rivers	752	982	1,434	1,713
Watford	632	856	1,045	1,779
Welwyn Hatfield	632	810	947	1,059
Average	**677**	**870**	**1,177**	**1,400**

8.22 Based on the above data, and assuming that a household pays no more than the CLG guide of 25% of gross income on housing costs in the rented sector, the following household income levels would be required to service the average rents:

- £32,496 to afford the average cost of a 1 bed flat;
- £41,760 to afford the average cost of a 2 bed flat;
- £56,496 to afford the average cost of a 3 bed house; and
- £67,200 to afford the average cost of a 4 bed house in the LCB (West).

8.23 Hometrack data for June 2009, produced by St Albans City and District Council under license with Hometrack, indicates slightly lower median rents for advertised private sector rental properties across the LCB (West) sub-region. Based on this data and again assuming that a household pays no more than the CLG guide of 25% of gross income on housing costs a household would need the following income levels to service the rent:

- £30,888 to afford the average cost of a 1 bed property;

- £40,394 to afford the average cost of a 2 bed property; and
- £50,066 to afford the average cost of a 3 bed property.

Social Rented housing

8.24 To complete the review of the rented stock, we should also consider the cost of renting in the social sector, by local authority stock and RSL stock. Unlike market housing, rents in the social sector are controlled and locally set in line with the national Target Rent methodology. Average rents are given below in Figure 94 and Figure 95.

Figure 94 **Historic Average Weekly local authority rents in the LCB (West)** £ per week (Source: CLG live table 702. Note: LSVT = Large scale voluntary transfer, MYT = Mid-year transfer of stock)

Local Authority Area	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Dacorum	50.12	52.79	52.79	58.74	62.27	65.57	68.87
Hertsmere	LSVT	LSVT	LSVT	LSVT	LSVT	LSVT	LSVT
St. Albans	53.41	57.44	59.22	61.90	65.15	68.47	73.34
Three Rivers	55.73	59.34	60.52	63.28	66.19	69.49	MYT
Watford	54.12	56.32	57.54	60.70	63.86	66.14	MYT
Welwyn Hatfield	49.93	52.27	55.13	58.60	62.17	65.33	68.61
Average	52.66	55.63	57.04	60.64	63.93	67.00	70.27

Figure 95
Historic Average weekly RSL rents in the LCB West, £ per week (Source: CLG live table 704)

Local Authority Area	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Dacorum	61.17	64.23	66.49	69.06	73.88	77.42	80.71
Hertsmere	56.26	59.12	60.57	64.19	71.88	73.75	79.71
St. Albans	61.76	63.57	65.63	68.18	74.12	78.57	81.82
Three Rivers	64.85	67.07	68.89	70.58	80.36	82.80	85.63
Watford	60.82	68.23	68.50	70.11	75.35	78.96	81.02
Welwyn Hatfield	58.26	60.47	63.48	66.30	72.82	75.18	77.83
Average	60.52	63.78	65.59	68.07	74.74	77.78	81.12

Measuring the affordability of housing

8.25 For mortgage borrowing, CLG Practice Guidance states that it is reasonable to assume that a single earner will borrow up to 3.5x his/her gross income, with two income households borrowing no more than 2.9x their joint income.

8.26 The Council of Mortgage Lenders report of June 29 (2009) stated that the average loan to value (LTV) for a first time buyer is currently at 75% (down from 87% in June 2008) with an average income multiple of 3.08 (down from 3.33 in June 2008). Note that the average income includes all allowable income not solely earnings. For home movers, the average loan to value in June 2009 stood at 69% (down from 72% in June 2008) and the average income multiple stood at 2.76 (compared to 2.94 in June 2008). These are national figures that indicate a tightening of lending trends to more sensible and sustainable levels compared to the pre-credit crunch era when some institutions were reported as lending in excess of 100% LTV or up to 5 times income multiples.

8.27 For rental payments, CLG Guidance considers that households should contribute no more than 25% of their gross income toward rental payments.

8.28 On the basis of households spending no more than 25% of their gross income on housing costs (rented), in 2007/08, a gross annual income of £14,616 would be required to pay the average RSL target rent for a 1 bedroom dwellings across LCB (West). These figures are based on target rents set by the Housing Corporation for the year 2007/08.

8.29 On the basis of households spending no more than 25% of their gross income on housing costs (rented), in 2007/08, a gross annual income of £16,873 would be required to pay the average cost of RSL rent across the LCB (West).

8.30 RSL target rents for 2007/8 were obtained from the (then) Housing Corporation website by property size. The following incomes required are based upon 25% of the annual target rent for each property size. Generally across the LCB (West), households would require the following income levels to service rent of the following social rented homes;

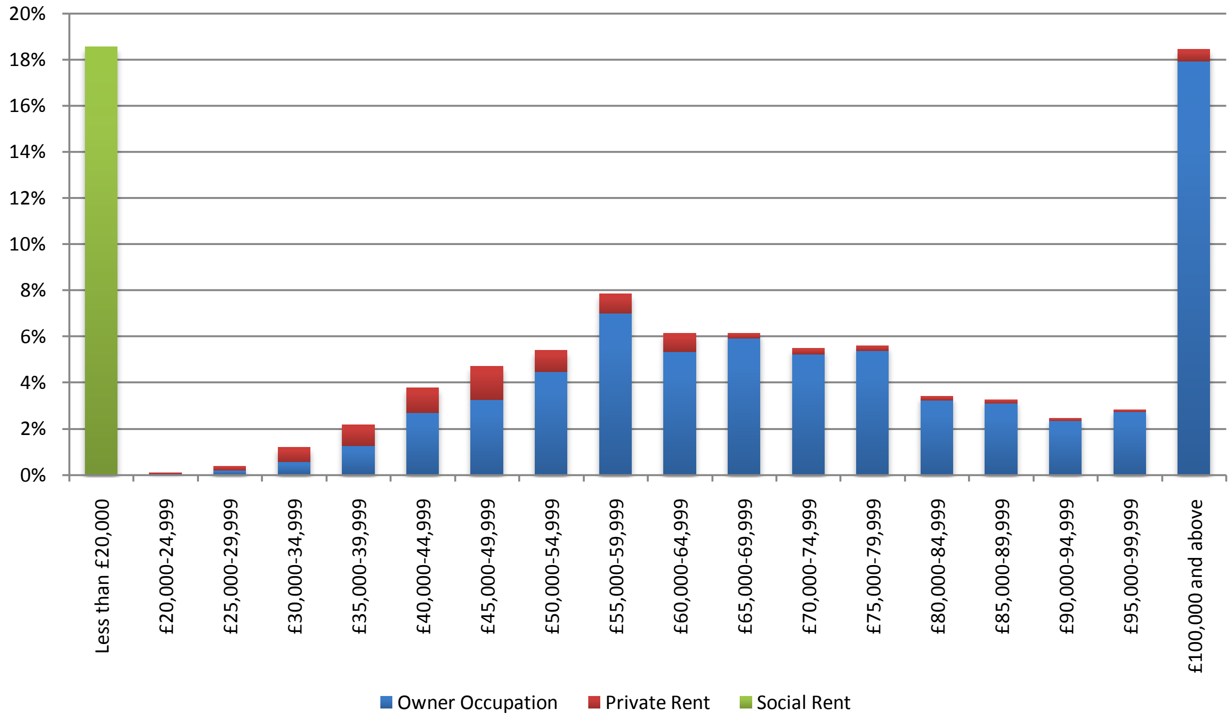
- 1 Bedroom: £14,000;
- 2 Bedroom: £16,800;
- 3 Bedroom: £19,100; and
- 4 Bedroom: £20,800.

8.31 Households with incomes lower than the above amounts would typically qualify for Housing Benefit Support; therefore all social rented properties should be affordable to all households.

The Affordability of Local Available Housing to Local Households

8.32 Figure 96 (below) shows the required annual income to service the cost of all housing types in the London Commuter Belt (West) sub-region and identifies the proportion of dwellings that would be considered affordable to households on a range of incomes. Note that there is no systematic way of recording the volume of private rented sector transactions and rents over time so our methodology for estimating these is described below. The data for transactions represents the most recently available at the outset of the modelling process and forms the baseline house price profile for modelling future housing requirements.

Figure 96
Available Housing Stock by Required Household Income in LCB (West) 2006-07 (Source: Modelled based on HM Land Registry, All Transactions from September 2006 to August 2007 and Existing Social Housing Stock)



Data table of figure 96: **Available Housing Stock by Required Household Income in LCB (West) 2006-07** (Source: Modelled based on HM Land Registry, All Transactions from September 2006 to August 2007 and Existing Social Housing Stock)

Income band	Owner Occupation	Private Rent	Social Rent	Total Stock	Total stock Cumulative	Owner Occupation Cumulative
Less than £20,000	0.02%	0.13%	18.53%	18.56%	18.6%	0.0%
£20,000-24,999	0.05%	0.13%	0.00%	0.09%	18.7%	0.1%
£25,000-29,999	0.19%	0.50%	0.00%	0.37%	19.0%	0.3%
£30,000-34,999	0.56%	0.81%	0.00%	1.19%	20.2%	0.8%
£35,000-39,999	1.27%	0.98%	0.00%	2.18%	22.4%	2.1%
£40,000-44,999	2.69%	1.44%	0.00%	3.78%	26.2%	4.8%
£45,000-49,999	3.24%	1.10%	0.00%	4.72%	30.9%	8.0%
£50,000-54,999	4.47%	0.84%	0.00%	5.41%	36.3%	12.5%
£55,000-59,999	7.00%	0.79%	0.00%	7.85%	44.1%	19.5%
£60,000-64,999	5.34%	0.29%	0.00%	6.13%	50.3%	24.8%
£65,000-69,999	5.91%	0.27%	0.00%	6.14%	56.4%	30.7%
£70,000-74,999	5.23%	0.22%	0.00%	5.49%	61.9%	36.0%
£75,000-79,999	5.38%	0.19%	0.00%	5.60%	67.5%	41.3%
£80,000-84,999	3.23%	0.17%	0.00%	4.41%	71.9%	45.6%
£85,000-89,999	3.10%	0.10%	0.00%	3.37%	75.3%	48.8%
£90,000-94,999	2.34%	0.10%	0.00%	3.45%	78.7%	52.1%
£95,000-99,999	2.73%	0.06%	0.00%	2.82%	81.6%	54.8%
£100,000 and above	17.94%	0.64%	0.00%	18.45%	100.0%	72.8%

8.33 In 2006-2007, households with incomes of less than £20,000 had very little or no open market housing options available to them and are assumed to require social rented housing. In the London Commuter Belt (West), 18.5% of local housing would be affordable to those with incomes of £20,000. This is almost entirely in the social sector, with or without benefit support.

8.34 Virtually no owner occupied or private rented housing within the LCB (West) area was affordable to households with incomes of less than £30,000 p.a. and only 8% of properties sold were affordable to individual earners with incomes of less than £44,999 borrowing at the maximum 3.5 x income to loan ratio, assuming little or no equity.

8.35 For households who do not already own housing to be able to consider purchasing within the cheapest quarter of properties on the market for sale, individual earners contemplating the purchase of a £200,000 home (Figure 92) would need gross income of over £60,000, with joint borrowers needing gross incomes of £65,000-69,999 or more. A deposit would be required which would reduce the size of the loan to be serviced.

8.36 There is no established way of monitoring transaction volumes and rents over time in the private rented sector. Therefore, ORS has developed a model for this. This model estimates the mix of dwelling types based upon census data at an LSOA level, the purchase price and the current 5.9% yield from buy-to-let properties (Source: Landlord Mortgages 2007). Accordingly, we can estimate the amount of market housing for sale and rent and the rent likely to be charged. CLG affordability ratios can then be applied to understand the range of income required to access properties in the private rented sector.

8.37 The first question the ORS Housing Market Model is seeking to estimate is how the tenure mix of the LCB (West) sub-region should change from 2001 to 2021. The model uses the position at the 2001 Census as its baseline. The model then uses household projections and affordability estimates.

8.38 The affordability of the housing stock is based upon house prices from the period September 2006 to August 2007, private rent yields from 2007 and social rent costs for the period April 2007 to March 2008. The affordability of the housing stock is initially assessed at 2007 prices, but this is later linked to long-term trends. The model is able to estimate how the stock will need to change between 2001 and 2021 using housing costs at 2007 levels. The model then assesses the impact of newbuild development since 2001 and the impact of different affordability assumptions.

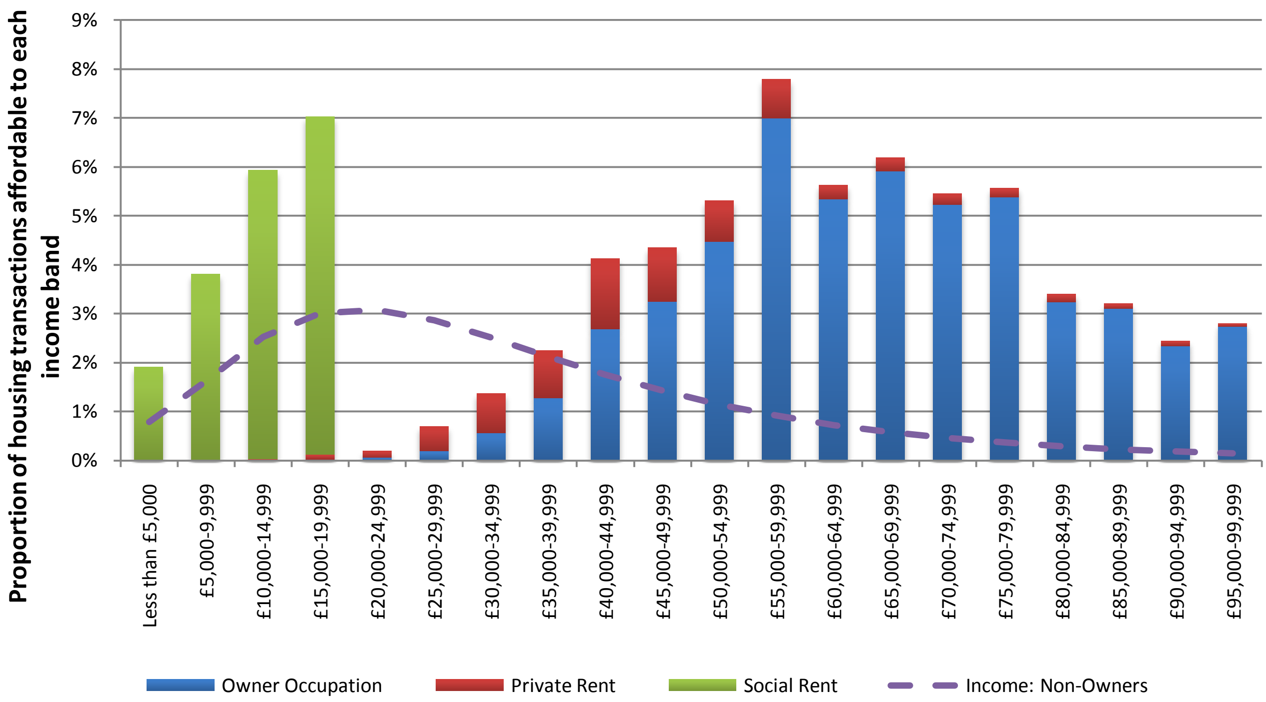
8.39 The ORS Housing Market Model projects that the private rented market was, in 2006-2007, slightly more affordable to households than home ownership, with approximately 17% of all properties in the private rented sector affordable to households with incomes of less than £34,999. The data table linked to Figure 96 shows that more private rented dwellings are available at incomes up to £34,999 than owner occupied ones. However, household incomes of over £45,000 were required to access more than half of the private rented properties coming to market that year. As is previously explained, the model does not use the private rented data outlined in Figure 93, but instead applies an assumption that the yield on private rented dwellings is 5.9%. This allows us to obtain a full distribution of private rented dwellings rather than assuming an average price.

8.40 Again referring to data table Figure 96 above, half of the owner occupied and market rental stock (47.6%) required incomes of £65,000 or more, with around a third (30.4%) requiring an annual income of £80,000+. Note that a smaller fraction is market housing for sale. Given that over 70% of the overall stock is owner-occupied, many households are likely to benefit from an element of existing equity and would not be solely dependent on household income. However, most newly forming households, households seeking to move out of rented housing, or indeed those suffering from negative equity, are unable to benefit from this additional source of finance.

8.41 When we consider only those properties that become affordable within each of the income bands, the limited supply of housing available to many households becomes clear.

8.42 We have modelled local incomes to determine the income structure of those households who are not already homeowners. Note that ORS has amended the income distribution (but not the values) suggested by CACI. This is based upon evidence of household income distribution from a large household survey conducted by ORS in Bedfordshire. The outcome of this modelling process has been compared to the distribution of transactions within the housing stock to identify any apparent shortfalls or surpluses affordable to households with this income distribution.

Figure 97
Affordability for Housing Stock for Non-owners in LCB (West) (Modelled based on HM Land Registry, All Transactions from September 2006 to August 2007 and CACI Paycheck data)



8.43 Regarding Figure 97 note that:

- the same vertical access scale applies to households and the available stock. As an example just over 2% of non home-owning households are in the £35,000 - £39,999 income band for which just over 2% of market housing is affordable to this group; and
- the volume of transactions sum to 100% however for presentation purposes the £100,000 plus income band is not shown. The proportion of market housing for sale is based upon actual transactions from the land registry. Social rent proportions are as reported in published HSSA statistics. Private rented proportions are estimated based upon the methodology described above.

8.44 The following table contains the data that enables the income of non home owners to be plotted.

Figure 98

Proportion of non owners in each income band (Modelled using CACI Paycheck data)

Income band	Proportion of non owners of all households in income band	Cumulative Proportion of non owners of all households in income band	Cumulative % of non owners only in each income band
Less than £5,000	0.79%	0.79%	2.97%
£5,000-9,999	1.63%	2.42%	9.06%
£10,000-14,999	2.52%	4.94%	18.51%
£15,000-19,999	3.01%	7.95%	29.77%
£20,000-24,999	3.07%	11.02%	41.28%
£25,000-29,999	2.86%	13.88%	51.99%
£30,000-34,999	2.51%	16.39%	61.39%
£35,000-39,999	2.12%	18.51%	69.34%
£40,000-44,999	1.75%	20.26%	75.90%
£45,000-49,999	1.42%	21.69%	81.22%
£50,000-54,999	1.14%	22.83%	85.51%
£55,000-59,999	0.91%	23.74%	88.92%
£60,000-64,999	0.73%	24.47%	91.64%
£65,000-69,999	0.58%	25.04%	93.80%
£70,000-74,999	0.46%	25.50%	95.51%
£75,000-79,999	0.36%	25.86%	96.86%
£80,000-84,999	0.29%	26.15%	97.93%
£85,000-89,999	0.23%	26.38%	98.78%
£90,000-94,999	0.18%	26.56%	99.46%
£95,000-99,999	0.14%	26.70%	100.00%

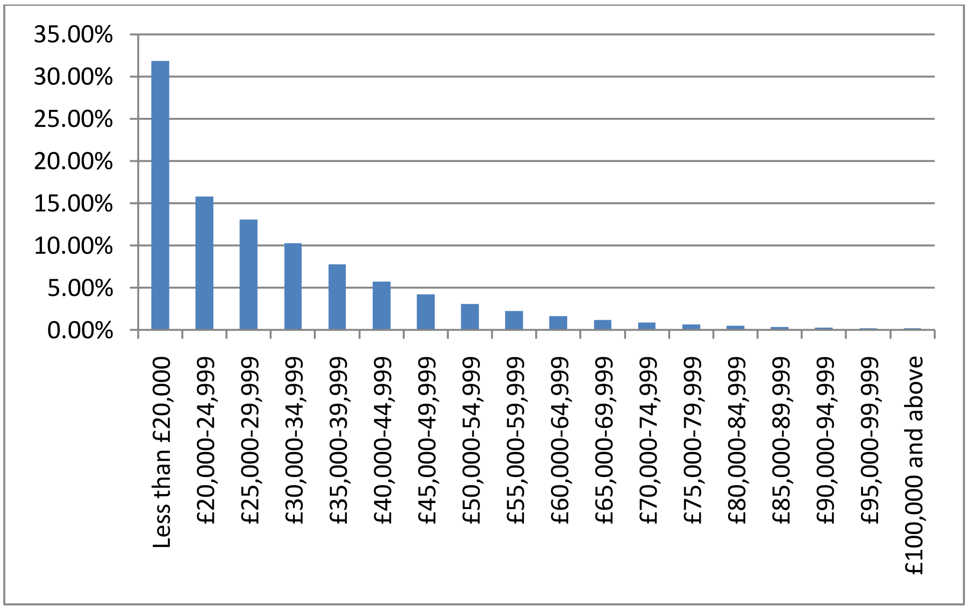
8.45 From Figure 97 and its data table we note that :

- the supply of housing which is affordable to existing households with incomes of less than £20,000 is higher than the number of existing households in this category. This implies that there is an excess of affordable housing stock;
- there is a shortage of property transactions in the bands that would be affordable to non home-owning households with incomes between £20,000 and £34,999;
- a stock of market housing for sale and rent is affordable to households in the £35,000 to £39,000 income band. However, this does not mean that the type of property affordable to this income group meets the housing requirements of those households;
- above the £40,000 income point, around 30% (100%-69.34%) of non home owners could afford varying proportions of the available market housing. However, given the ratios of earnings to property prices within the sub-region, it is likely that much of the housing that is available to households in these income bands will mostly be bought by existing home owners using some combination of income and equity; and
- there will be an unknown number of non owning households who can afford some of this housing (e.g. due to savings, gifts of money or inheritance). The Council of Mortgage Lenders (CML) (09 July 2009) reports that the average loan to value mortgage for first time buyers currently stands at 75%. Whilst dwellings are at lower values in 2009 than in 2008, a 25% deposit is still a significant sum given local prices. Further, CML analysis suggests that up to

80% of first-time buyers aged under 30 are likely to be receiving help from parents due to the size of deposits now needed to enter the market.

8.46 Figure 99 shows that the income of non-home owning households within the LCB (West) sub-region is skewed toward the lower income groups.

Figure 99
Income distribution of Non-owners in LCB (West) (Modelled, based on CACI Paycheck data)



8.47 In 8.35, we highlighted that for households wishing to purchase a dwelling for £200,000, being the higher end of lower quartile of properties on the open market, households with a single income would need income of around £60,000 and households with more than one income would need around £65,000 p.a.

8.48 However, with average earnings of those living and working in the area at around £29,664 and average property prices across the sub-region of £313,993 it is clear that there is likely to be a lack of good quality owner-occupied housing for any first time buyer, especially those with a household income of less than £35,000. It is also likely that additional households, with even higher incomes, will be excluded from buying on the open market due to a combination of affordability, lack of choice and quality. Note that average earnings are difficult to assess and here a composite average of those employed in and living in the LCB West derived from Figure 52 has been used. House prices have been taken from Land Registry data as at the third quarter 2008. The variation in house prices is significant, between £236,036 in Watford and £377,982 in St. Albans.

8.49 This raises the matter of the role that the intermediate market might play for those with incomes higher than £20,000 but lower than that required to purchase on the open market or rent privately.

8.50 The number of households for whom intermediate housing could be an option will be affected by a number of considerations including cost, location, flexibility of tenure and aspirations to achieve full ownership. Understandably, it is difficult to quantify the impact that aspirations will have on the demand for intermediate housing and to what extent they would override the attractiveness of other options, such as renting through the private sector.

8.51 The apparent surplus of affordable housing needs further clarification:

- some social housing is occupied by households that can afford intermediate or market housing options;
- many social tenants are unsuitably housed and new stock needs to be provided to reflect this mismatch; and
- some households may be in housing need but are not registered with a local authority or RSL.

8.52 To support these points:

- evidence from CORE data in 2006/07 shows that around 13% of all general social lettings were to households with incomes from employment of £20,000 or more with 5% of all general lettings going to households with incomes of over £30,000; and
- existing social tenants have security of tenure and may be unwilling to lose this benefit through moving into a tenure group that does not provide equivalent security.

8.53 An increased provision of intermediate housing could allow households to leave social rented accommodation and thus free up more social housing stock for those who cannot afford to move elsewhere. This assumes that the cost, quality, location and concept of the intermediate properties is attractive to current social rent tenants and, critically, that these households would want to move from their current home.

8.54 A consequence of increasing the supply and turnover of social rented housing might be that more concealed households on low incomes would register for it, perceiving there to be a greater chance of being housed. This in turn could increase the overall demand for social rented housing. Concealed households on low income or those not yet formed, may not have registered with a local authority or registered social landlord because they recognise that their need for housing would be assessed as low priority for a letting against current tenancy allocations criteria.

8.55 Overall, we arrive at some broad assumptions about what tenure households can afford:

- households with an income of up to £20,000 p.a. can afford all social housing. Affordability levels vary depending on income levels below £20,000 and the size of property required. However, it is assumed that housing benefit would be available to those on very low incomes; and
- there is a potential market for a range of intermediate housing options to meet a housing need for households who are unable to access housing on the open market.

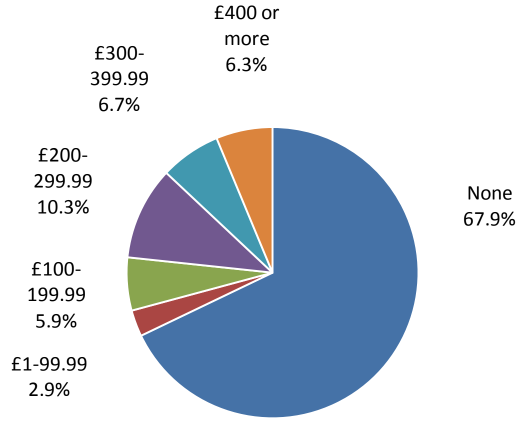
8.56 The shortage of housing options for households with an income in excess of £20,000 but below levels required to purchase locally on the open market is partly compensated by social housing or private rented housing. The latter may be assisted through housing benefit.

8.57 We must stress that these are very broad assumptions about affordability. Household income and affordability depend upon wider circumstances such as household size, number of earners and whether income is earned or benefit based. The affordability, circumstances, choices and degree of urgency facing a low income single person household seeking a 1 bedroom flat are very different to a low income 5 person household needing a 4 bedroom house. This is why we consider housing benefit next and base our social housing requirement estimates upon demographics rather than affordability criteria.

Housing Benefit

8.58 Figure 100 shows that over two thirds of all new social tenants in the sub-region had no earnings from employment. This indicates that many of the new lettings are to households which are entirely dependent upon benefits. 13% of new lettings were to households with net take-home earnings from work of over £300 per week. This is equivalent to a gross salary of around £20,000 per annum.

Figure 100
Weekly Take-home Earnings of New Social Tenants in LCB (West)
(Source: University of St Andrews CORE Records 2004-2007)

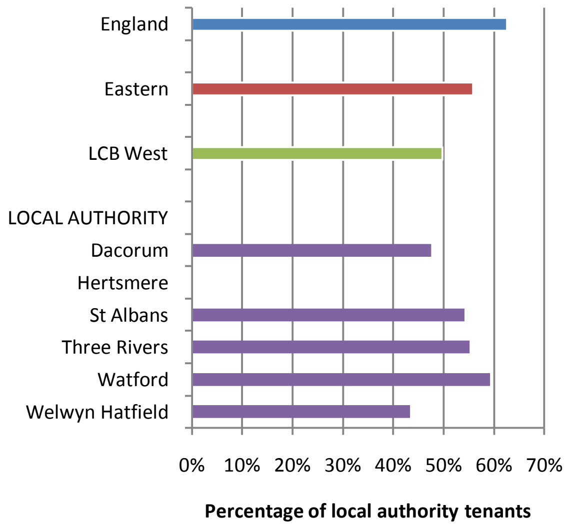


8.59 Many households in both the social and private rented sectors are able to claim support with rent costs in the form of housing benefit. The Department of Work and Pensions (DWP) publish quarterly statistics for Housing Benefit recipients.

8.60 These statistics distinguishes between local authority tenants, tenants of registered social landlord properties and those in the private rented sector. There are no precise figures for the number of housing benefit claimants in the private rented sector, but there are broad indications of how housing benefit claimant numbers in the private rented sector have been changing.

8.61 Across the London Commuter Belt (West) sub-region, around 50% of all local authority households claim Housing Benefit (Figure 101). This figure is lower than that found for local authority tenants in England or in the Eastern region as a whole. This may reflect lower levels of deprivation in LCB (West) with a higher proportion of social tenants being able to afford their rents. It should be noted that there are no LA tenants claiming housing benefit from Hertsmere BC because Hertsmere transferred all its housing stock to two RSLs following LSVT in 1994.

Figure 101
Housing Benefit Receipt for Local Authority Renting Households by Local Authority (Source: DWP May 2007 and HSSA 2006. Note: Hertsmere has no local authority stock following a voluntary stock transfer)



8.62 Figure 102 shows the number of housing benefit claims for those in registered social landlord and private rented dwellings. In Hertsmere, the rates are much higher than in any other authorities in the sub-region. This is primarily due to Hertsmere's local authority stock having been transferred to registered social landlords. It does not imply that households in registered social landlord or private rented dwellings are more likely to claim housing benefit in Hertsmere.

8.63 All local authorities have seen a rise in the number of claimants that are Local Authority renting households from 11,300 in the first quarter of 2003 to 14,200 in the second quarter of 2007 which represents a rise of 25%. This varies from a 50% increase in Watford compared to a 9% increase in Hertsmere, though this from a considerably higher starting point).

Figure 102
Number of Non Local Authority Tenant Housing Benefit Recipients: Q1 2003-Q2 2007 (Source: DWP)

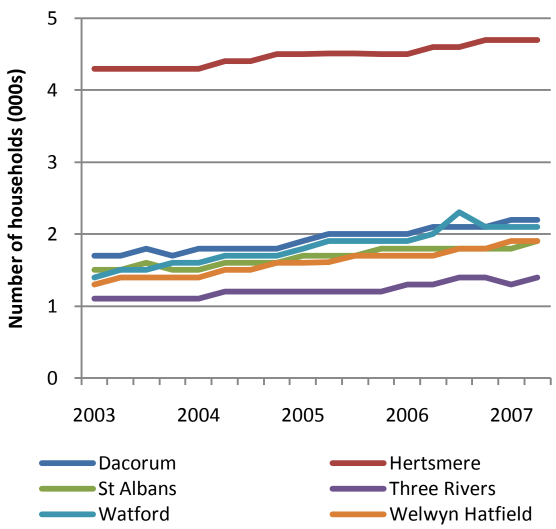
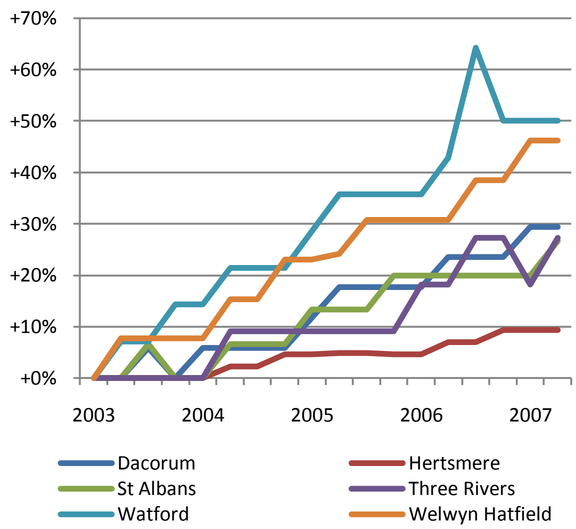


Figure 103
Index of Non Local Authority Tenant Housing Benefit Recipients relative to Q1 2003 base: Q1 2003-Q2 2007 (Source: DWP)



Summary of Key Points

- The average price of all property types in all local authority areas within the sub-region significantly exceeds regional and national averages.
- The ratio of lower quartile house prices to lower quartile earnings by local authority area significantly exceeds the national average (6.98), ranging, in 2008, from 9.15:1 in Dacorum to 12.78:1 in St Albans.
- On the basis of households spending no more than CLG guideline amounts for market housing:
  - Virtually no owner occupied or private rented housing within the LCB (West) sub-region is affordable to households with incomes of less than £30,000 p.a.
  - There is a significant shortage of property transactions affordable to non home owning households with incomes in the £20,000 to £34,999 bands.
  - Some market housing is affordable for sale or rent to households in the £35,000 to £39,000 income band. However, this does not necessarily mean that the type of property affordable to this income group meets their housing requirements and even those with higher incomes may struggle to find sufficient choice within their affordable range.
  - It is likely that the housing that comes to the market and is affordable to higher income bands will mostly be bought by existing home owners using some combination of income and equity.
- The provision of Intermediate Affordable housing options could help provide wider housing choice to those households with incomes above £20,000, provided it is priced to be affordable to households, using CLG affordability ratios as a guideline.
- It is possible that if the supply and turnover of social housing was to increase there could be an associated increase in demand for social housing from concealed households with low levels of housing need.
- Across the LCB (West) sub region, around 50% of all Local Authority households claim housing benefit.
- All authorities have seen a rise in the number of housing benefit claimants by Local Authority renting households since 2003, rising from 11, 300 to 14, 200 by the second quarter of 2007, representing a rise of 25%.