

## **Changing Affordability across the Major Tenures, 2002/03–2006/07**

A Dataspring Briefing Paper on  
behalf of the Tenant Services Authority

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# Changing Affordability across the Major Tenures, 2002/03–2006/07

## Summary

### Introduction

This briefing paper looks at the spatial distribution of affordability in the housing associating (HA) sector by rent/income ratios in the sector as well as HA rents as compared to lower quartile earnings in the local area. It also compares the position of HA tenants with those in the private rented and owner-occupier sector. Finally it examines how the affordability picture has developed over the period 2002/03–2006/07.

### Methodology

HA rents data were taken from the Continuous REcording (CORE) system and were average general needs rents for all assured lets (new lets and re-lets), excluding sheltered housing. Incomes data were also taken from CORE and were average general needs net weekly household incomes. Private rents were taken from the Rent Service Rent Officer Statistics which gave private rent determinations for lettings of unfurnished and furnished assured shorthold tenancies and secure tenancies for Housing Benefit (HB) purposes. The equivalent costs of owner-occupation were calculated by Dataspring using data supplied by the Land Registry, the Council of Mortgage Lenders and Nationwide Building society.

### Key findings

- HA rents have generally been rising less rapidly than tenant incomes, except in London so affordability has improved over the period 2002/03–2006/07.
- Private rents were on average 60% higher than HA rents and up to 100% higher in London. These rents implied much greater problems of affordability among private tenants on lower incomes especially those not eligible for HB.
- Private rents have been rising faster than lower quartile earnings so that affordability has worsened everywhere, with average ratios rising from 0.47 to 0.51.
- Owner-occupation costs have risen on average by more than 100% over this period as house prices have increased far more than interest rates have fallen. Despite income increases, affordability rates have therefore worsened by almost 90% on average and over 100% in all Southern regions.
- London had the worst affordability ratios for HA rents compared to HA incomes. This outcome was dampened slightly when HB was included in income; indicating the

relatively high levels of benefit available to HA tenants in London. When compared to LQ earnings London's HA rents were the most affordable in England in 2002/03. However by 2006/07 they had become the fourth least affordable. The South West, East and South East had the worst ratios for both years.

- London had the worst affordability ratio for private sector rents compared to LQ earnings despite relatively high levels of earnings. It was worsened significantly as earnings rose more slowly than average.
- The equivalent user cost of owner occupation compared to LQ earnings ratio was highest in London for 2002/03, but London was only third highest behind the South East and South West by 2006/07. More generally, with a national average ratio of 0.89 by 2006/07 this tenure was currently not affordable for those on low earned incomes in any region.
- At the local authority level, both private rent and equivalent user cost of owner occupation ratios exhibited a fairly strong north-south divide. This was less clear in the context of HA rents, where the higher ratios were more evenly spread with smaller concentrations in and around London and in southern coastal areas.

## Conclusion

HA rents were well below private sector rents in all regions. However HA tenant earnings were also considerably lower than lower quartile earnings, although more or less comparable if HB was included. Lower quartile house prices increased at a far higher rate than incomes and earnings over the period 2002/03–2006/07, which had a marked effect on the affordability of owner occupation, which by 2006/07 was completely out of line with the cost of the private rented sector. London stood out as particularly different with both higher housing costs and an even more rapidly increasing gap between owner-occupation costs and private rents. Overall incomes have risen faster than rents across the country outside London, although not so fast than lower quartile earnings. Private rents have risen faster than earnings especially in the South resulting in some worsening of affordability. But the major input on affordability has been confined to the lower end owner-occupied sector which has become unaffordable for lower income households almost everywhere.

## Introduction

This brief note looks at the spatial distribution of affordability in the Registered Social Landlord (RSL) sector by rent/income ratios in the sector as well as RSL rents as compared to lower quartile earnings in the local area. It also compares the position of RSL tenants with those in the private rented and owner occupier sector. Finally it examines how the affordability picture has developed over the period 2002/03–2006/07.

### *Housing association (HA) rents*

HA rents data were taken from CORE (COntinuous REcording system) and are average general needs rents for all assured lets (new lets and re-lets), excluding sheltered housing. CORE is a summary of the flow over the period 1<sup>st</sup> April to 31<sup>st</sup> March.

**Table 1 – CORE HA rents, by region**

Region	2002/03	2006/07	Increase
London	£73.57	£89.58	21.8%
South East	£69.99	£79.10	13.0%
Eastern	£62.45	£71.43	14.4%
South West	£62.03	£69.29	11.7%
West Midlands	£57.20	£65.11	13.8%
East Midlands	£56.72	£64.83	14.3%
Yorkshire and the Humber	£56.30	£63.36	7.7%
North West	£55.69	£60.25	13.8%
North East	£52.17	£65.11	15.5%
<b>ENGLAND</b>	<b>£61.36</b>	<b>£70.35</b>	<b>14.6%</b>

The average HA rent in England was £61.36 in 2002/03, increasing by 14.6% to £70.35 in 2006/07. At the regional level, the highest HA rents were found in London for both years (£73.57 in 2002/03, rising to £89.58 in 2006/07), with the lowest in the North East (£52.17 in 2002/03, rising to £60.25 in 2006/07). There was a clear north-south divide in both years, with higher rents concentrated in the south. The South West stands out as having one of the smallest increases resulting in below average rents by 2006/07.

The largest increase over the four years was found in London (21.8%), compounding already comparatively high rents. The second highest increase was found in the North East (15.5%). The lowest increase was found in Yorkshire and the Humber (7.7%). The average increase in England was 14.6%.

At the local authority level (see Annex, Fig. 1), the highest HA rents were found in the south of England for both years, concentrated particularly around London. The lowest rents were found in the North East, the Midlands and some parts of the South West and Eastern regions.

### *Incomes*

Incomes data were taken from CORE and are average general needs net weekly household incomes. CORE is a summary of flow over the period 1<sup>st</sup> April to 31<sup>st</sup> March. Incomes relate only to tenants in new let and relet tenancies in the HA sector and excludes sheltered and warden assisted units.

Two income measures were used in this analysis: one measuring income before Housing Benefit (HB) and one measuring income plus HB.

**Table 2 – CORE incomes, by region**

Region	2002/03	2006/07	Increase
South East	£189.47	£214.88	13.4%
Eastern	£180.37	£207.31	14.9%
South West	£173.51	£204.29	17.7%
London	£168.13	£189.10	12.5%
Yorkshire and the Humber	£159.16	£188.96	13.2%
East Midlands	£158.70	£182.50	19.1%
West Midlands	£157.05	£181.36	15.5%
North West	£153.18	£180.33	17.7%
North East	£149.12	£182.50	22.4%
<b>ENGLAND</b>	<b>£165.38</b>	<b>£191.69</b>	<b>15.9%</b>

**Table 3 – CORE incomes + HB, by region**

Region	2002/03	2006/07	Increase
South East	£222.70	£255.75	14.8%
London	£212.68	£246.40	15.9%
Eastern	£209.78	£243.51	16.1%
South West	£203.09	£239.17	17.8%
East Midlands	£188.66	£224.18	18.8%
Yorkshire and the Humber	£187.54	£210.44	12.2%
West Midlands	£187.38	£216.23	15.4%
North West	£181.11	£212.01	17.1%
North East	£174.92	£211.40	20.9%
<b>ENGLAND</b>	<b>£196.78</b>	<b>£228.82</b>	<b>16.3%</b>

The highest incomes were found in the South East for both years including and excluding HB. London had the second highest incomes when HB was included. The lowest incomes were found in the North East and North West in 2002/03 and Yorkshire and the Humber and North East in 2006/07. For both years there was a very clear north-south divide, with the highest incomes concentrated in the south.

The largest percentage increases over the four years were found in the North East (22.4% excluding HB and 20.9% including HB) followed by the East Midlands and South West. London had the lowest increase for incomes excluding HB.

At the local authority level (see Annex, Figs. 2 and 3), the highest incomes were found in the south of England for both years, concentrated particularly around London and the South East. Comparing the map including HB (Fig. 3) against the map excluding HB (Fig. 2), it shows a larger low incomes area in London.

The ordering across regions for both rents and incomes were fairly constant with one another and consistent over time. The largest difference was in London where rents were by far the highest but incomes were only fourth, while the rise in income was the lowest of all regions. However, once HB is taken into account incomes in London are the second highest after the South East with the rest of southern England following closely behind.

### *Private rents*

Private rents were taken from the Rent Service Rent Officer Statistics which give private rent determinations for lettings of unfurnished and furnished assured shorthold tenancies and secure tenancies for HB purposes.

**Table 4 – Private rents, by region**

<b>Region</b>	<b>2002/03</b>	<b>2006/07</b>	<b>Increase</b>
London	£154.26	£178.87	16.0%
South East	£109.21	£125.74	15.1%
South West	£95.72	£108.87	13.7%
Eastern	£93.78	£117.05	24.8%
Yorkshire and the Humber	£82.89	£84.67	2.1%
West Midlands	£82.47	£97.77	18.5%
North West	£78.63	£89.51	13.8%
North East	£76.07	£84.10	10.6%
East Midlands	£75.07	£90.36	20.4%
<b>ENGLAND</b>	<b>£98.58</b>	<b>£115.55</b>	<b>17.2%</b>

The average private rent in England was £98.58 in 2002/03, increasing by 17.2% to £115.55 in 2006/07. At the regional level, by far the highest private rents were found in London (£154.26 in 2002/03 rising to £178.87 by 2006/07), with the lowest in the East Midlands in 2002/03 and the North East in 2006/07. There was a clear north-south divide in both years, with higher rents concentrated in the south.

The largest increase over the four years was found in the Eastern region (24.8%). The second highest increase was found in the East Midlands (20.4%). The lowest increase was found in Yorkshire and the Humber (2.1%). The average increase in England was 17.2%. What is perhaps most surprising is that the increase in rents in London was below the national average. Even so, the pattern of private rent increases at the regional level, with three southern regions in the top five, has resulted in a slight widening of the north-south divide.

At the local authority level (see Annex, Fig. 4), the highest private rents were found in and around London and there was a clear north-south divide that had intensified by 2006/07. Over the four years private rent levels had become more clearly dominated by proximity to London with only a few exceptions.

### *Equivalent cost of owner occupation*

The equivalent costs of owner occupation are calculated by Dataspring using data supplied by CLG/Land Registry, the Council of Mortgage Lenders, and Nationwide Building society.

**Table 5 – Equivalent cost of owner occupation, by region**

<b>Region</b>	<b>2002/03</b>	<b>2006/07</b>	<b>Increase</b>
London	£184.90	£305.44	65.2%
South East	£151.13	£253.09	67.5%
Eastern	£123.20	£226.13	83.5%
South West	£123.20	£230.89	87.4%
West Midlands	£87.48	£178.54	104.1%
East Midlands	£84.82	£178.46	110.4%
Yorkshire and the Humber	£62.16	£156.33	151.5%
North West	£60.21	£152.37	153.1%
North East	£52.42	£138.89	165.0%
<b>ENGLAND</b>	<b>£99.50</b>	<b>£201.06</b>	<b>102.1%</b>

The average equivalent user cost of owner occupation (OO cost) in England was £99.50 in 2002/03, increasing by a massive 102.1% to £201.06 in 2006/07. This meant owner occupation costs which on average were very close to private rents in 2002/03 had pulled completely away and by 2006/07, were almost 75% higher. In the South East in particular they were over 100% higher. At the regional level, by far the highest OO costs were found in London for both years (£184.90 in 2002/03, rising to £305.44 in 2006/07), with the lowest in the North East (£52.42 in 2002/03, rising to £138.89 in 2006/07). There was a clear north-south divide in both years, with higher OO costs concentrated in the south.

The largest increase over the four years was found in the North East (165.0%), with the second highest increase in the North West (153.1%). The lowest increase was found in London (65.2%). The average increase in England was 102.1%.

The pattern of OO cost increases at the regional level, with no southern regions in the top five, has resulted in a slight narrowing of the north-south divide.

At the local authority level (see Annex, Fig. 5), the highest OO costs were found in and around London for both years, with the lowest levels found in the north.

### *Lower quartile (LQ) earnings*

The Annual Survey of Hours and Earnings (ASHE) is a 1% sample of employees in the HM Revenue & Customs PAYE records as at April<sup>1</sup>, providing information about the levels, distribution and make-up of earnings and hours worked for employees within industries, occupations and regions. The data used in this analysis are based on place of residence.

<sup>1</sup> Data in this analysis are taken from the 2002 and 2006 ASHE datasets.

**Table 6 – ASHE LQ earnings, by region**

<b>Region</b>	<b>2002/03<sup>2</sup></b>	<b>2006/07</b>	<b>Increase</b>
London	£265.80	£289.30	8.8%
South East	£224.20	£234.70	4.7%
Eastern	£201.50	£225.00	11.7%
West Midlands	£191.90	£220.40	14.9%
North West	£191.10	£213.60	11.8%
East Midlands	£190.00	£218.00	14.7%
Yorkshire and the Humber	£184.00	£209.10	13.6%
South West	£180.10	£211.00	17.2%
North East	£175.90	£207.50	18.0%
<b>ENGLAND</b>	<b>£201.30</b>	<b>£225.90</b>	<b>12.2%</b>

The average weekly earnings in England were £201.30 in 2002/03, increasing by 12.2% to £225.90 in 2006/07. At the regional level, by far the highest earnings were found in London for both years (£265.80 in 2002/03, rising to £289.30 in 2006/07), with the lowest in the North East (£175.90 in 2002/03, rising to £207.50 in 2006/07). There was a clear north-south divide in both years, with higher earnings concentrated in the south.

The largest increase over the four years was found in the North East (18.0%), with the second highest increase in the South West (17.2%). The lowest increase was found in the South East (4.7%), with London second lowest (8.8%). The average increase in England was 12.2%.

The pattern of earnings increases at the regional level, with only one southern region in the top five, has resulted in a slight narrowing of the north-south divide but the hierarchy of earnings remained very consistent.

At the local authority level (see Annex, Fig. 6), for both years the highest earnings were to be found mostly in and around London and in some central areas. The lowest earnings were mostly concentrated in coastal areas.

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<sup>2</sup> Earlier ASHE data did not include supplementary information and may not be directly comparable to later data.

## Affordability ratios

### *HA rents to HA income*

**Table 7 – CORE HA rent/CORE income, by region**

<b>Region</b>	<b>2002/03</b>	<b>2006/07</b>
London	0.44	0.47
South East	0.37	0.37
West Midlands	0.36	0.36
North West	0.36	0.35
East Midlands	0.36	0.34
South West	0.36	0.34
Eastern	0.35	0.34
Yorkshire and the Humber	0.35	0.34
North East	0.35	0.33
<b>ENGLAND</b>	<b>0.37</b>	<b>0.37</b>

**Table 8 – CORE HA rent/CORE income + HB, by region**

<b>Region</b>	<b>2002/03</b>	<b>2006/07</b>
London	0.35	0.36
South East	0.31	0.31
West Midlands	0.31	0.30
North West	0.31	0.30
South West	0.31	0.29
East Midlands	0.30	0.29
Eastern	0.30	0.29
Yorkshire and the Humber	0.30	0.29
North East	0.30	0.28
<b>ENGLAND</b>	<b>0.31</b>	<b>0.31</b>

London was least affordable for both years including and excluding HB, with the South East consistently in second place. The North East was the most affordable region. Excluding London, the differences in affordability between the other regions seem to be quite minor. However while the national ratio was unchanged over the four years, both with and without HB, the ratio was either consistent or declined in all but one region, London, between the two years. Thus HA entrant's incomes rose faster than rents across the country except in the capital.

At the local authority level (see Annex, Figs. 7 and 8), for both years the highest ratios were quite evenly spread with the largest concentration in and around London and some southern coastal areas. The lowest ratios were also quite evenly spread, although by 2006/07 very few local authorities in and around London were in the lowest quartile.

What is clear and unsurprising is that HB improves affordability in both years by a significant amount, but again has the greatest effect in London. Without HB new entrants would have been paying consistently well over 40% of their incomes in rent (47% in 2006/07) whilst with HB that falls to around 35%. HB is taking the strain of both higher rents and higher increases.

*HA rents to LQ ASHE earnings***Table 9 – CORE HA rent/LQ ASHE earnings, by region**

<b>Region</b>	<b>2002/03</b>	<b>2006/07</b>
South West	0.34	0.33
South East	0.31	0.34
Eastern	0.31	0.32
Yorkshire and the Humber	0.31	0.29
East Midlands	0.30	0.30
West Midlands	0.30	0.30
North East	0.30	0.29
North West	0.29	0.30
London	0.28	0.31
<b>ENGLAND</b>	<b>0.30</b>	<b>0.31</b>

Comparing HA rents with lower quartile earnings the picture is rather different. HA rents have clearly risen more slowly than income reflecting the RPI + ½% constraint.

London was the most affordable in 2002/03 but had become the fourth least affordable by 2006/07; because of the relatively low increases in earnings in lower paid employment. The South West was least affordable in 2002/03, but by 2006/07 the South East had become the least affordable. The national ratio increased by one percentage point over the four years, making HA rents slightly less affordable by 2006/07.

The regional level ratios show a clear north-south divide for both years, with London making the picture even stronger by 2006/07.

At the local authority level (see Annex, Fig. 9), the pattern for both years was quite dispersed with a slight tendency for lower ratios to be focused in central areas while higher ratios were found in mostly southern coastal areas. Over the four years, London became less affordable, with some of the higher ratios found in outer London by 2006/07. This pattern reflects higher incomes in central areas as well as commuting and retirement patterns.

It is important to note that on average affordability ratios are very similar between those entering the HA sector and lower quartile earnings. Where they differ is in London and to a lesser extent the rest of the South reflecting the extent to which the sector caters for much lower income households.

*Private rented sector to LQ ASHE earnings***Table 10 – Private rents/LQ ASHE earnings, by region**

<b>Region</b>	<b>2002/03</b>	<b>2006/07</b>
East Midlands	0.40	0.41
Eastern	0.47	0.52
London	0.58	0.62
North East	0.43	0.41
North West	0.41	0.42
South East	0.49	0.54
South West	0.53	0.52
West Midlands	0.43	0.44
Yorkshire and the Humber	0.45	0.40
<b>ENGLAND</b>	<b>0.49</b>	<b>0.51</b>

In the private rented sector all affordability ratios based on lower quartile earnings are 40% and above reflecting major problems of affordability for private tenants who are just above the HB eligibility level or do not take up HB.

London was by far the least affordable for both years, followed by the surrounding regions. The most affordable areas were found in the north and midlands for both years, showing a strong north-south divide. The national ratio increased by two percentage points over the four years, making private rents even less affordable by 2006/07.

At the local authority level (see Annex, Fig. 10), there was a clear north-south divide in 2002/03 and which had strengthened by 2006/07. This pattern was broken slightly by a high ratio corridor running from North Yorkshire to Northumberland. However, by 2006/07 this corridor was less well-defined. In addition, by 2006/07 there had been a movement in high ratio areas away from the South West and towards London reflecting the differential income increases in the South West as compared to the relatively low increases in London.

*OO cost to LQ ASHE earnings***Table 11 – OO cost/LQ ASHE earnings, by region**

<b>Region</b>	<b>2002/03</b>	<b>2006/07</b>
London	0.70	1.06
South West	0.68	1.09
South East	0.67	1.08
Eastern	0.61	1.01
West Midlands	0.46	0.81
East Midlands	0.45	0.82
Yorkshire and the Humber	0.34	0.75
North West	0.32	0.71
North East	0.30	0.67
<b>ENGLAND</b>	<b>0.49</b>	<b>0.89</b>

The position in the owner occupied sector reflects both the similarity in average affordability with the private rented sector in 2002/03 and the maximum increases in costs between 2002/03 and 2006/07. It also reflects even stronger difficulties between the south and the rest of the country.

London was least affordable in 2002/03, followed by the surrounding regions. By 2006/07 London had, perhaps surprisingly become slightly more affordable than the South East and South West, reflecting lower increases in house prices.

The most affordable areas were found in the north and midlands, although by 2006/07 with an average ratio of 0.89 (compared to 0.49 in 2002/03) there was clearly an unsustainable rate of change and a very serious affordability issue in this tenure in all areas of the country.

At the regional level, the north-south divide was extremely strong for both years, with levels of affordability running in almost consistent order from the least affordable in the south to the most affordable in the north.

At the local authority level (see Annex, Fig. 11), there was a clear north-south divide for both years with high ratios concentrated in the south and low ratios in the north and midlands. In the north, slightly breaking the pattern, there was an area of high ratios in Yorkshire and this had become stronger by 2006/07.

### ***Overall Picture***

The overall picture suggests that the HA sector is generally far more affordable than private sector housing across the country. It also suggests that HB ensures that tenants have lower ratios of rents to incomes than those in other sectors.

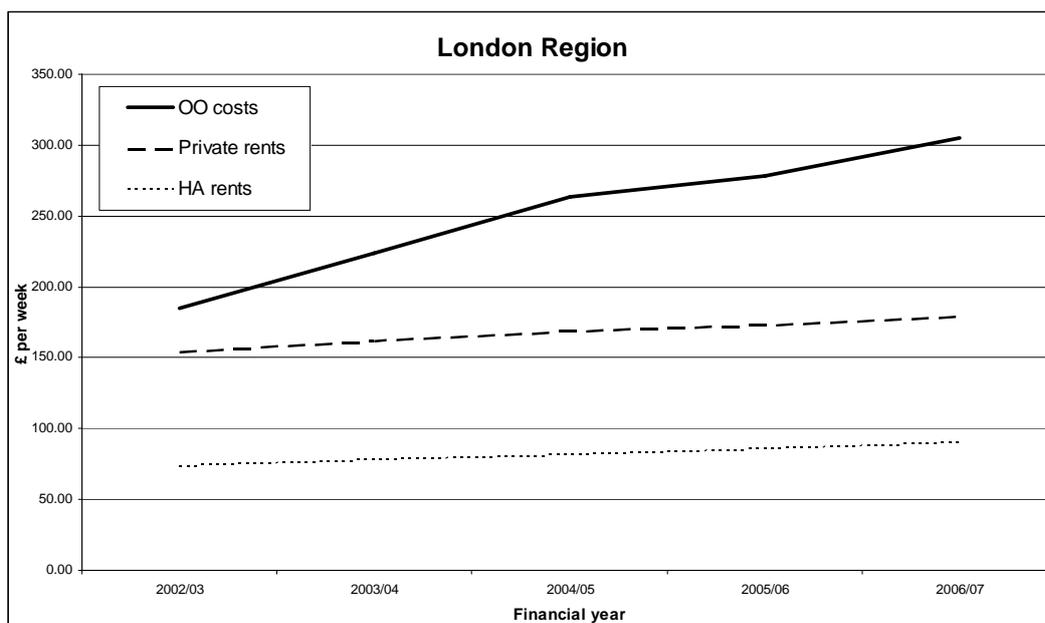
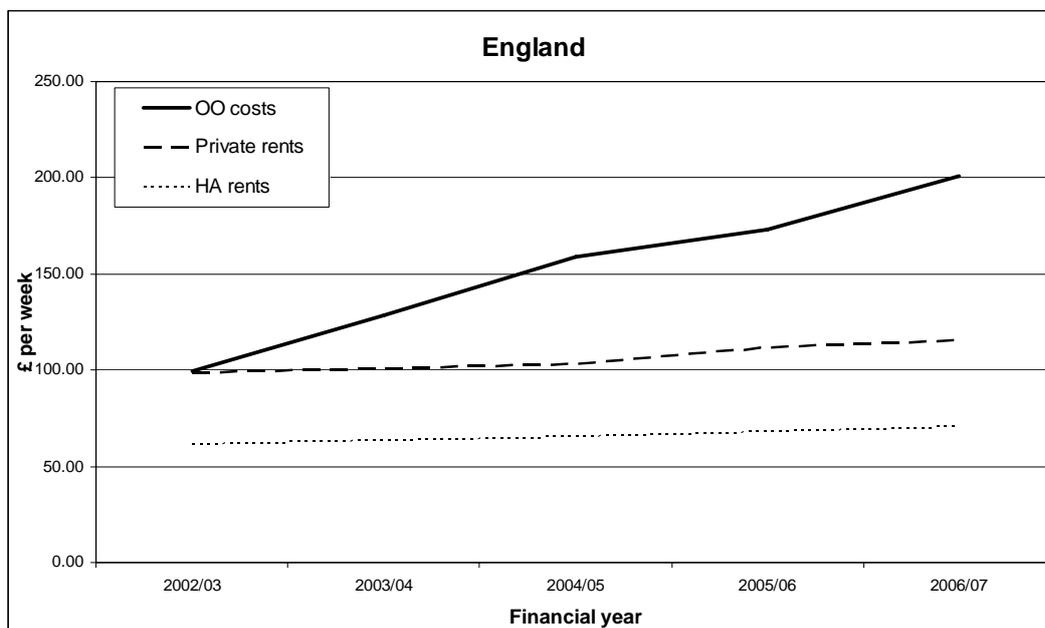
Lower quartile house prices increased at a far higher rate than incomes and earnings over the four years (67.3% compared to 12-16%). This had a marked effect on the affordability of owner occupation, which by 2006/07 was completely out of line with the cost of the private rented sector. On the other hand, social sector affordability remained fairly consistent over the four years while private rents were only slightly less affordable in 2006/07 suggesting that both are more closely correlated to trends in incomes and earnings than they are to house price fluctuations in the short term.

London stands out as particularly different with both higher housing costs (Graph 1) and an even more rapidly increasing gap between owner occupation costs and private rents. HA tenants appear to come from much further down the income scale. Moreover lower quartile incomes have risen more slowly than in the rest of the country, resulting in worsening affordability in all tenures.

Overall incomes have risen as fast as or faster than rents across the country outside London, although less fast than lower quartile earnings. Private rents have risen faster than earnings especially in the south resulting in some worsening of affordability. But the major input on affordability has been confined to the lower end owner occupied sector which has become unaffordable for lower income households almost everywhere.

The most important changes over the four year period relate to the rapid increases in house prices which have more than offset declining interest rates to leave owner occupation (OO costs) unaffordable to lower income earners across the country. These changes are reflected in Figure 1 which also shows how private rents, while much higher than HA rents have risen far less rapidly.

**Graph 1 – Gap diagrams for England and London (2002/03 – 2006/07)**



# Annex

## Figure 1 – CORE HA rents

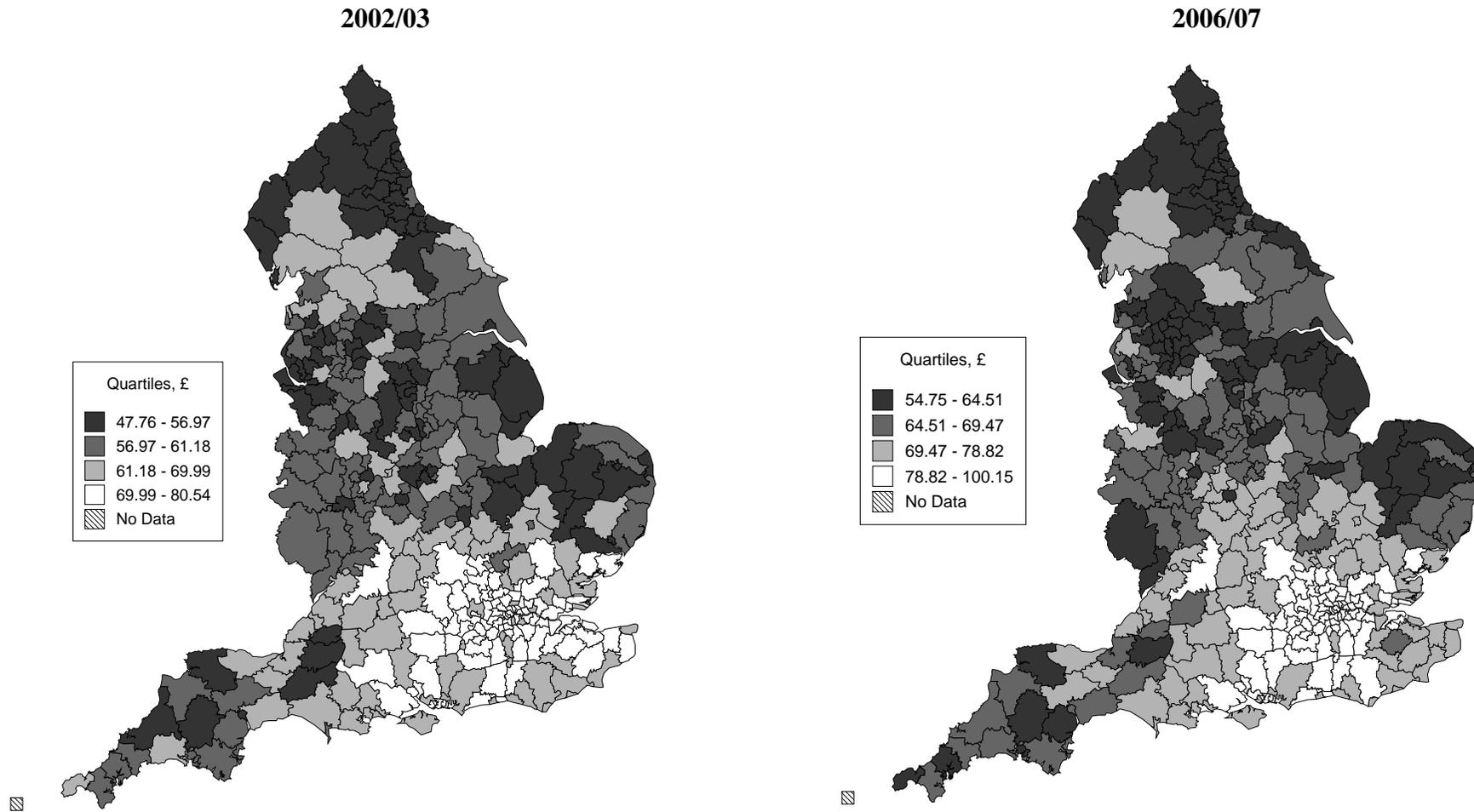


Figure 2 – CORE incomes

2002/03

2006/07

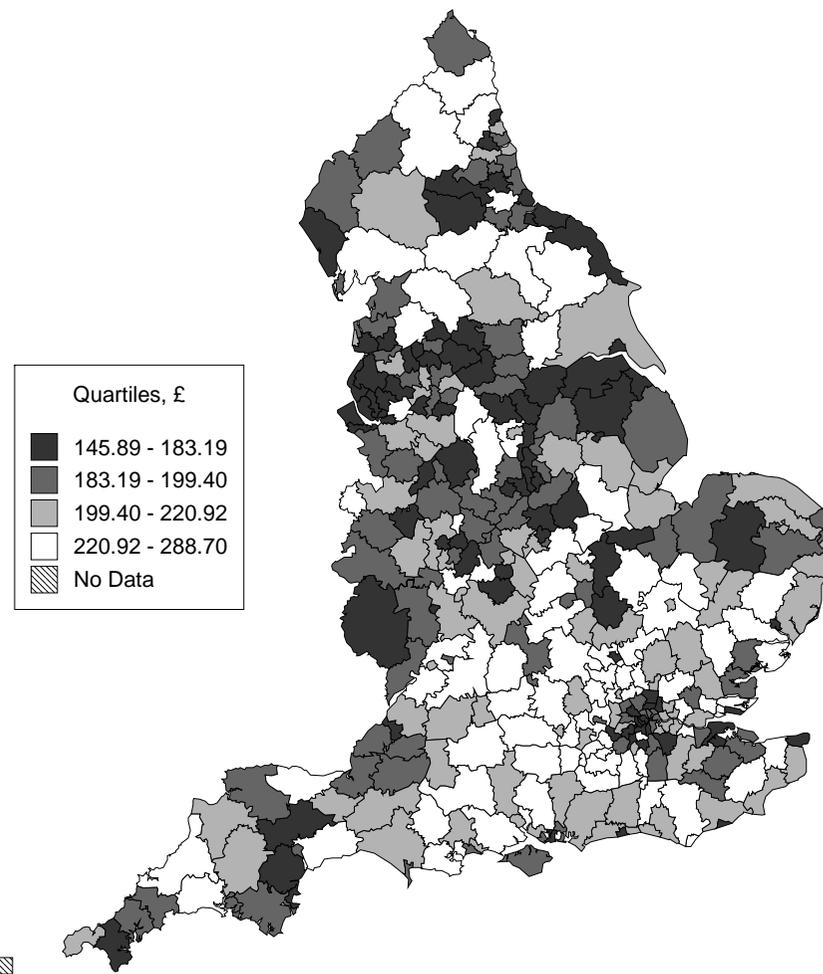
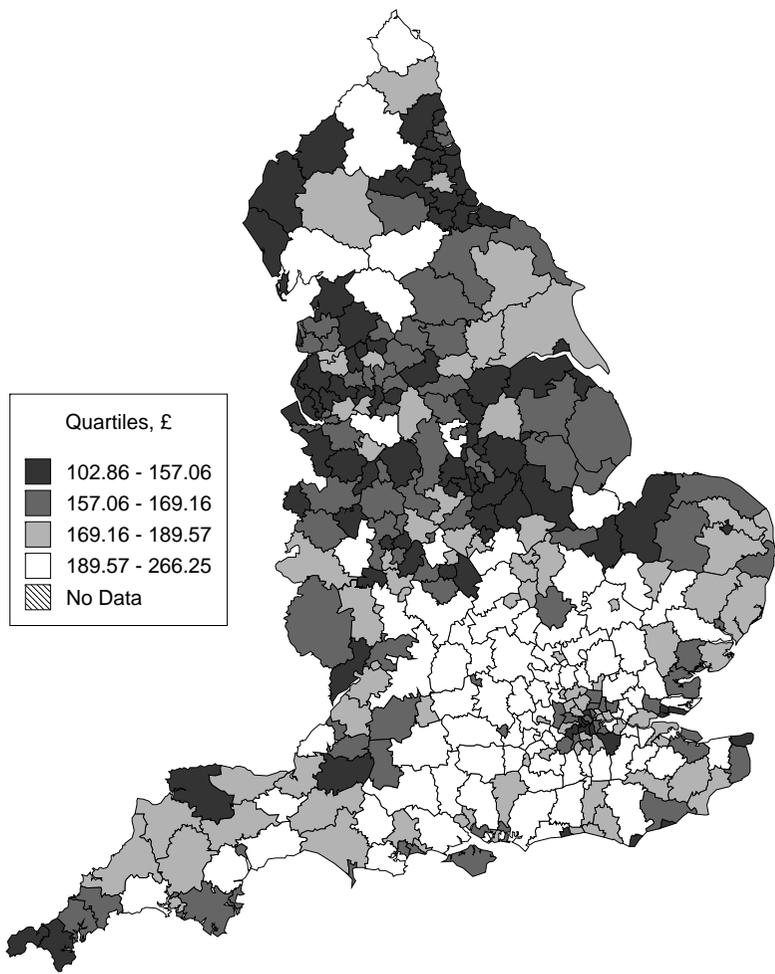


Figure 3 – CORE incomes + HB

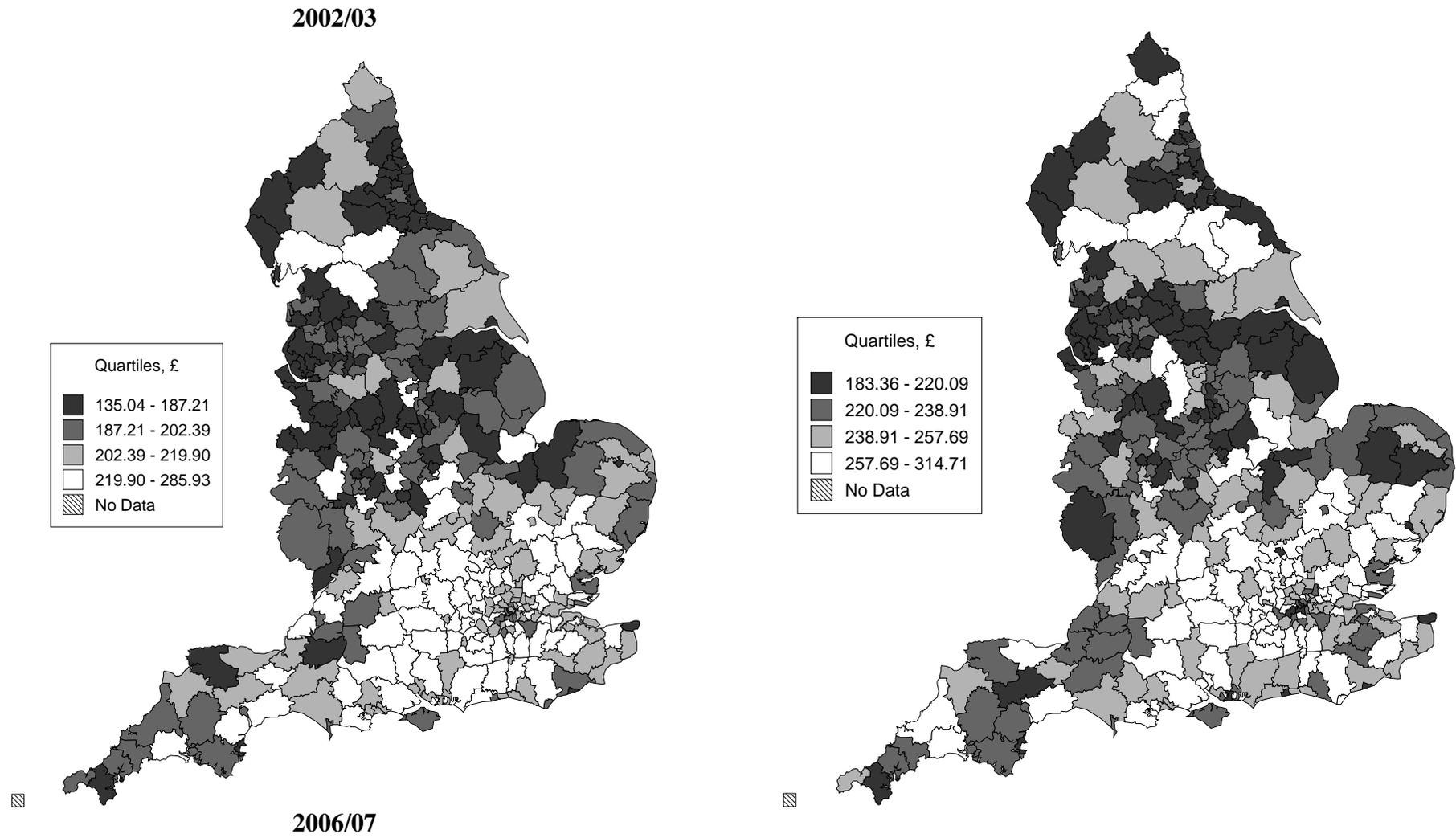


Figure 4 – Private rents

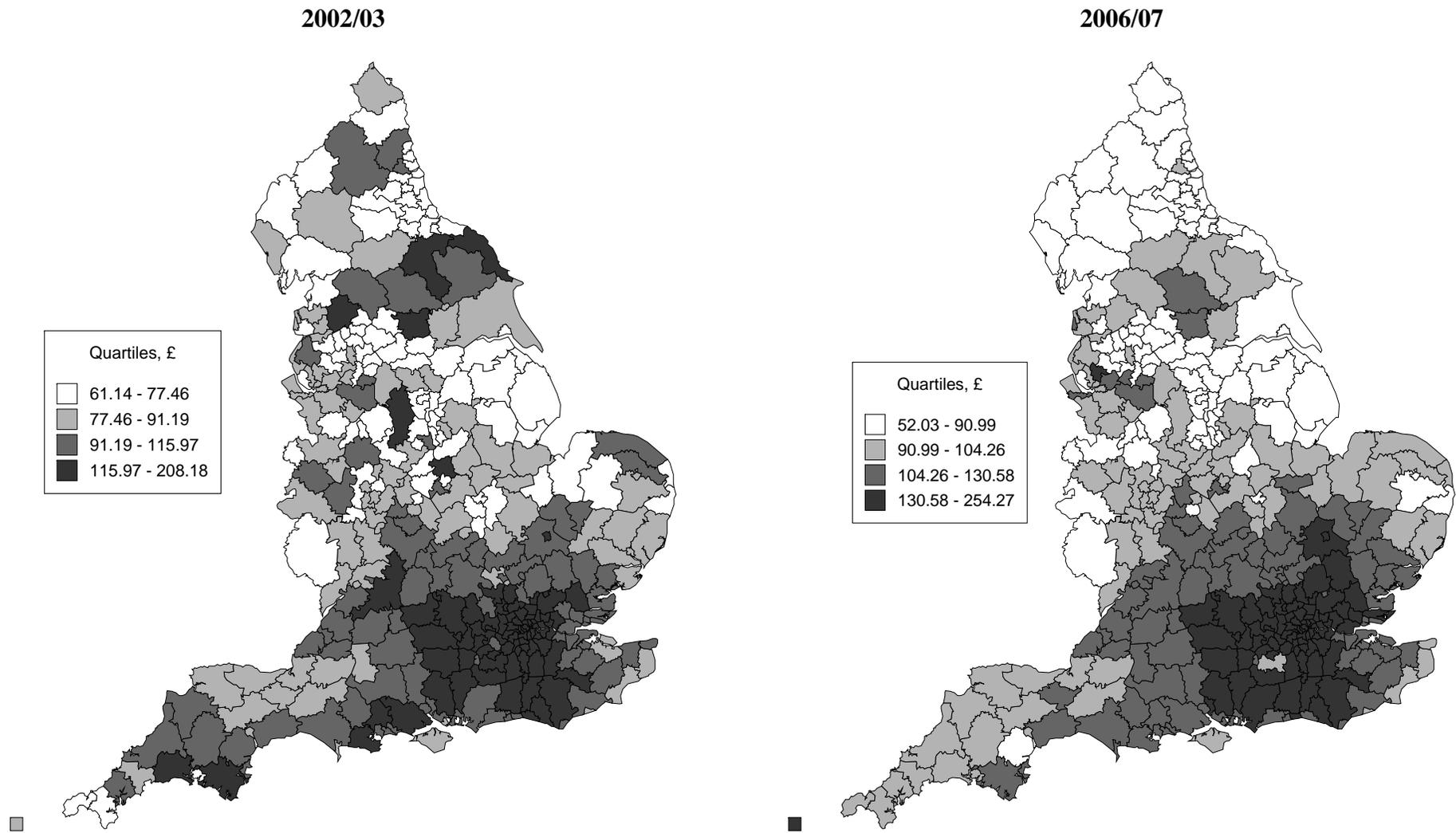


Figure 5 – Equivalent user cost of owner occupation

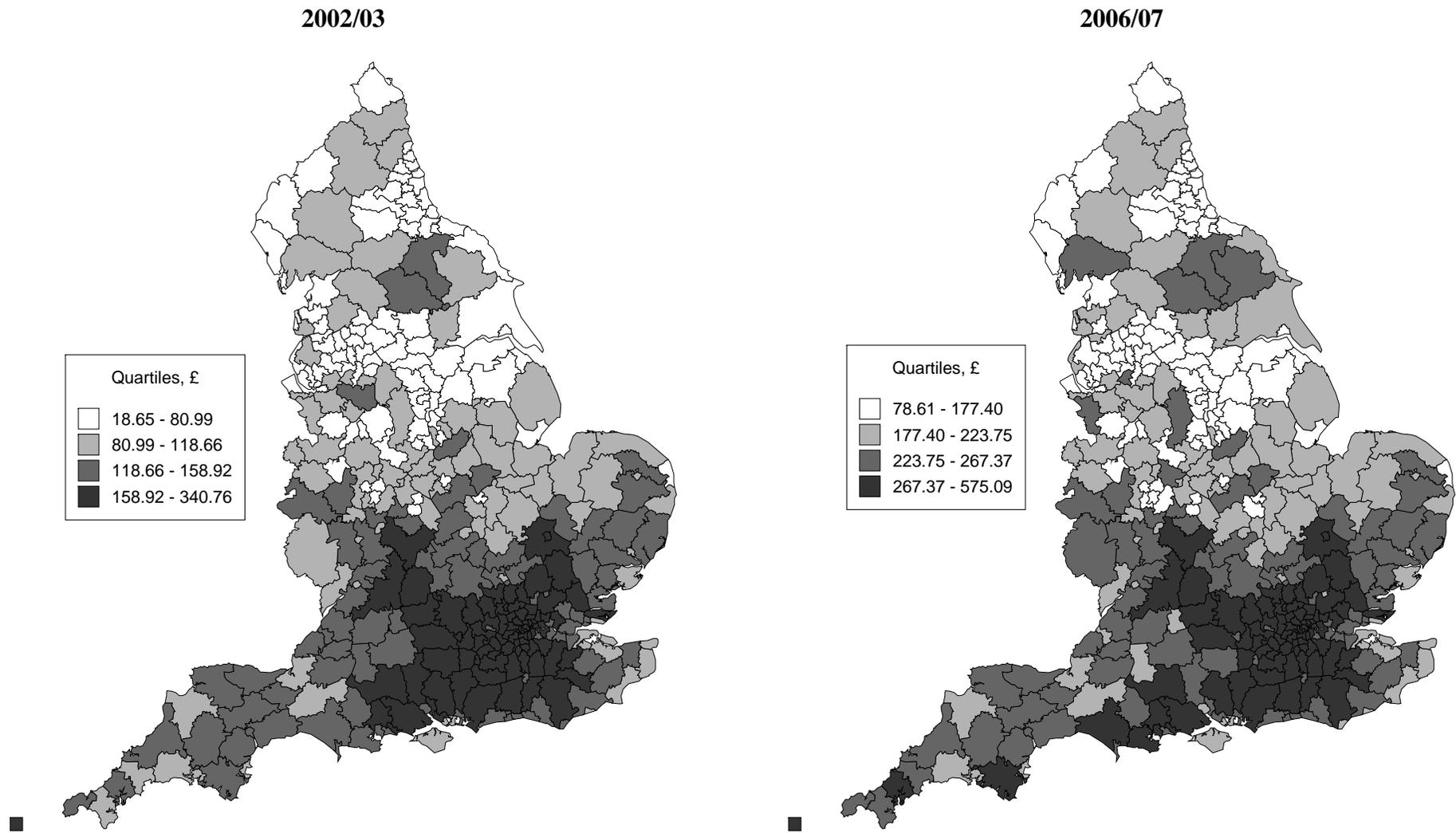


Figure 6 – Lower Quartile Earnings (from ASHE)

2002/03



2006/07

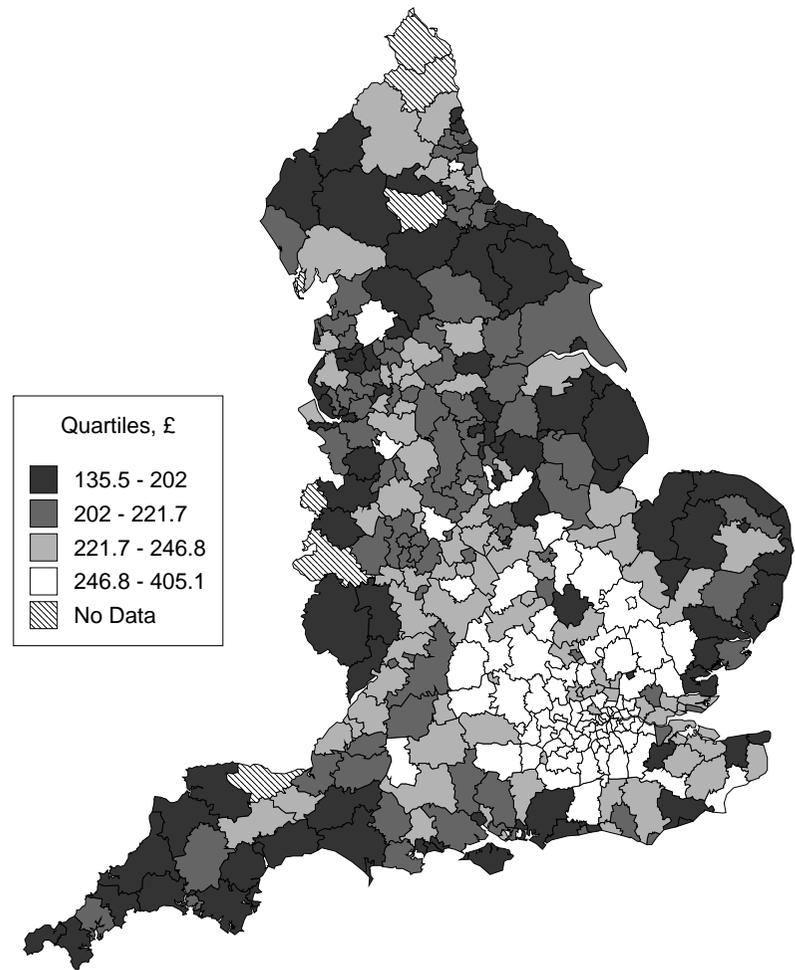


Figure 7 – CORE HA rent/CORE income

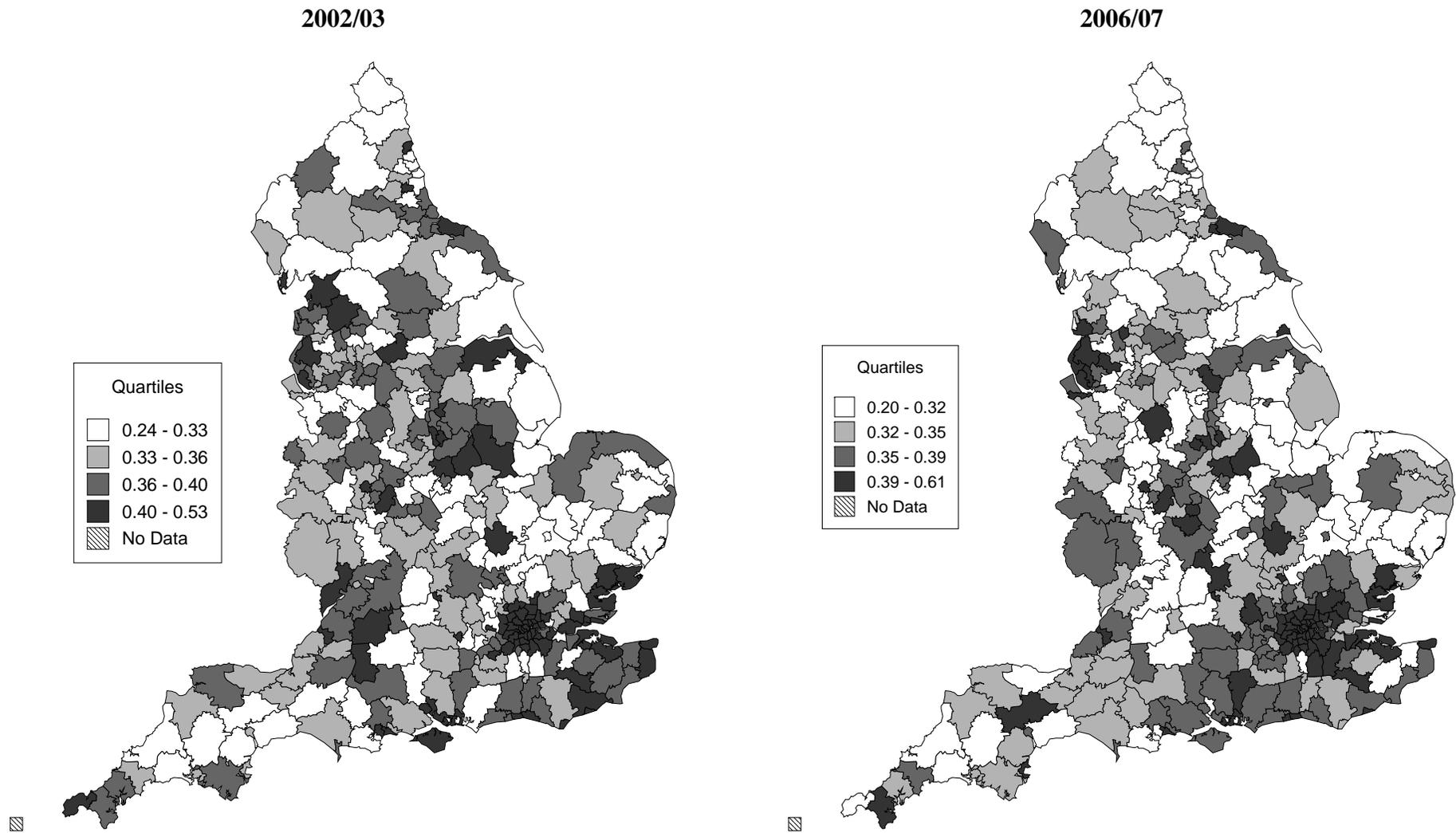


Figure 8 – CORE HA rent/CORE income + HB

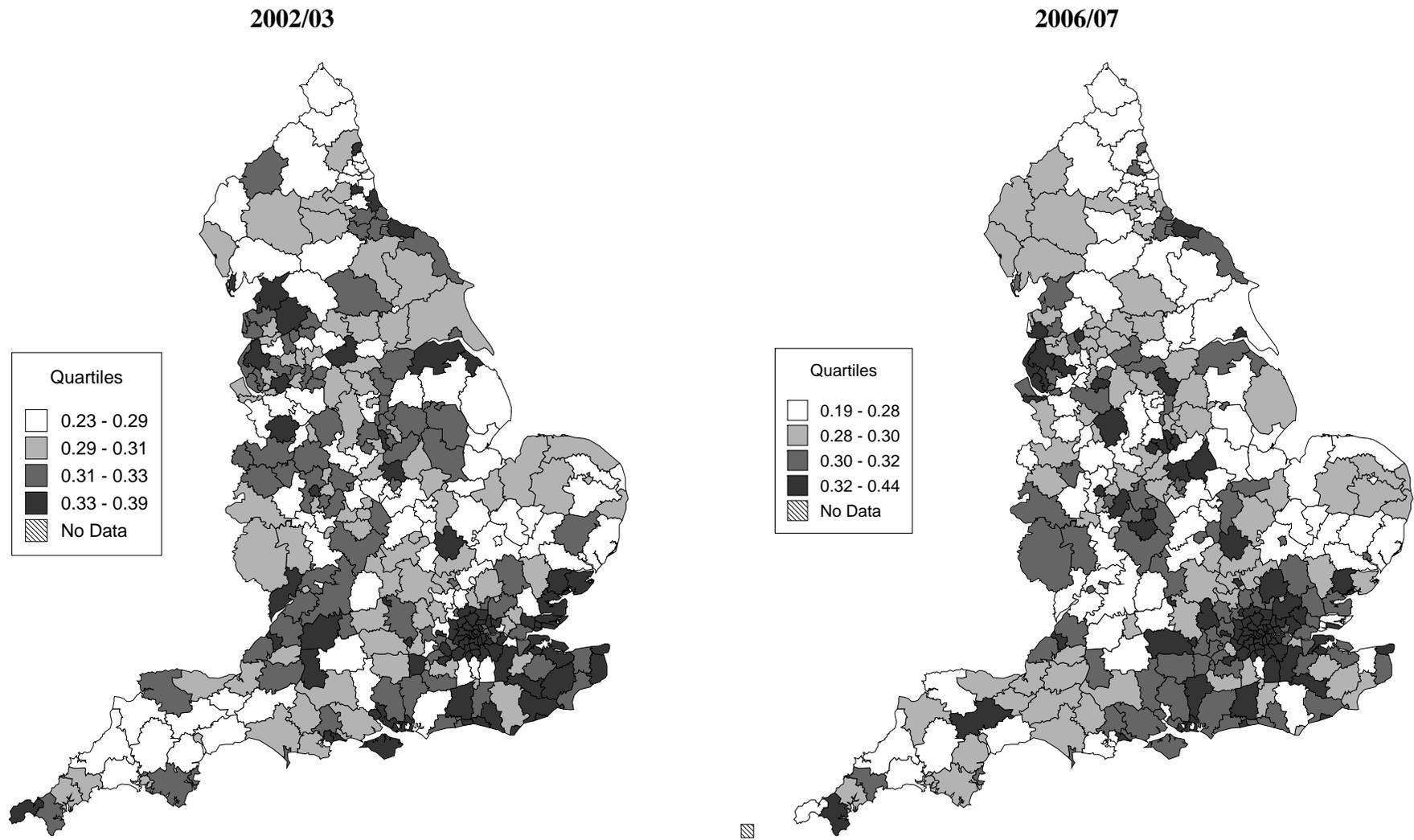


Figure 9 – CORE HA rent/ASHE LQ earnings

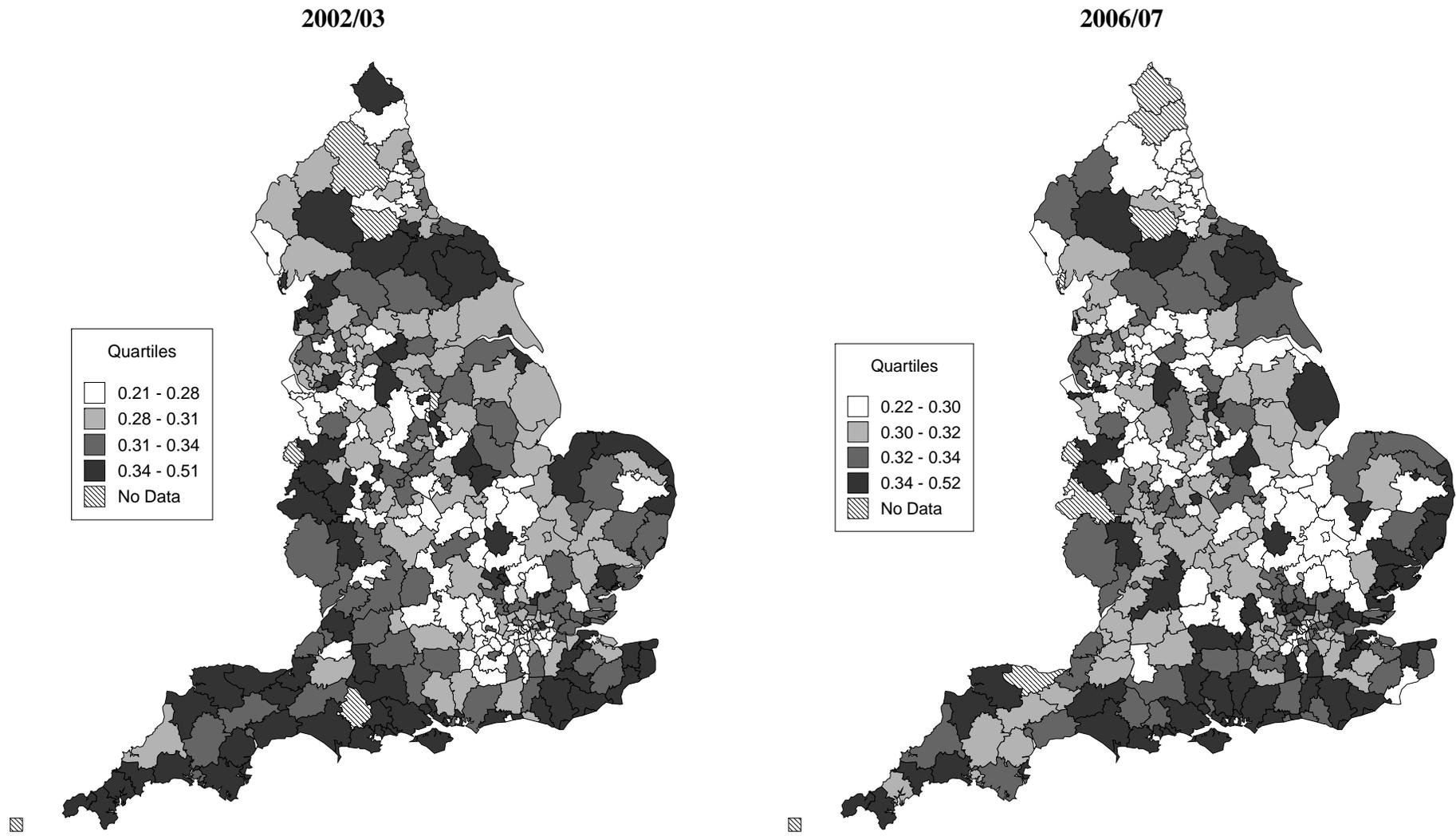
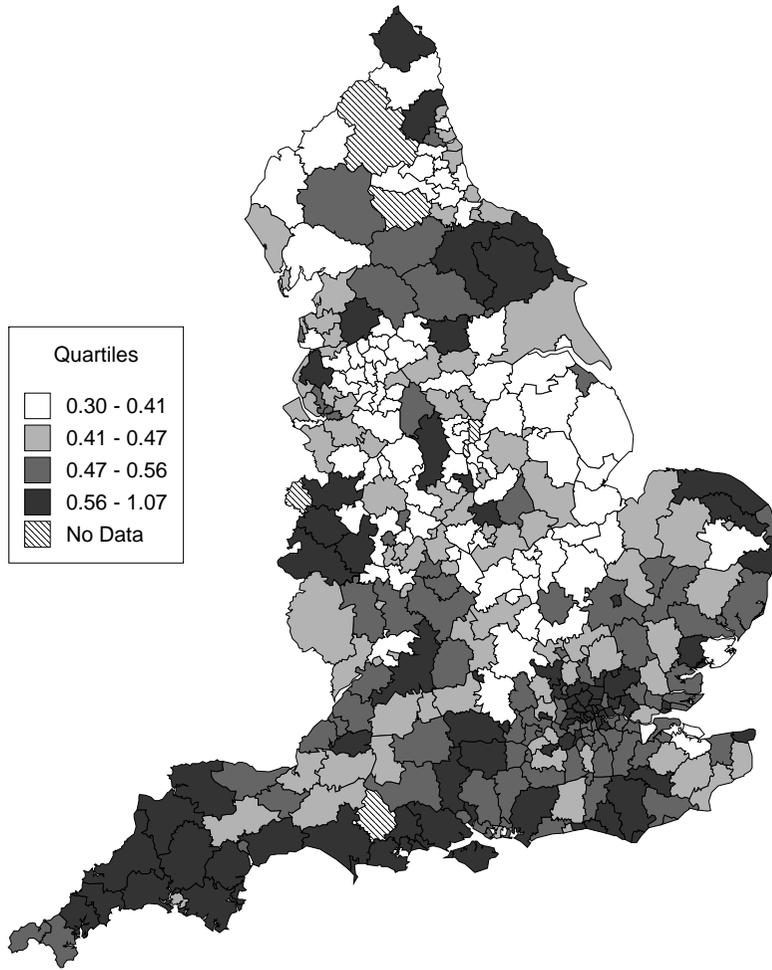


Figure 10 – Private rent/ASHE LQ earnings

2002/03



2006/07

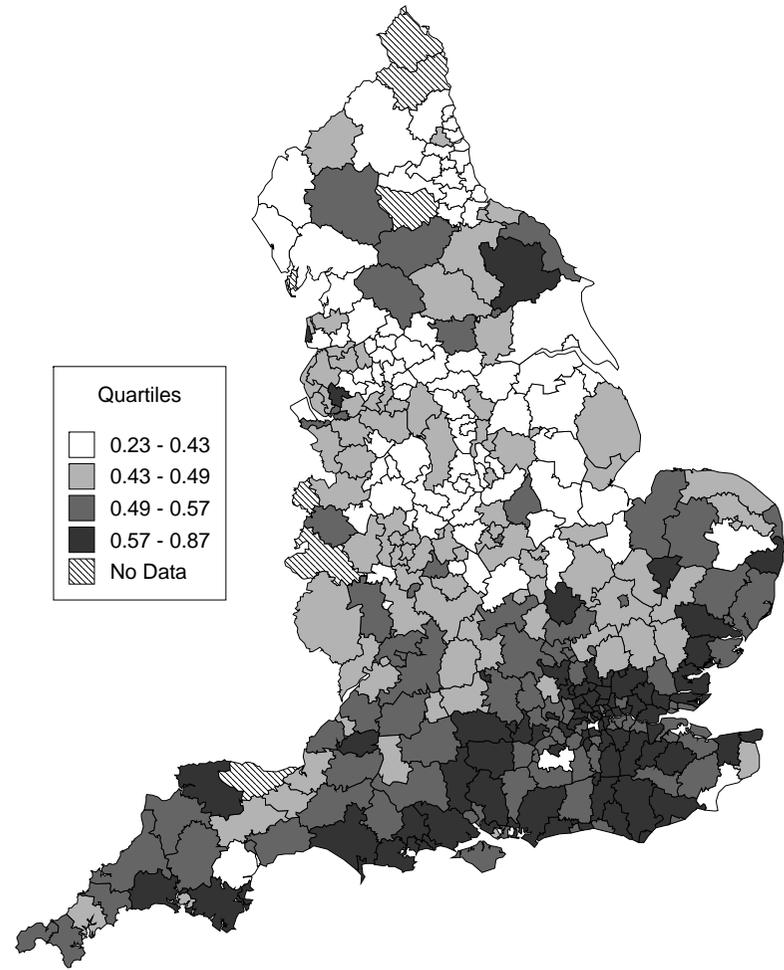


Figure 11 – Equivalent user cost of owner occupation/ASHE LQ earnings

