

**SPECIFICATION**

**DEFINING AND MODELLING  
AFFORDABILITY**

**MAY 2001**

**Prepared For: NORTH DEVON DISTRICT COUNCIL**

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## 1. INTRODUCTION

This report has been prepared for North Devon District Council. It sets out the proposed parameters of the affordability modelling exercise that will shortly be undertaken by Market Research UK.

In the report:

- *SECTION 2 describes our views on a suitable method for measuring the affordability of housing requirements.*
- *SECTION 3 draws on the results of our investigations to identify a set of proposed income thresholds for access to the owner occupied and private rented housing markets.*
- *SECTION 4 brings together our recommendations on measuring affordability and on income thresholds to describe the components and operation of the computer model we plan to develop for the exercise.*

## 2. MEASURING AFFORDABILITY

Although there is still considerable debate among housing professionals and housing researchers on the issue of affordability, virtually all local authority housing needs studies in Britain in recent years have opted to measure the affordability of housing costs by expressing these costs as a share of net household income. Accordingly, we would propose that this method is employed in the forthcoming affordability modelling exercise.

While there is general agreement throughout the housing world on the most appropriate method for measuring affordability, further debate surrounds definition of the actual share of their incomes which households should be expected realistically to expend on their housing costs. It has been argued, for example, that households seeking access to owner occupation might be prepared to spend one-third or more of their net incomes on mortgage and associated costs. For households on lower incomes who need subsidised rented housing, on the other hand, the view has been expressed that they should not be expected to spend more than one-quarter of their incomes on rent payments. In areas where incomes are typically very low, as is the case in parts of North Devon District, it may be appropriate to consider an even lower share of income.

Given these different opinions, we believe it will be important to ensure a high degree of flexibility in the operation of the computer model. To this end, we would recommend that the model should aim to test the affordability of housing costs using the following four options on share of income:-

- 20% of each household's net annual income (NAI)
- 25% of NAI
- 30% of NAI
- 35% of NAI.

In this way, the Council will be able to compare the modelling results for all four share of income options, and they will be able to select the option which they feel will provide the most effective basis for determining affordable housing needs in the District.

### **3. CALCULATING AFFORDABILITY THRESHOLDS**

This Section evaluates information collected by Market Research UK to present a range of typical housing costs in the owner occupied and private rented housing sectors of the North Devon housing market. It also identifies the minimum levels of income that households would need to afford these housing costs. For each sector of the market, the minimum income levels, or "*affordability thresholds*", have been calculated using the four options on share of income described in Section 2.

#### **3.1 Owner Occupation Prices**

Drawing on our investigation of recent house prices in North Devon, Table A overleaf provides a set of indicative house prices and associated annual housing costs for properties at the lower end of the District's housing market. Our housing cost calculations assume a 95% repayment mortgage borrowed over 25 years at a gross interest rate of 7.3%. Our calculations do not include any amounts in respect of Council Tax liability, nor do they take account of additional expenditure on repairs and maintenance.

**TABLE A: AFFORDABILITY OF OWNER OCCUPATION**

HOUSE TYPE	INDICATIVE HOUSE PRICE	ANNUAL HOUSING COSTS	AT1	AT2	AT3	AT4
BEDSIT	£45,000	£3,768	£18,840	£15,072	£12,560	£10,766
1 BEDROOM FLAT	£50,000	£4,187	£20,934	£16,747	£13,956	£11,962
2 BEDROOM FLAT	£60,000	£5,024	£25,121	£20,096	£16,747	£14,355
1 BEDROOM HOUSE	£60,000	£5,024	£25,121	£20,096	£16,747	£14,355
2 BEDROOM HOUSE	£68,000	£5,694	£28,470	£22,776	£18,980	£16,269
3 BEDROOM HOUSE	£78,000	£6,531	£32,657	£26,125	£21,771	£18,661
4 BEDROOM HOUSE	£94,000	£7,871	£39,356	£31,484	£26,237	£22,489

### 3.2 Private Renting Prices

Drawing on our examination of private lettings in North Devon, Table B identifies typical private rents that apply across the District.

**TABLE B: AFFORDABILITY OF PRIVATE RENTING**

HOUSE TYPE	INDICATIVE ANNUAL RENT	AT1	AT2	AT3	AT4
BEDSIT	£2,800	£14,000	£11,200	£9,333	£8,000
1 BEDROOM FLAT	£3,300	£16,500	£13,200	£11,000	£9,429
2 BEDROOM FLAT	£4,200	£21,000	£16,800	£14,000	£12,000
1 BEDROOM HOUSE	£3,800	£19,000	£15,200	£12,667	£10,857
2 BEDROOM HOUSE	£4,700	£23,500	£18,800	£15,667	£13,429
3 BEDROOM HOUSE	£5,200	£26,000	£20,800	£17,333	£14,857
4 BEDROOM HOUSE	£7,000	£35,000	£28,000	£23,333	£20,000

## 4. MODELLING AFFORDABILITY

### 4.1 Components of Computer Model

Our computer model will test whether those households who have expressed a demand for housing through the follow-up interview survey will be able to afford the costs of their stated housing requirements. As such, the model will consist of two key components:-

- a set of tables containing the affordability thresholds defined in Section 3 for access to each sector of the housing market
- data derived from the survey results describing the tenure expectations, housing requirements and annual incomes of households intending or wanting to move house.

The annual income figure recorded by the survey for each household represents that household's total income from all sources after deduction of income tax, national insurance and other regular deductions.

The figure takes into account any income from employment (including bonuses and overtime); any income from pensions and benefits (including child benefit); and any interest from savings. Housing benefit is not included.

## **4.2 Proposed Modelling Exercise**

The affordability modelling exercise will establish whether households expressing a demand for housing will be able to realise their housing requirements at current market prices.

The number of households "*passing*" this test will provide a quantification of the likely future demand for non-subsidised owner occupied housing and for market rented accommodation.

The number of households "*failing*" the test will also provide a quantification of the residual need for affordable rented housing.