

Current affordability by tenure and size – 2009 update

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Current affordability by tenure and size – 2009 update: a summary

Cost by tenure and size

- The difference between average rent and lower quartile purchase for a 1-bed property is quite small. In some areas renting a property this size is more expensive than buying.
- There is a huge difference in cost between social renting and other affordable tenures. Shared ownership is targeted at “existing social renters” but in 2007/08, only 4% of shared ownership sales were to people previously in social rented.
- The monthly cost of shared ownership can be higher than the cost of lower quartile rent for a similar sized property. For shared ownership, 45% of purchasers in 2007/08 were previously private tenants. Shared ownership appears to be a way to buy an extra room for a similar price.
- Shared ownership is generally cheaper than buying privately. However, shared ownership at a 30% share is currently rare, although more common than a couple of years ago. A 50% share seems to be the average based on purchaser data.

General affordability

- Social renting is the cheapest tenure followed by shared ownership (at 30% share) then renting privately, then shared ownership (at 40% share and upwards) with open market purchase, even at the cheapest level, being the most expensive.
- The cost to rent a one bedroom property is expensive compared to the cost of buying the same. However in some districts the monthly cost of purchasing an entry level property is lower than the cost of the average monthly rent.
- Cambridge City has the worst affordability across all sizes of properties by a significant margin. Fenland has the lowest priced market housing.

Deposits

- Our affordability model assumes a 10% deposit, or £5,000 for shared ownership. This is based on data from CML and CORE. In the past some 100% mortgages were available. However following the economic downturn, this is no longer the case.
- Deposits are an important aspect of affordability, particularly for first time buyers. Many first time buyers get help from relatives to secure an initial deposit – in 2005 just under half of first time buyers required assistance with their deposit.
- 10% is likely to be an underestimate of deposit size for larger properties (i.e. three and four bedroom properties). Many larger properties are bought by people “moving up the ladder” rather than by first time buyers.
- The intermediate affordable housing sector currently represents a small share of the market, so data is patchy for some properties in some areas.

Household income and tenure

- In each district, a percentage of households are unable to afford social rented housing. National data shows that some 40% of households have annual incomes of less than £15,000, and yet own their properties outright. Many of these are pensioner households (income poor but housing rich).

Social renters and shared ownership

- A government “target group” for shared ownership is existing social tenants. In most districts there is a considerable difference in the monthly cost of social rent and the monthly cost of shared ownership (at 30%).
- A report from the Housing Corporation profiled social renters and divided them into four broad groups: young urbanites, working families, non-working poor and older, settled households. The first two groups may see shared ownership as a good option.

Affordability and occupancy

- Purchasing a part share of a three bedroom property was in most places a cheaper option than buying a two bedroom property on the open market
- This is an important consideration as people will generally buy the largest home they are able to afford and because under shared ownership people are allowed to buy a home with one more bedroom than they “require”. This means that shared ownership may potentially be a good way to reduce overcrowding.

Chapter 21. Current affordability by tenure and size – 2009 update

21.1 Introduction

This chapter uses the most current available data on house prices and rents to calculate the monthly cost of tenures by district and size of properties (as at July 2008). The section on methodology contains details on the sources used and the assumptions behind these calculations. Each district is then examined separately and an estimate is made of the percentage of the population able and unable to afford each form of tenure by size, using CACI Paycheck data. This provides information on gross household income, including any benefits received. This data does not include savings. In the current market a minimum 10% deposit is required to get a mortgage so from this point of view savings are an important aspect of affordability. National Savings & Investments have some regional information on the behaviour of regular savings and some further work may be required on this, particularly at the first time buyer level.

The CLG guidance on Strategic Housing Market Assessments recommends using an income multiplier of 2.9 for single income households and 3.5 for dual income households for purchase, and a monthly rent of 25% of income to test affordability. This methodology assumes a third of monthly income is an affordable housing cost for both rent and sale.

While it would be interesting to look at the affordability of single and dual income households, there is no data available on household income by household type to compliment this. Also, some estimate has been made on the size of deposit available for purchase and these have been included in the calculations, but deposits are themselves an aspect of affordability. In the first iteration of the SHMA, some mortgage lenders were lending 100%+ mortgages. These are currently not available. Even if someone is able to afford the monthly costs estimated below, they may not have access to a large sum up front.

21.2 Methodology and sources

This section provides information on how the monthly cost of each form of tenure is calculated. A breakdown of each area is given in the subsequent sections.

Social rent

Data on RSL rents are taken from Dataspring 2007/08. This information is given as a weekly cost. To calculate the monthly cost, the weekly cost is multiplied by 4.33 (or 52/12). All the districts in the sub-region except for Cambridge City and South Cambridgeshire have transferred their local authority stock to housing associations. These two districts have provided some information on rent levels and this is included for comparison. Some of the tables and charts refer to HA (housing association) rents. This expression is used interchangeably with RSL (registered social landlord). No difference is implied.

Intermediate rent

No data is collected on intermediate rent levels. Generally, intermediate rent is limited to 80% of the average private rent, although it may be around 60%. In this methodology, 80% of the median average rather than the mean is used. In Cambridge City in particular there is a lot of high end new build which pulls the mean average up. Using the median does not bring these outliers into account as much and is possibly a more realistically estimate of a reasonable level of rent.

No analysis is done on the percentage of households unable to afford this type of tenure. This is partly because it is based on an estimate, not solid data. Historically intermediate rented properties have only been available to keyworkers, but a new Rent to HomeBuy product is being introduced and there might be considerable demand. However at the time of writing very little information exists on rent levels etc.

Shared ownership/ New Build HomeBuy

Shared ownership purchase price data is taken from CORE sales 2007/08. Because this only records sales, some of the information is patchy and it is therefore supplemented with the purchase prices of properties currently advertised for sale on the Keyhomes East website. Even using these two sources, there is still only limited data on some types of housing in some locations – e.g. one bedroom properties in Fenland (none were sold and none are currently listed as for sale). The purchase price for the whole property is given in each case as is information on the equity share purchased.

This paper will test the monthly cost of purchasing a 50%, 40% and 30% share of a property. 50% is the most common size of share purchased in most of the districts except for Cambridge City where 40% is slightly more common. Purchases of percentage shares below this level are not common, but are worth investigation as they may be more affordable for some people. At time of publication, not district in the sub-region showed data for shared ownership homes with 4 bedrooms. These cells are therefore blank in the tables.

The assumptions used in calculating the monthly costs for this form of tenure are:

- The average purchase price of a shared ownership property by size. Due to the low number of sales of certain sizes of properties it is not possible to calculate a lower quartile or “entry level” price. For example only one sale of a four bedroom property was recorded in 2007/08 in the whole sub-region, so there is no data for this size of home.
- Purchase prices are based on shared ownership sales only and do not include the Open Market HomeBuy products. The purchase prices of the properties bought through this scheme are slightly higher than the shared ownership purchase prices. Since April 2008 two new products have replaced the old HomeBuy scheme – MyChoice and OwnHome. Further work and modelling is required to look at these products.
- A repayment mortgage taken out over 25 years. Given the average of most shared ownership purchasers, section 4 compares the difference between a mortgage taken out over 25 years and one taken out over 30 years.
- An interest rate of 6%.
- A deposit of £5,000 is assumed. There is data available from CORE about the amount people pay in deposits. For the sub-region as a whole this shows that:
 - around 32% of shared ownership purchasers have no deposit.
 - A further 8% have a deposit of more than £70,000 and don't take out a mortgage (i.e. only pay the rental element).
 - Of those who have a deposit and still require a mortgage, around 44% have a deposit under £5,000 and 56% have a deposit greater than £5,000. This assumption means that we may get a slightly pessimistic affordability model, but possibly a more realistic one than using a 10% deposit as used in the market calculation.
- It is assumed that the rental element is 2.75%/year of the remaining share as this is the maximum level that it should be, which again takes a slightly pessimistic approach.

Shared Ownership Monthly Cost – illustrative example

Purchase price	£100,000	A
Purchase cost		
Share purchased	50%	B
Cost of share purchased	£50,000	C
Deposit	£2,500	D
Mortgage required	£47,500	C-D
Monthly mortgage cost over 25 years at 6% interest	£306	E
Rental element		
Share on which rent is paid	£50,000	A-C
Monthly rent at 2.75%/12	£115	F
Total Monthly cost	£421	E+F

Private rents

Lower quartile and average private rents by size and district are taken from the review of private rents in the press in January 2008. The rent calculated for one-bedroom properties does not include rooms in shared houses or studio/bedsit accommodation. There is quite a limited demand for roomshare arrangement and studio accommodation outside Cambridge City. This does not include any service charges.

Open market purchase

Lower quartile purchase price data is taken from Hometrack (Feb 2008). This date was chosen for consistency with the other data sources – the Dataspring and CORE data are 2007/08, the survey of private rents was carried out in January 2008. This is changing very quickly at the moment and we will continue to monitor and update as appropriate.

Hometrack gives price data for one bedroom flats, two bedroom flats, two bedroom houses, three bedroom houses and four bedroom houses. It is assumed that prices for one bedroom flats are representative of the prices of one bedroom properties because generally there are very few one bedroom houses. A similar assumption is made about three and four bedroom houses. The price for two bedroom properties is calculated by using the average of the flat and house price.

The same assumptions are made about the mortgage as for shared ownership (repayment over 25 years at 6% interest).

A deposit of 10% is assumed. There is currently no local level data available on the size of deposits buyers typically have available. Data from the Council of Mortgage Lenders show that first time buyers typically have a 10% deposit and home movers typically have a 30% deposit, and in the current market a 10% is the minimum required deposit. This in itself is an affordability issue, particularly for first time buyers. In the sub-region as a whole the lower quartile market purchase price is £99,786 for a one bedroom flat – this would mean a first time buyer would require a deposit of almost £10,000. First time buyers will mostly look at buying a one or two bedroom properties. Most of the four-bedroom homes will be purchased by home movers, and section 5 compares the monthly cost of a four bedroom home assuming a 30% deposit and assuming a 10% deposit.

Percentage of households unable to afford by tenure

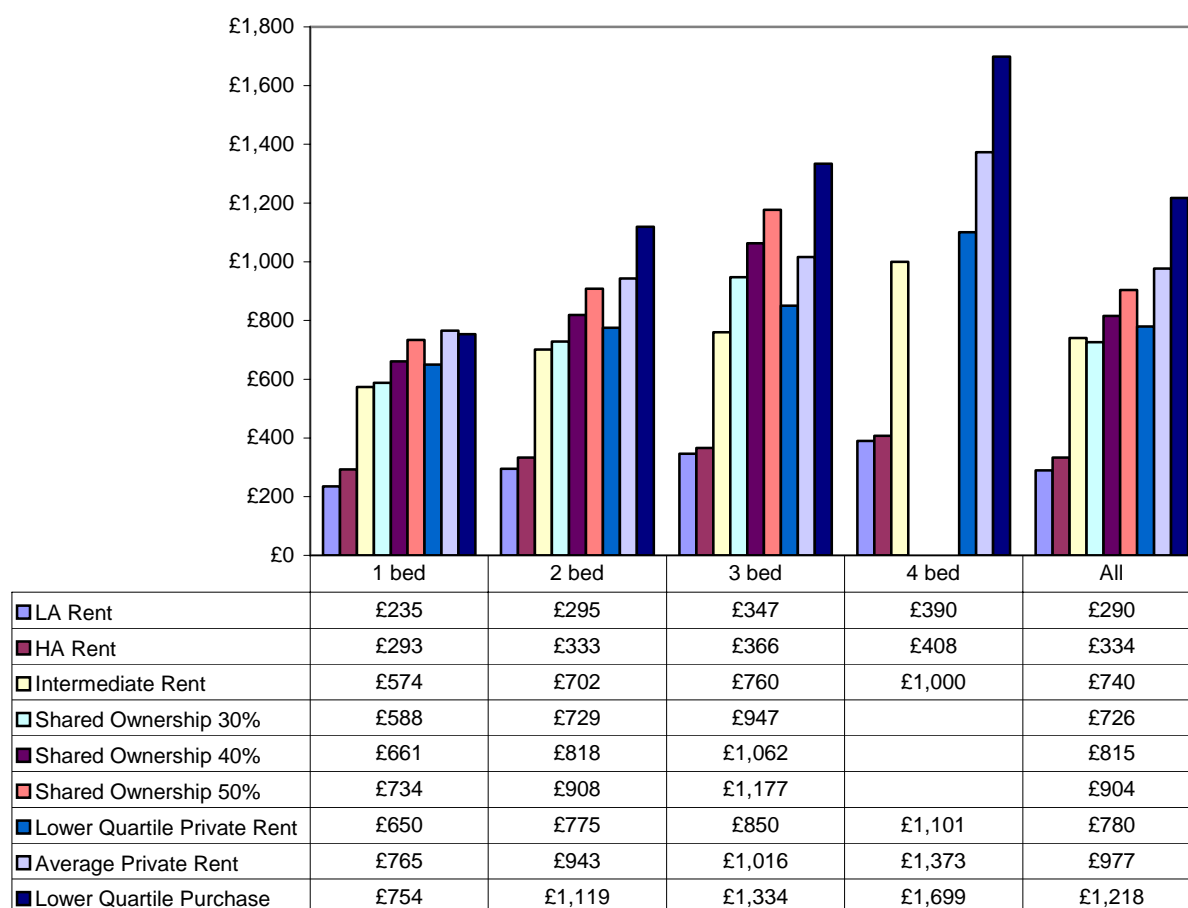
This is calculated using gross household income data from CACI. This provides information about the number of households by income band in the district. It is based on income only and doesn't include savings etc, although it does include benefits. There is also a difference between what people are able to afford and what they need or aspire to. For example, Housing in England 2006/07 shows that a quarter of those households with an income less than £5,000/ year are people who own their own property outright.

21.3 Cost by tenure and size across the Cambridge sub-region

This section looks at cross tenure affordability in each of the districts in the Cambridge sub-region.

21.4 Cambridge City

Fig 1: Monthly cost by tenure



Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008

A 30% equity share is cheaper than renting a lower quartile property privately for one and two bedroom properties, but is almost £100/month more expensive for three bedroom properties. A 40% and 50% share of any size property for which there is information is more expensive than renting privately at the lower quartile level, but below the average monthly rent for one and two bedroom properties (although not for three bedroom properties).

LA rents are cheaper than RSL rents, although the gap becomes more narrow as the size of property increases, i.e. there is a £58/month difference for one bedrooms, but only an £18/month different for 4 bedroom properties. A 30% equity share of a one bedroom property is £295/month more expensive than the average RSL rent, and there the gap increases for larger properties- £396, and £582 for a two and three bedroom properties respectively. The gap between social renting and renting private is also quite large.

There is very little difference between intermediate rent and a 30% equity share for 1 and 2 bedroom properties but the gap widens considerably for 3 bedroom properties. It is still below the lower quartile market rent.

It is cheaper to buy a lower quartile market property than it is to rent an “average” one bedroom property, but for other sizes of property the lower quartile purchase price is greater than the average rent.

It is cheaper to purchase a 30% share of a two bedroom property than it is to buy a one bedroom property outright. It is cheaper to purchase a 40% share of a three bedroom property than it is to buy a two bedroom property outright.

Table 1: Percentage of households unable to afford size and tenure

	1 bed	2 bed	3 bed	4 bed	All
LA Rent	5%	9%	11%	15%	7%
RSL Rent	9%	11%	13%	17%	11%
Intermediate Rent	31%	40%	44%	62%	44%
Shared Ownership 30%	31%	42%	58%		42%
Shared Ownership 40%	38%	49%	65%		49%
Shared Ownership 50%	42%	56%	71%		56%
Lower Quartile Private Rent	35%	46%	53%	68%	46%
Average Private Rent	46%	58%	63%	79%	60%
Lower Quartile Purchase	44%	68%	78%	88%	73%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

21.5 East Cambridgeshire

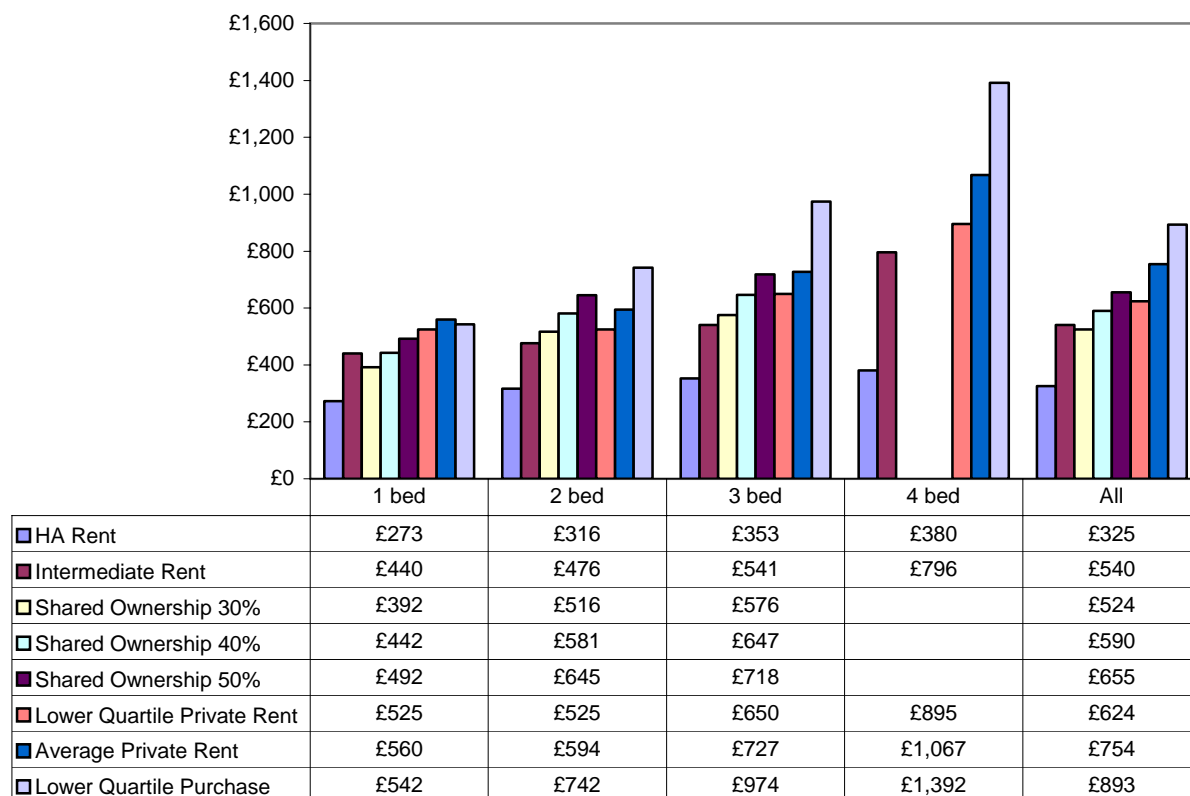
A 30% equity share is between £119 and £223 more expensive per month than RSL rent, depending on the number of bedrooms in a property.

Intermediate rent and shared ownership for one bedroom properties fall between the cost of social and private rents. There is only a £17 difference in the cost of lower quartile rent and lower quartile purchase of this size of property and the cost of average private rent is more expensive than the monthly costs of purchasing a one bedroom property. For larger properties buying a lower quartile priced property is more expensive than renting.

A 50% equity share of a two bedroom property is more than the monthly average rent.

It is cheaper to buy a 50% share of a three bedroom property than it is to buy a two bedroom property outright.

Fig 2: Monthly cost by tenure



Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008

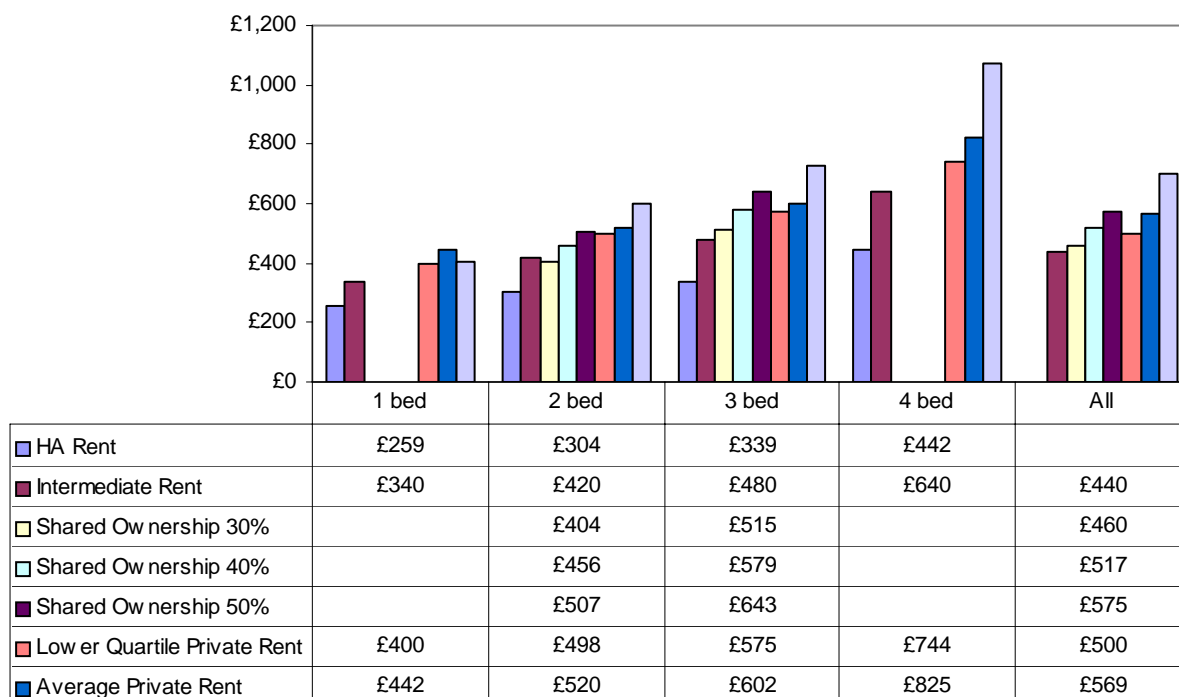
Table 2: Percentage of households unable to afford size and tenure

	1 bed	2 bed	3 bed	4 bed	All
RSL Rent	6%	8%	11%	13%	10%
Intermediate Rent	17%	19%	23%	44%	23%
Shared Ownership 30%	13%	23%	27%		23%
Shared Ownership 40%	17%	27%	32%		27%
Shared Ownership 50%	21%	32%	38%		34%
Lower Quartile Private Rent	23%	23%	32%	50%	29%
Average Rent	25%	27%	38%	61%	40%
Lower Quartile Purchase	25%	40%	56%	77%	50%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

21.6 Fenland

Fig 3: Monthly cost by tenure



Source: Hometrack Feb 2008, Fenland District Council 2007/8, Survey of Rents in Press Jan 2008

There is no data available on one bedroom shared ownership in Fenland. There were none sold and none listed as for sale.

The difference between RSL rent and lower quartile private rent is £141/ month for one bedroom properties. For two bedroom properties the difference between RSL rent and a 30% equity share is £100. For three bedroom properties it is £176

A 50% equity share for a two bedroom property is slightly more expensive than the lower quartile market rent on a similar property, but it is cheaper than the average rent. A 50% share of a three bedroom property costs more than the average private rent but less than buying a home outright.

There is very little difference in the lower quartile monthly cost of rent and the lower quartile cost of purchasing a one bedroom property. There is a bigger gap in these costs for larger properties.

It is cheaper to buy a 40% share of a three bedroom property than it is to buy a two bedroom property outright.

Due to the lower house prices in the district, the range of monthly cost per tenure for all sizes of properties is smaller than the range in most of the other districts, i.e. the difference in cost between social rent and open market purchase is smaller than elsewhere in the sub-region.

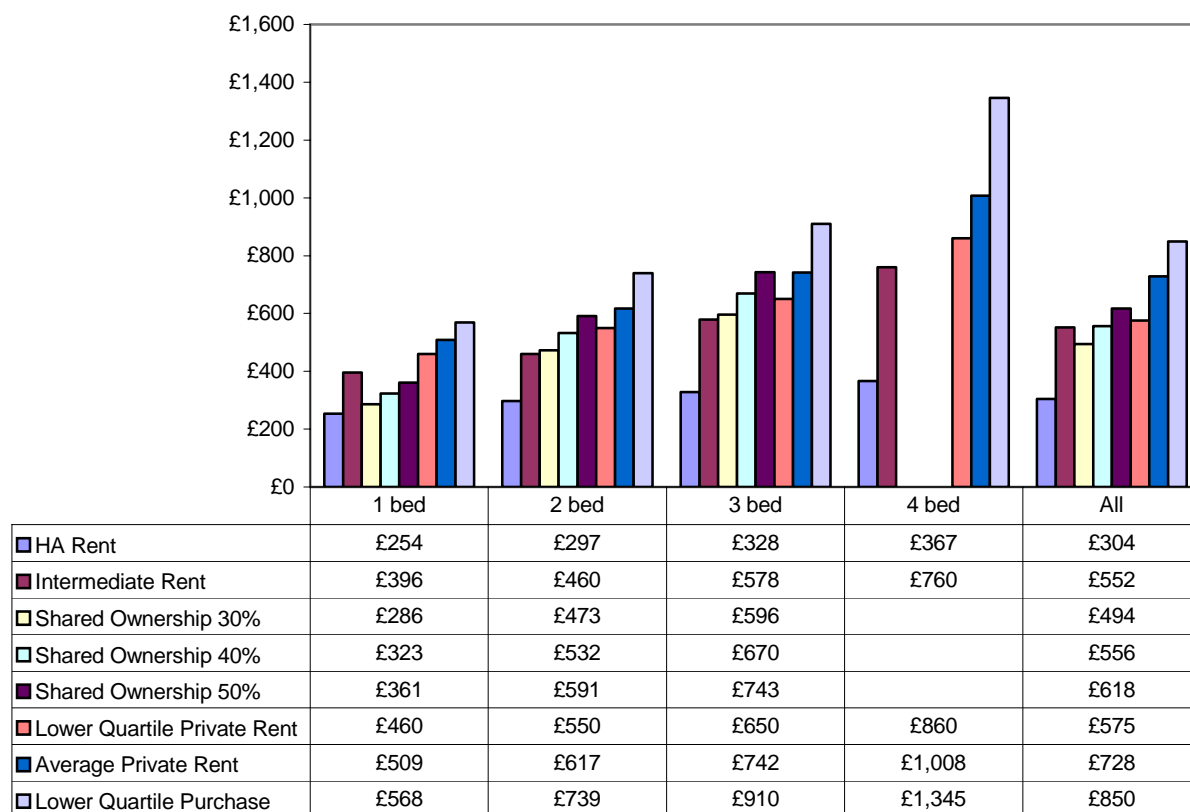
Table 3: Percentage of households unable to afford size and tenure

	1 bed	2 bed	3 bed	4 bed	All
RSL Rent	8%	9%	11%	13%	9%
Intermediate Rent	13%	20%	25%	41%	23%
Shared Ownership 30%		20%	30%		25%
Shared Ownership 40%		23%	36%		30%
Shared Ownership 50%		28%	41%		36%
Lower Quartile Private Rent	18%	28%	36%	50%	28%
Average Rent	23%	30%	38%	57%	33%
Lower Quartile Purchase	20%	38%	48%	72%	46%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

21.7 Huntingdonshire

Fig 4: Monthly cost by tenure



Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008

There was very little data available for intermediate purchases of one-bedroom properties in this district (there were only two sales and none currently advertised), so this figure may not be as robust as for other sized properties in the district. The difference between the monthly costs of RSL rent and shared ownership at 30% is £32 – this is quite a small difference compared to other parts of the county.

For two and three bedroom properties, the cost of a 30% equity share is between £175 and £268 per month more than the average RSL rent. A 50% share of a three bedroom property is about same as the average monthly market rent for a similar property. A 50% share of a two bedroom property is above than the entry level cost of renting privately, but below the

average private rent. A 50% share of a three bedroom property is only £4/month more expensive than buying a two bedroom property outright.

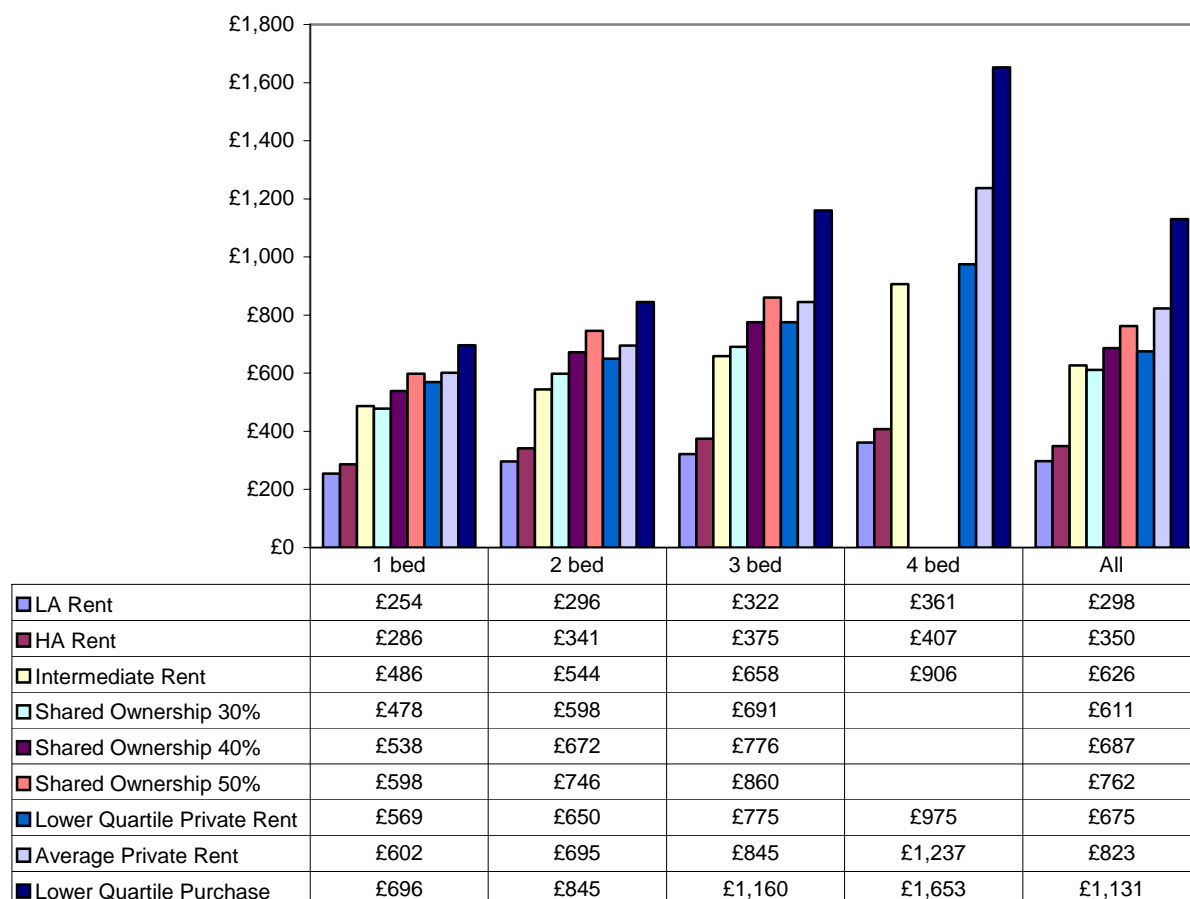
Table 4: Percentage of households unable to afford size and tenure

	1 bed	2 bed	3 bed	4 bed	All
RSL Rent	5%	7%	8%	10%	7%
Intermediate Rent	11%	16%	24%	36%	22%
Shared Ownership 30%	6%	16%	24%		18%
Shared Ownership 40%	8%	20%	30%		22%
Shared Ownership 50%	10%	24%	36%		26%
Lower Quartile Private Rent	16%	22%	28%	44%	24%
Average Rent	18%	26%	36%	54%	34%
Lower Quartile Purchase	22%	36%	48%	71%	44%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

21.8 South Cambridgeshire

Fig 5: Monthly cost by tenure



Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008

The difference between RSL rent and a 30% equity share of a property is between £192 and £316 per month depending on the size of property.

A 50% share of a one bedroom property is slightly more than the entry level rent, but less than the average rent. A 50% share of a two and three bedroom property is above the average monthly rent.

A 40% share of a two bedroom property is cheaper than the average cost of purchasing a one bedroom property outright. A 40% share of a three bedroom property is cheaper than purchasing a two bedroom property outright.

Table 5: Percentage of households unable to afford size and tenure

	1 bed	2 bed	3 bed	4 bed	All
LA Rent	4%	6%	7%	9%	6%
RSL Rent	5%	7%	9%	11%	9%
Intermediate Rent	17%	20%	28%	46%	26%
Shared Ownership 30%	15%	24%	30%		24%
Shared Ownership 40%	18%	28%	36%		30%
Shared Ownership 50%	24%	34%	42%		34%
Lower Quartile Private Rent	20%	26%	36%	49%	28%
Average Private Rent	24%	30%	40%	65%	40%
Lower Quartile Purchase	30%	40%	61%	80%	59%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

21.9 Forest Heath

Fig 6: Monthly cost by tenure



Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008

The difference between RSL rent and a 30% equity share is between £140 and £212 per month.

The difference between average private rent and lower quartile purchase for one and two bedroom properties is £64 and £89 respectively. There is only £22/ month difference between renting and buying a three bedroom property and it is more expensive to rent an average four bedroom property than to buy. Forest Heath's rental market is strongly influenced by the USAF. Whereas local renters prefer smaller properties the USAF personnel prefer larger homes. Because of the target audience for larger properties, rents tend to be higher at this end of the market. Rent levels for the local population may in fact be lower.

It is cheaper to buy a 40% share of a two bedroom property than it is to buy a one bedroom property outright. It is also cheaper to buy a 50% share of a three bedroom property than a two bedroom property on the open market.

A 50% equity share of three bedroom property is cheaper than the lower quartile private rent. A 50% share of a one or two bedroom property is above the lower quartile (entry-level) private rent but below the average rents for properties of these sizes.

Table 6: Percentage of households unable to afford size and tenure

	1 bed	2 bed	3 bed	4 bed	All
RSL Rent	7%	8%	10%	12%	8%
Intermediate Rent	16%	25%	37%	57%	28%
Shared Ownership 30%	16%	23%	28%		23%
Shared Ownership 40%	18%	28%	33%		28%
Shared Ownership 50%	23%	33%	37%		33%
Lower Quartile Private Rent	16%	33%	42%	65%	33%
Average Rent	25%	37%	56%	74%	47%
Lower Quartile Purchase	30%	45%	56%	71%	49%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

21.10 St Edmundsbury

The difference between RSL rent and a 30% equity share is between £142 and £232 per month depending on the size of property.

It is cheaper to buy a one or three bedroom property than it is to rent. The difference between average rent and lower quartile purchase of a two bedroom property is comparatively small.

A 50% equity share of a one bedroom property and a three bedroom property is below the lower quartile rent for similar sized properties. A 50% share of a two bedroom property is above lower quartile private rent but below the average rent.

It is cheaper to buy a 50% share of a three bedroom property than to purchase a two-bedroom property outright.

Fig 7: Monthly cost by tenure



Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008

Table 7: Percentage of households unable to afford size and tenure

	1 bed	2 bed	3 bed	4 bed	All
RSL Rent	5%	7%	9%	11%	7%
Intermediate Rent	21%	27%	37%	57%	34%
Shared Ownership 30%	14%	25%	27%		23%
Shared Ownership 40%	16%	30%	32%		30%
Shared Ownership 50%	21%	37%	39%		34%
Lower Quartile Private Rent	25%	32%	43%	61%	39%
Average Rent	30%	39%	52%	72%	50%
Lower Quartile Purchase	25%	41%	48%	75%	48%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

21.11 Summary of cost by tenure and size for each district

Generally the data presented for each of the districts shows:

- The difference between average rent and lower quartile purchase for a one bedroom property is quite small and in some areas renting a property this size is more expensive than buying. The difference in price between increases for larger sizes of home in Cambridgeshire, but in the Suffolk districts rents are quite high compared to the cost of purchase for some larger properties. This is possibly the influence of the USAF market.
- There is a huge difference between the cost of social rent and other affordable tenures. One of the groups shared ownership targets is “existing social renters”.

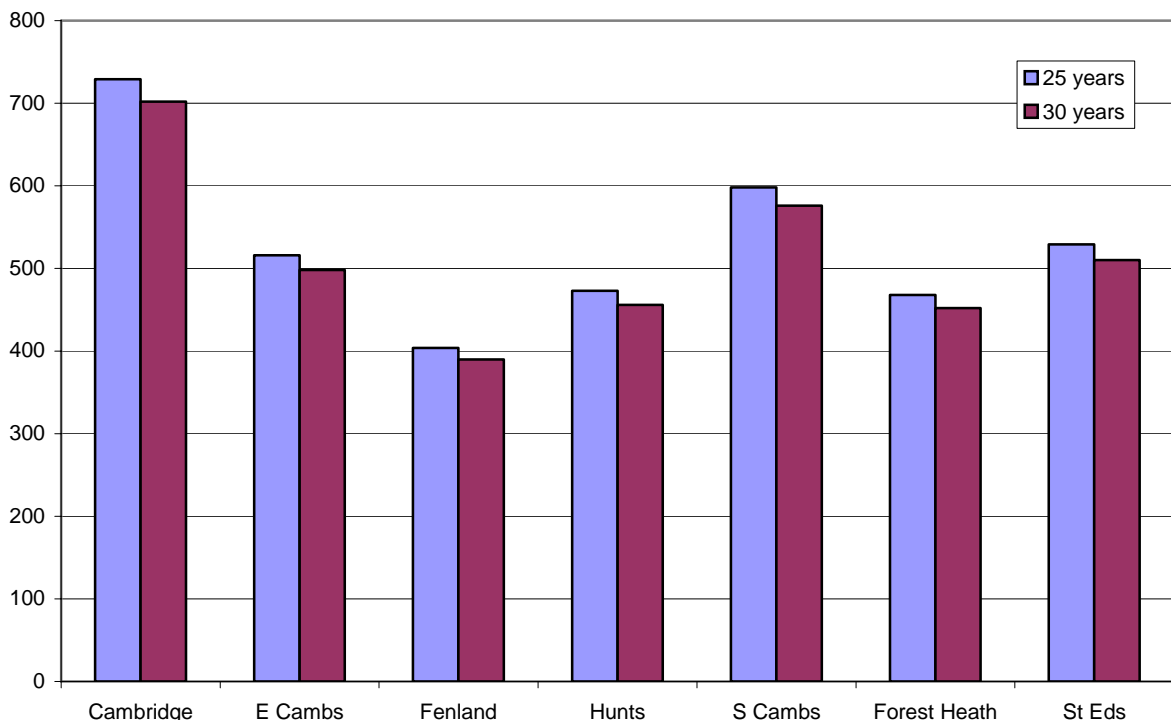
Given the difference in monthly costs, there may be a very small demand for shared ownership among this group – in 2007/08, only 4% of shared ownership sales were to people who had previously been in social rented housing.

- The monthly cost for shared ownership is often higher than the cost of lower quartile rent for a similar sized property, particularly at the 50% level. For shared ownership, 45% of purchasers in 2007/08 had previously been private tenants. “Affordable” products should help to meet the needs of people who cannot access lower quartile purchase or rent, so there is a difference between affordability and eligibility. However, purchasing a part share of a two-bedroom property is cheaper than or similar in price to renting or buying a two-bedroom property in many areas. So shared ownership appears to be a way to buy an extra room.
- Shared ownership at 30% (and in some cases at 40%) does generally fall below the cost of entering the market. However, 30% shares of a property are currently quite rare, although more widely advertised as available a couple of years ago, a 50% share still seems to be the average based on purchaser data.

21.12 Shared Ownership – 25 and 30 year mortgage

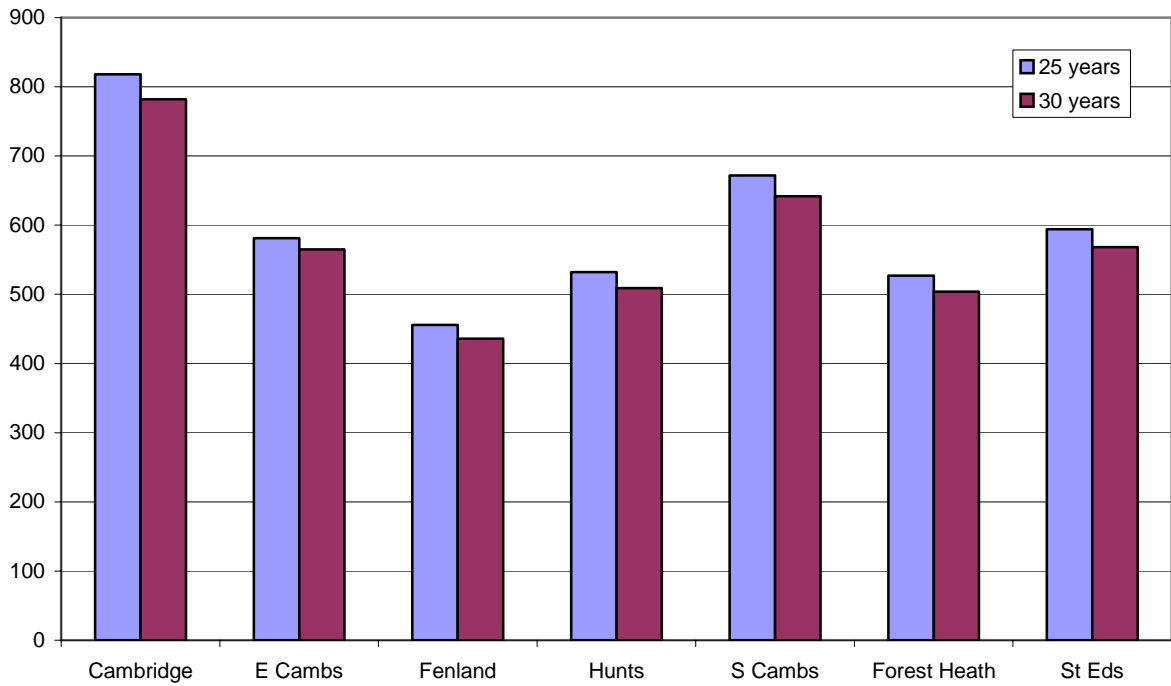
The tables in this section compare the monthly cost of a 2 bedroom shared ownership assuming a 25 and 30 year repayment mortgage. This is the most common-sized shared ownership property. Many shared ownership purchasers are younger people and therefore might be more likely to get longer terms than the 25-year standard.

Fig 8: Monthly cost of 30% share with 25 & 30 year mortgage



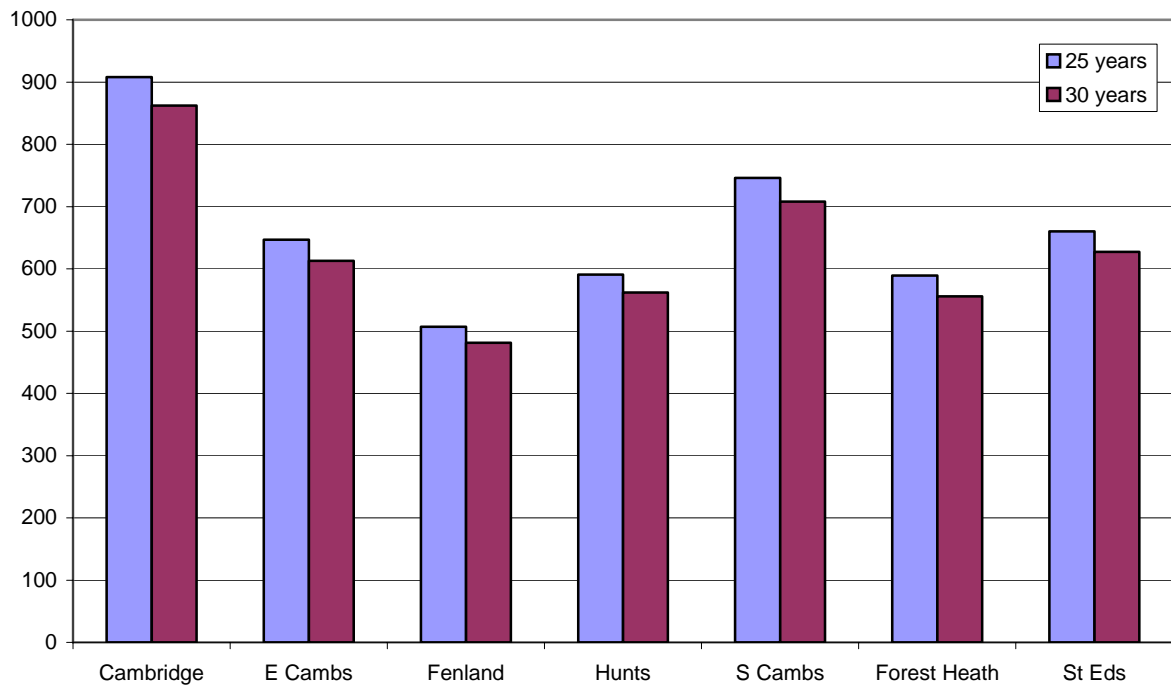
Source: CORE 2007/8

Fig 9: Monthly cost of 40% share with 25 & 30 year mortgage



Source: CORE 2007/8

Fig 10: Monthly cost of 50% share with 25 & 30 year mortgage



Source: CORE 2007/8

A 25 year mortgage is between £14 and £27 per month more expensive to payback on a 30% share, and between £29 and £46 per month more expensive to payback on a fifty percent share. This increases the percentage of the population able to afford a 30% share by between 2-4% depending on the district.

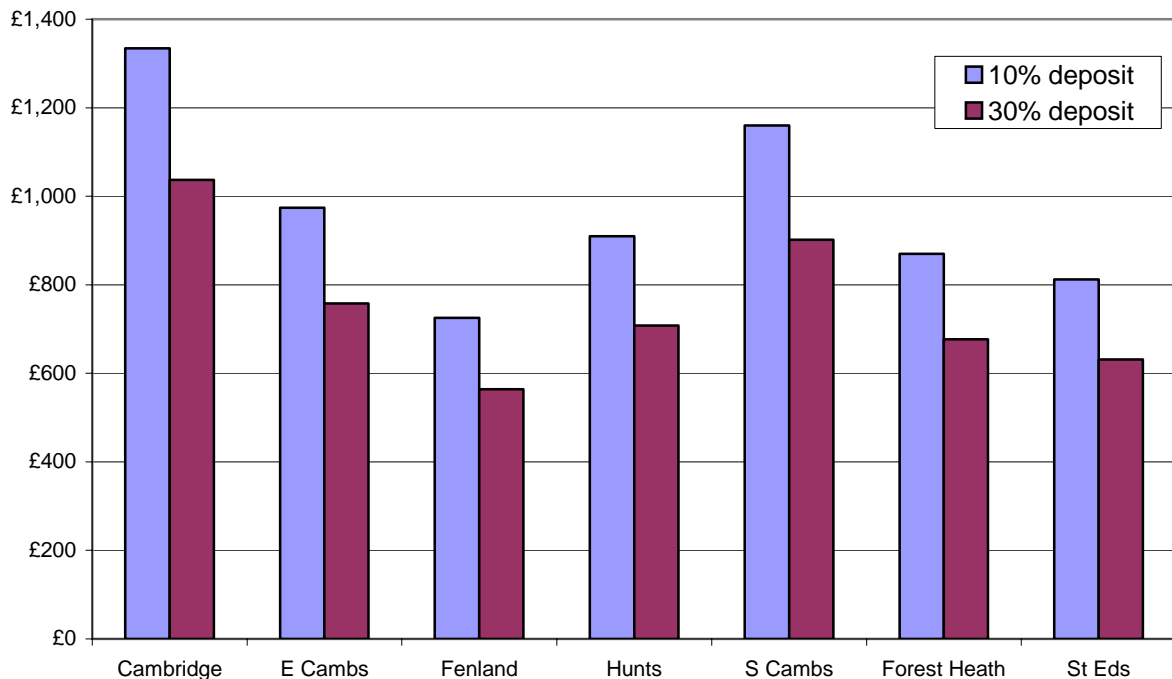
21.13 Three and four bedroom houses

Affordability is more of an issue for first time buyers who have smaller deposits available to them. In terms of demand, first time buyers are mostly single people and couples looking for smaller properties – very few¹ will be looking for a four-bedroom home as their first purchase, so most of the market for larger properties will be current homeowners looking to move up the ladder.

Data from the Council of Mortgage Lenders suggests that most homemovers have a deposit of about 30%, although early analysis of the ongoing survey of estate agents suggests a considerable amount of variation, with deposits for homemovers ranging between 10-70%.

The tables in this section compare the monthly cost of lower quartile three and four bedroom properties bought with a 10% deposit and a 30% deposit.

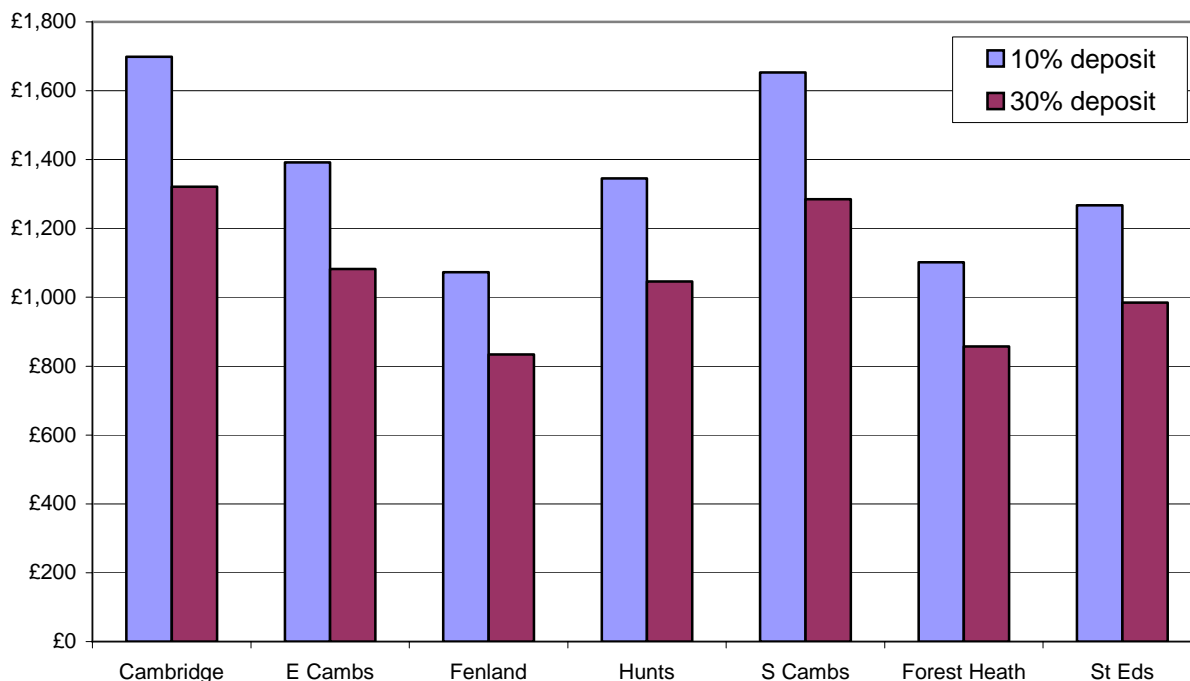
Fig 11: The monthly cost of a 3 bedroom home purchased with a 10% and 30% deposit



Source: Hometrack Feb 2008

¹ Some first time buyers recorded in CML data are actually "returners" – people who have been owner occupiers but were in a different tenure immediately before purchasing a home. For further details see Tatch, 2006 "Will the real first time buyers please stand up?" CML.

Fig 12: The monthly cost of a 4 bedroom home purchased with a 10% and 30% deposit



Source: Hometrack Feb 2008

Having a deposit of 30% of the cost of a lower quartile market property reduces monthly payments by between £160-£300 per month for a three bedroom house and by £240-£380 for a four bedroom house.

21.14 Summary of issues for affordability by tenure and size

This chapter compares the monthly costs of various tenures for different sizes of properties across the Cambridge sub-region and in doing so draws together data from chapters on house prices, rents, and the intermediate sector. The introduction includes details on the methodology and assumptions used.

General affordability

Generally speaking, social renting is the cheapest tenure followed by shared ownership with a 30% equity share, then renting privately, then shared ownership at 40% upwards with open market purchase (even at the cheapest level) being the most expensive tenure per month.

One bedroom properties are quite expensive to rent compared to what they cost to buy, and in some of the districts the monthly cost of purchasing an entry level property is lower than the cost of the average monthly rent. For larger properties there is more of a gap between the cost of private rent and open market purchase. This is due to the supply of one bedroom properties – many of which are newer build, which tends to be more expensive. There are also proportionately more new build properties advertised for rent than for sale.

Cambridge City has the worst affordability across all sizes of properties by some margin. For example, in Cambridge City, 44% of the population are unable to afford to buy an entry level one bedroom property on the open market. In the rest of the region between 20-30% are

unable to afford this size home. 68% of households in Cambridge City are unable to afford entry-level purchase of a two bedroom property. Again in the other districts the percentage of the population unable to afford this size property is considerably lower, between 36%-45%. This is unsurprising as it generally has the highest prices. Fenland has the lowest prices and rents for market housing and yet is not always the most affordable district – for example Huntingdonshire is slightly more affordable to two and four-bedroom market properties.

Deposits

One of the assumptions built in to the affordability is about the level of deposit – 10% of the market purchase price or £5,000 for shared ownership. This is based on data from the Council of Mortgage Lenders and from CORE data. In the last few years there were some 100% mortgages available. However in the current climate people these aren't available from lenders. This means that deposits are an important aspect of affordability, particularly for first time buyers². Many first time buyers are getting assistance from relatives in order to get this initial deposit together – in 2005 just under half of first time buyers required assistance with their deposit.³

10% is likely to be an underestimate of deposit size for a four bedroom properties (and possibly three bedroom properties). Most four (and three) bedroom properties will be bought by people “moving up the ladder” rather than by first time buyers. Nationally, CML data suggests that home-movers have a deposit of 30%, although there is probably a lot more variation depending on the types of moves people are making, how far they are moving etc.

The intermediate affordable housing sector currently only represents a small share of the overall market and for this reason the data is patchy for some types of properties in some areas. This is mostly due to supply and demand of these properties – an area which requires further investigation.⁴

Household income and tenure

Each district shows a percentage of households who are unable to afford social rents. National data from Housing in England⁵ shows that quite 40% of households with an income under £15,000 per year actually own their properties outright (see table). Many of these are pensioner households (income poor but housing rich).

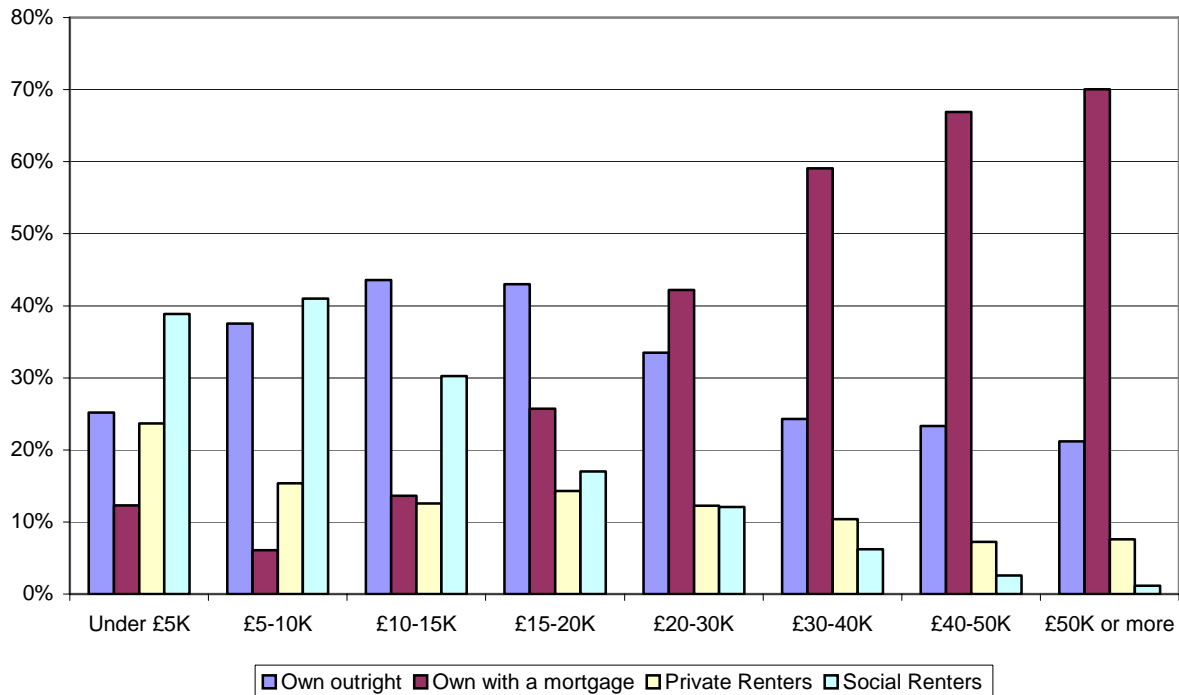
² Steve Wilcox, (4th June 2008) Hometrack seminar “Can't Supply, Can't Buy”.

³ Council of Mortgage Lenders (March 2006) “Will the real first time buyer please stand up?”

⁴ During the consultation on the initial draft of the SHMA, one respondent pointed out that the apparent lack of demand for keyworker properties in Fenland may be a genuine observation on the market, but may also be because people don't apply because they know their chance of getting something in the area is not high because there isn't very much available.

⁵ CLG (Sep 2008) “Housing in England 2006/07”

Fig 13: Gross household income by tenure



Source: *Housing in England, 2006/07*

Social renters and shared ownership

One “target group” for shared ownership is existing social tenants. In most of the districts there is a considerable difference in the monthly cost of social rent and the monthly cost of purchasing a 30% share of a property. This is not to say there is not a market among this group. A recent report⁶ from the Housing Corporation profiled social renters and broadly divided them into four groups: young urbanites, working families, non-working poor and older, settled households and the first two of these categories may include some people for whom shared ownership is an attractive option. The “young urbanite” group are mostly under 35 and mostly single people or childless couples. They are more mobile than the other groups described, with a larger number of recent movers. This group is most likely to express dissatisfaction with their current accommodation and least likely to have heard of shared ownership (compared to the other groups). “Working families” usually have at least one person in work. Most of these households have an income between £10,000 and £20,000, but a small number have an income between £25,000 and £50,000. Some of the households who fall into these categories may see shared ownership as a good option.

Affordability and occupancy

Purchasing a part share of a three bedroom property was in most places a cheaper option than buying a two bedroom property on the open market, which is an important consideration as people will generally buy the largest home they are able to afford and also because under the shared ownership scheme people are allowed to buy a home with one more bedroom than they “require”. This also means that potentially shared ownership may

⁶ Clarke, A (Jan 2008) “Understanding Demographic, Spatial and Economic Impacts on Future Affordable Housing Demand: The Profile of Affordable Housing Residents”

be a good way to reduce overcrowding – e.g. if a household can afford a two bedroom property but need a three bedroom property to meet their needs.

Measuring affordability and modelling issues

In this paper a third of monthly income spent on housing costs is “affordable”. This is roughly equivalent to one of the measures used by mortgage lenders. However there are some problems with this. Firstly there is no data on household savings, which may be considerable and will naturally have an impact on what people are able to afford. For example, a new household may be able to afford a substantial deposit due to a relationship breakdown, which would alter what they were able to afford.

Secondly, there is also a difference between spending a third of an income of £20,000 on housing and a third of an income of £30,000. There is also a difference in how different types of households are able and prepared to stretch themselves.

Appendix 1: Monthly costs as percentage of gross household income for lower quartile and median gross household income by district

This paper assumes “a third of gross household income” is affordable. In reality, people may spend more on this, depending on market and personal circumstances. For example, someone may feel more prepared to stretch themselves to buy rather than to rent.

This appendix shows the monthly cost of each tenure as a percentage of gross household income for lower quartile and median gross household income households and assumes that it is affordable for a household to spend 33% or less of their household income on housing costs (shown in black type); stretched, but manageable to be spending between 33% and 45% on housing (shown in amber type) and more than 45% is not recommended (shown in red type).

Cambridge City

Table 8: % of gross lower quartile household income (=£19,000) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	15%	19%	22%	25%	19%
Intermediate Rent	36%	44%	48%	63%	47%
Shared Ownership 30%	37%	46%	60%	0%	46%
Shared Ownership 40%	42%	52%	67%	0%	51%
Shared Ownership 50%	46%	57%	74%	0%	57%
Lower Quartile Private Rent	41%	49%	54%	70%	49%
Average Rent	48%	60%	64%	87%	62%
Lower Quartile Purchase	48%	71%	84%	107%	77%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

Table 9: % of gross median household income (=£29,700) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	10%	12%	14%	16%	12%
Intermediate Rent	23%	28%	31%	40%	30%
Shared Ownership 30%	24%	29%	38%	0%	29%
Shared Ownership 40%	27%	33%	43%	0%	33%
Shared Ownership 50%	30%	37%	48%	0%	37%
Lower Quartile Private Rent	26%	31%	34%	44%	32%
Average Rent	31%	38%	41%	55%	39%
Lower Quartile Purchase	30%	45%	54%	69%	49%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

East Cambridgeshire

Table 10: % of gross lower quartile household income (=£20,000) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	15%	18%	20%	21%	18%
Intermediate Rent	26%	29%	32%	48%	32%
Shared Ownership 30%	24%	31%	35%	0%	31%
Shared Ownership 40%	27%	35%	39%	0%	35%
Shared Ownership 50%	30%	39%	43%	0%	39%
Lower Quartile Private Rent	32%	32%	39%	54%	37%
Average Rent	34%	36%	44%	64%	45%
Lower Quartile Purchase	33%	45%	58%	84%	54%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

Table 11: % of gross median household income (=£31,900) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	10%	11%	12%	13%	11%
Intermediate Rent	17%	18%	20%	30%	20%
Shared Ownership 30%	15%	19%	22%	0%	20%
Shared Ownership 40%	17%	22%	24%	0%	22%
Shared Ownership 50%	19%	24%	27%	0%	25%
Lower Quartile Private Rent	20%	20%	24%	34%	23%
Average Rent	21%	22%	27%	40%	28%
Lower Quartile Purchase	20%	28%	37%	52%	34%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

Fenland

Table 12: % of gross lower quartile household income (=£17,000) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	17%	19%	20%	22%	18%
Intermediate Rent	24%	30%	34%	45%	31%
Shared Ownership 30%	0%	29%	36%	0%	32%
Shared Ownership 40%	0%	32%	41%	0%	37%
Shared Ownership 50%	0%	36%	45%	0%	41%
Lower Quartile Private Rent	28%	35%	41%	53%	35%
Average Rent	31%	37%	42%	58%	40%
Lower Quartile Purchase	29%	42%	51%	76%	50%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

Table 13: % of gross median household income (=£26,900) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	10%	12%	13%	14%	12%
Intermediate Rent	15%	19%	21%	29%	20%
Shared Ownership 30%	0%	18%	23%	0%	21%
Shared Ownership 40%	0%	20%	26%	0%	23%
Shared Ownership 50%	0%	23%	29%	0%	26%
Lower Quartile Private Rent	18%	22%	26%	33%	22%
Average Rent	20%	23%	27%	37%	25%
Lower Quartile Purchase	18%	27%	32%	48%	31%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

Huntingdonshire

Table 14: % of gross lower quartile household income (=£21,000) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	14%	16%	18%	20%	16%
Intermediate Rent	23%	26%	33%	43%	32%
Shared Ownership 30%	16%	27%	34%	0%	28%
Shared Ownership 40%	18%	30%	38%	0%	32%
Shared Ownership 50%	21%	34%	42%	0%	35%
Lower Quartile Private Rent	26%	31%	37%	49%	33%
Average Rent	29%	35%	42%	58%	42%
Lower Quartile Purchase	32%	42%	52%	77%	49%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

Table 15: % of gross median household income (=£34,000) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	8%	10%	11%	12%	10%
Intermediate Rent	14%	16%	20%	27%	19%
Shared Ownership 30%	10%	17%	21%	0%	17%
Shared Ownership 40%	11%	19%	24%	0%	20%
Shared Ownership 50%	13%	21%	26%	0%	22%
Lower Quartile Private Rent	16%	19%	23%	30%	20%
Average Rent	18%	22%	26%	36%	26%
Lower Quartile Purchase	20%	26%	32%	47%	30%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

South Cambridgeshire

Table 16: % of gross lower quartile household income (=£22,000) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	14%	16%	18%	20%	17%
Intermediate Rent	27%	30%	36%	49%	34%
Shared Ownership 30%	26%	33%	38%	0%	33%
Shared Ownership 40%	29%	37%	42%	0%	37%
Shared Ownership 50%	33%	41%	47%	0%	42%
Lower Quartile Private Rent	31%	35%	42%	53%	37%
Average Rent	33%	38%	46%	67%	45%
Lower Quartile Purchase	38%	46%	63%	90%	62%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

Table 17: % of gross median household income (=£35,400) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	9%	10%	11%	13%	10%
Intermediate Rent	16%	18%	22%	31%	21%
Shared Ownership 30%	16%	20%	23%	0%	21%
Shared Ownership 40%	18%	23%	26%	0%	23%
Shared Ownership 50%	20%	25%	29%	0%	26%
Lower Quartile Private Rent	19%	22%	26%	33%	23%
Average Rent	20%	24%	29%	42%	28%
Lower Quartile Purchase	24%	29%	39%	56%	38%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

Forest Heath

Table 18: % of gross lower quartile household income (=£18,000) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	15%	17%	19%	21%	18%
Intermediate Rent	27%	33%	43%	59%	35%
Shared Ownership 30%	25%	31%	35%	0%	31%
Shared Ownership 40%	29%	35%	39%	0%	35%
Shared Ownership 50%	32%	39%	43%	0%	39%
Lower Quartile Private Rent	27%	38%	47%	67%	38%
Average Rent	33%	42%	57%	77%	49%
Lower Quartile Purchase	37%	48%	58%	73%	52%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

Table 19: % of gross median household income (=£28,400) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	10%	11%	12%	14%	11%
Intermediate Rent	17%	21%	27%	37%	22%
Shared Ownership 30%	16%	20%	22%	0%	20%
Shared Ownership 40%	18%	22%	25%	0%	22%
Shared Ownership 50%	20%	25%	27%	0%	25%
Lower Quartile Private Rent	17%	24%	30%	42%	24%
Average Rent	21%	26%	36%	49%	31%
Lower Quartile Purchase	24%	30%	37%	47%	33%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

St Edmundsbury

Table 20: % of gross lower quartile household income (=£19,000) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	14%	16%	19%	20%	17%
Intermediate Rent	29%	35%	43%	59%	40%
Shared Ownership 30%	24%	33%	34%	0%	32%
Shared Ownership 40%	27%	38%	39%	0%	36%
Shared Ownership 50%	30%	42%	43%	0%	40%
Lower Quartile Private Rent	34%	38%	47%	63%	44%
Average Rent	37%	44%	55%	75%	53%
Lower Quartile Purchase	33%	46%	51%	80%	52%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7

Table 21: % of gross median household income (=£30,100) spent on housing costs

	1 bed	2 bed	3 bed	4 bed	All
Social Rent	9%	10%	12%	13%	11%
Intermediate Rent	18%	22%	27%	37%	26%
Shared Ownership 30%	15%	21%	22%	0%	20%
Shared Ownership 40%	17%	24%	24%	0%	23%
Shared Ownership 50%	19%	26%	27%	0%	25%
Lower Quartile Private Rent	21%	24%	30%	40%	28%
Average Rent	24%	28%	34%	47%	34%
Lower Quartile Purchase	21%	29%	32%	51%	33%

Source: Hometrack Feb 2008, Dataspring 2007/8, CORE 2007/8, Survey of Rents in Press Jan 2008, CACI 2006/7