

How do we 'put a roof' over everyone's head at a cost they can afford?

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5 'to dos'

1. Understand price and rental data
2. What is the real definition of affordability?
3. Do we have a wage or a housing crisis?
4. Identify where the private sector can't deliver
5. Provide local solutions to local problems

Understanding property prices

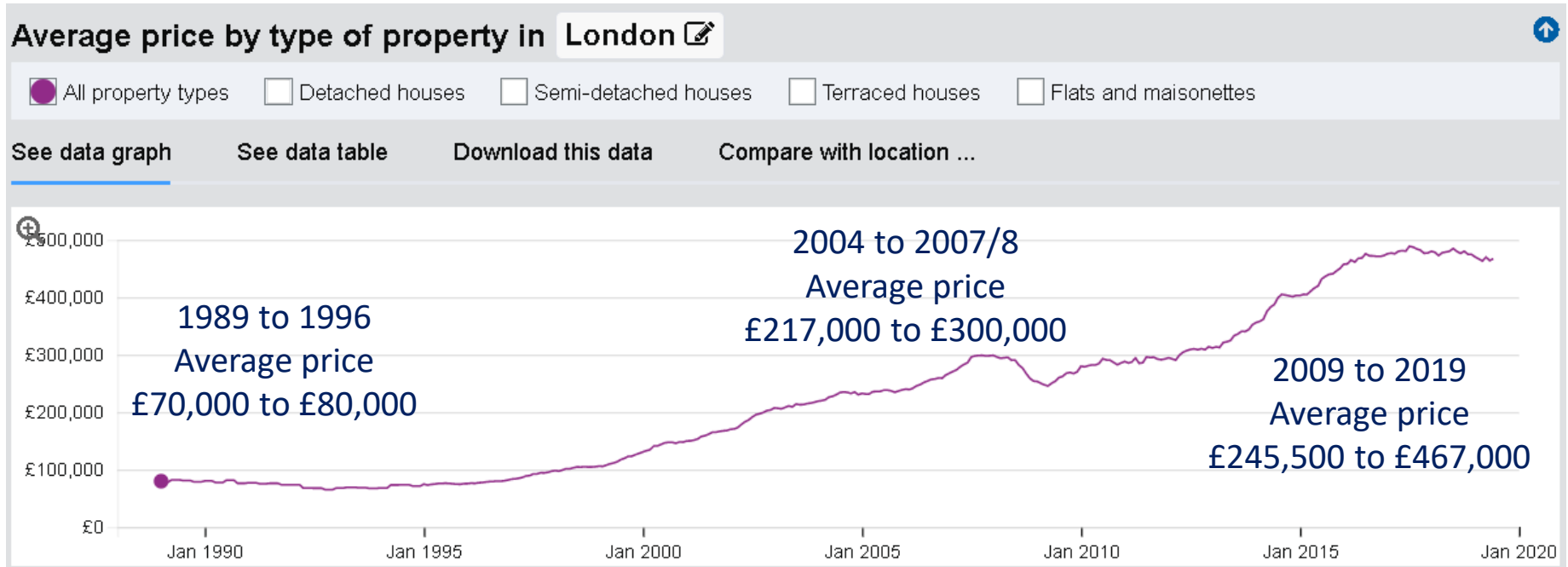
Property prices and rents
are not growing everywhere

Affordability of housing

Cost to secure a property

Cost to hold

London house prices aren't representative of most areas



Affordability: % mortgage payments vs earnings

1989 to 1996	1997 to 2003	2004 to 2007/8	2007/8 to 2009	2009 to 2019
90.2% to 22.2%	28% to 45%	48.5% to 70%	70% to 47.5%	47.5% to 57%

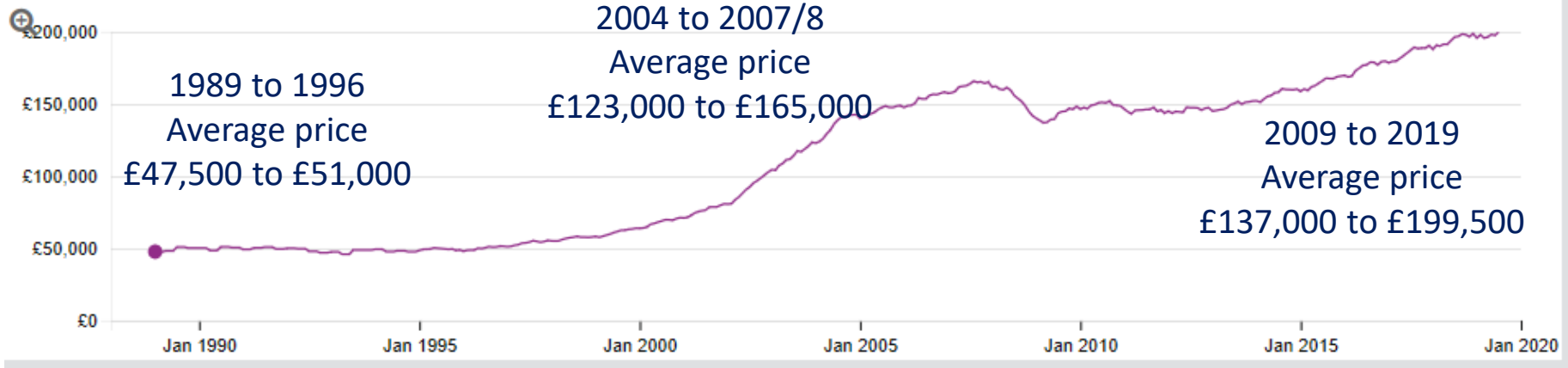
Source: Nationwide FTB Affordability Index: Mortgage payments as % of mean take home pay

West Midlands house prices

Average price by type of property in West Midlands Region

All property types
 Detached houses
 Semi-detached houses
 Terraced houses
 Flats and maisonettes

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1997 to 2003
 Average price
 £51,000 to £123,000

2007/8 to 2009
 Average price
 £165,000 to £137,000

Affordability: % mortgage payments vs earnings

1989 to 1996
 55.5% to 19%

1997 to 2003
 22% to 33.5%

2004 to 2007/8
 37% to 47%

2007/8 to 2009
 47% to 32%

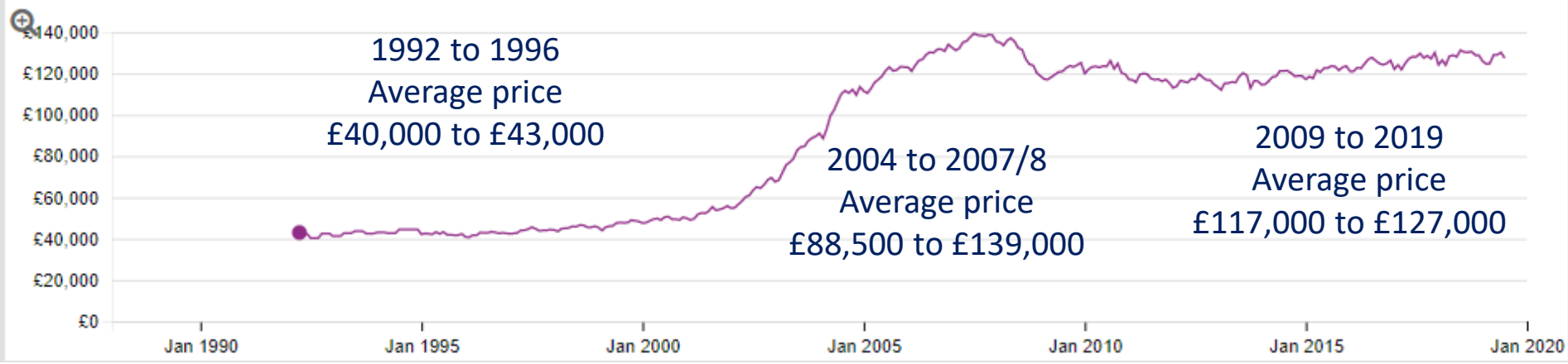
2009 to 2019
 32% to 28%

North East house prices

Average price by type of property in North East

- All property types
- Detached houses
- Semi-detached houses
- Terraced houses
- Flats and maisonettes

- [See data graph](#)
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1997 to 2003
Average price
£42,000 to £89,500

2007/8 to 2009
Average price
£139,000 to £117,000

Affordability: % mortgage payments vs earnings

1989 to 1996	1997 to 2003	2004 to 2007/8	2007/8 to 2009	2009 to 2019
51% to 16%	17% to 26%	30% to 40.5%	40.5% to 26.5%	26.5% to 20%

Source: Nationwide FTB Affordability Index: Mortgage payments as % of mean take home pay

Affordability ups and downs

First time buyer affordability measure



Mortgage payments as % of mean take home pay

	North	Yorks & H	North West	East Mids	West Mids	East Anglia	Outer SE	Outer Met	London	South West	Wales	Scotland	N Ireland	UK
2007 Q1	38.3%	41.2%	40.3%	41.9%	44.7%	46.5%	50.6%	51.7%	62.5%	53.9%	45.3%	34.9%	63.1%	46.5%
2007 Q2	39.9%	42.0%	41.6%	43.6%	45.8%	47.9%	52.9%	53.9%	64.9%	55.1%	47.1%	38.0%	69.9%	49.7%
2007 Q3	39.4%	43.3%	42.1%	44.4%	46.2%	48.7%	54.5%	54.9%	68.7%	56.9%	47.1%	38.8%	74.8%	51.1%
2007 Q4	40.5%	43.7%	42.6%	44.2%	47.1%	49.6%	54.9%	55.6%	69.6%	57.4%	47.5%	39.0%	72.5%	51.8%
2019 Q1	20.1%	22.1%	23.5%	27.7%	28.4%	32.0%	36.7%	42.5%	57.4%	36.3%	24.7%	19.6%	24.8%	31.5%

Every single region is more affordable than Q1 2007

9/13 regions are seeing FTBs paying less than 32% of their mean take home pay on a mortgage

The average for the UK is 31.5% of mean take home pay

So what's the affordability problem?
The deposit

Comparing the cost of different tenures: London

Costs	Buy an existing house in London	Buy an existing flat in London	Buy a new build with H2B	Buy a new build with H2B	Buy a shared ownership	Rent a property
Estimated value	£350,000	£325,000	£364,380	£359,000	£128,000	N/A
Property Type	Two bed house	Two bed flat	Two bed flat	One bed flat	Two bed flat	Two bed flat
Deposit	5%	£16,250	£18,219	£17,950	£6,400	£1,269
	26%	£91,000	£84,500	N/A	N/A	
Costs to purchase	5,950	4,700	6,219	5,950	3,000	200
Costs up front	£96,950	£89,200	£24,438	£23,900	£9,400	£1,469
Total annual running costs	£15,752	£15,346	£12,786	£12,440	£13,168	£13,200

Existing homes for the 'average' FTB require around £80-90,000 upfront costs

H2B requires just under £25,000

Shared Ownership just under £10,000

Renting just under £1,500 (£2,600 including one month's rent upfront)

Annual running cost for each tenure range from £12,000 to £16,000

Comparing the cost of different tenures: Nottingham

Costs	Buy an existing house in Nottingham	Buy an existing flat in Nottingham	Buy a new build with H2B	Buy a new build with H2B	Buy a shared ownership	Rent a property
Estimated value	£100,000	£80,000	£120,000	£115,000	£46,250	£595
Property Type	Two bed house	Two bed flat	Two bed flat	Two bed flat	Two bed house	Two bed flat
Deposit	5% 26%	5% 26%	5% 26%	5% 26%	5% 26%	5% 26%
	£5,000 N/A	£4,000 N/A	£6,000 N/A	£5,750 N/A	£2,313 N/A	£687
Costs to purchase	£ 1,700	£ 1,600	£ 1,600	£ 1,600	£ 1,700	£ 200
Costs up front	£6,700	£5,600	£7,600	£7,350	£4,013	£887
Total annual running costs	£5,666	£6,843	£6,750	£6,814	£4,186	£7,140

Existing homes for the 'average' FTB require around £6-7,000 upfront costs

H2B requires just under £7,600

Shared Ownership just under £4,000

Renting just under £900 (£1,500 including one month's rent upfront)

Annual running cost for each tenure range from £4,000 to 7,000

Renting is mostly good value for money

- Office of National Statistics PRS Index

ONS PRS changes	England	Annual Inflation (CPI)	Rents rising
Dec 2006	2.3	2.86%	Lower
Dec 2007	3.4	2.30%	Higher
Dec 2009	-0.5	2.07%	Lower
Dec 2010	0.7	3.15%	Lower
Dec 2011	3.0	3.60%	Lower
Dec 2012	2.7	2.42%	Higher
Dec 2013	1.7	1.95%	Lower
Dec 2014	1.8	0.71%	Higher
Dec 2015	2.7	0.50%	Higher
Dec 2016	2.5	1.79%	Higher
Dec 2017	1.3	2.74%	Lower
Dec 2018	1.1	2%	Lower
Jul 2019	1.4	1.70%	Lower

Like for like buying vs renting

	South West					North West						
	Buying		Renting		+/-	Buying		Renting		+/-		
Savings required	£	10,500	£	1,439	£	9,061	£	7,450	£	1,017	£	6,433
Annual running costs	£	14,628	£	15,405	-£	777	£	11,199	£	10,745	£	454
	South East					North East						
	Buying		Renting		+/-	Buying		Renting		+/-		
Savings required	£	12,900	£	1,515	£	11,385	£	7,550	£	858	£	6,692
Annual running costs	£	17,566	£	15,065	£	2,501	£	11,322	£	9,365	£	1,957
	East					North East						
	Buying		Renting		+/-	Buying		Renting		+/-		
Savings required	£	11,900	£	1,273	£	10,627	£	6,650.0	£	996.2	£	5,653.8
Annual running costs	£	16,342	£	12,965	£	3,377	£	10,220.0	£	10,565.0	-£	345.0
	East Midlands					London						
	Buying		Renting		+/-	Buying		Renting		+/-		
Savings required	£	8,450	£	1,029	£	7,421	£	24,900	£	2,093	£	22,807
Annual running costs	£	12,424	£	10,853	£	1,571	£	24,913	£	20,205	£	4,708
	West Midlands											
	Buying		Renting		+/-							
Savings required	£	8,650	£	1,377	£	7,273						
Annual running costs	£	12,668	£	14,865	-£	2,197						

Question/Discussion:

What is the real
definition of affordability?

What location radius do we use?

What's the definition of a 'crisis'?

Do we have a wage or a housing crisis?

Percentage change (yearly) by type of property in London

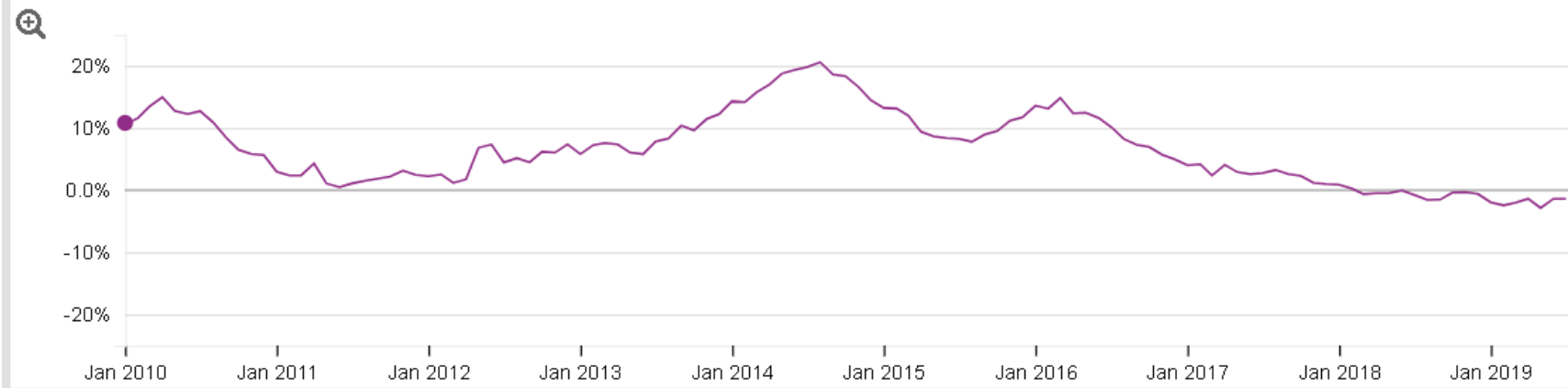
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Between 2009 to 2019 average price rose by 90%

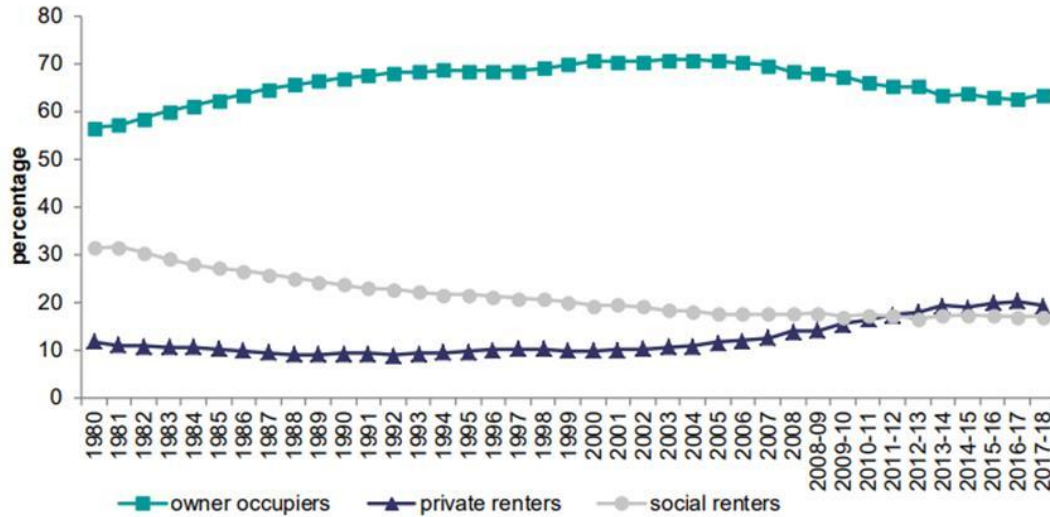
Civil Service wage increases

Civil service pay has been frozen since 2010, bonuses have been sharply reduced, and pension contributions have increased. As a result, the real pay of UK civil servants has, like that of most of their private sector counterparts, fallen very significantly in real terms

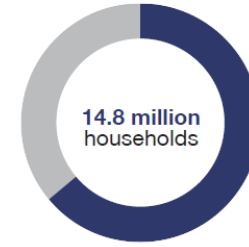
<https://www.civilservant.org.uk/information-pay-general.html>

How we put a roof over our head is changing

Trends in tenure (proportions) 1980 to 2017-18



64% of households are **owner occupiers**



Among **owner occupiers**, there are more outright owners than those buying with a mortgage



53%
outright owners



47%
mortgagors

Base: all households

Note: underlying data are presented in Annex Table 1.1

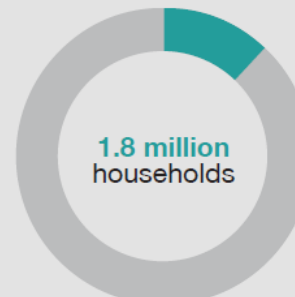
Sources:

1980 to 1991: DOE Labour Force Survey Housing Trailer;

1992 to 2008: ONS Labour Force Survey;

2008-09 onwards: English Housing Survey, full household sample

Casual letting



In the last 12 months, **12%** of owner occupied households rented part or all of their home out using home sharing organisations

**How we
consume
property is
changing**

Live at home



Rent a room



Rent a whole
property with
friend/partner



'Boomerang
home/rent again



Buy first home:
Bank of Mum and Dad
SO/RTB//H2B/



Sell 1st home & trade up or
buy 2nd home, let the 1st



Stay 1st home, BTL; split up, buy 2 smaller
homes; move into social housing



Renovate
or build; inherit

Let out a spare
room; Airbnb



Buy a holiday home;
release equity,



Retirement or care home,
move in with kids/they
move in with you



We have three choices when providing affordable housing

- Private sector delivers
 - where it can do profitably
 - no cost to the tax payer
- Subsidise the private sector
 - at reasonable cost to the tax payer
- Provide social housing
 - regard this as an investment in the long term

Provide local solutions to local problems

- Good current ideas
 - Infrastructure unlocking areas for development
 - Custom Build Register
 - Shared Ownership - but it should be common hold not leasehold
 - Institutional Build to Rent
 - Pros and cons of commercial to resi development
 - Pros and cons of Help to Buy
- Other ideas
 - How can we help the elderly 'stay where they are' and deliver more homes?
 - How can we change home financing to allow more people on the ladder?
 - Can we build properties that can be expanded and/or adapted into two or three properties in the future?
 - How do we replace H2B as a private sector?

Provide local solutions to local problems

- Buy to let and private property investors
 - Invest for their ‘pension’
 - To provide homes for their kids
 - Deliver ‘financial freedom’
- Some have tens of thousands,
Some have hundreds
Some have millions to invest
- How can we invest this money to deliver affordable homes?
 - Set contract and financial agreement to let to benefit tenants
 - Lower than market rent in return for financial security
 - Tax incentives eg lower CGT, reverse Section 24
 - Invest their money in a “social fund” for small plots/developments
 - Via the council/housing associations/not for profit developers
 - Delivers the ‘pension income’ they want

Summary: 5 'to dos'

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