# Analysis of Housing Costs in North Norfolk

## Report of Findings for Norfolk Homes

3 November 2006

**Opinion Research Services**

Spin-out Company of the
University of Wales Swansea

# Analysis of Housing Costs in North Norfolk

### Introduction

1. Opinion Research Services (ORS) was commissioned by Norfolk Homes to understand the mix of existing housing in North Norfolk and the household incomes required to afford the range of housing options available.

2. Whilst the analysis seeks to understand the household incomes required to currently access housing in the district, the cost of housing in 2002 has also been considered – for this is the last time that North Norfolk District Council commissioned an analysis of appropriate affordable housing options in the district.

### Housing Mix

3. Analysis of existing data sources provides us with a better understanding of the existing housing market in North Norfolk district. In terms of the existing stock, Figure 1 identifies that the majority of the existing housing is owner occupied with a dominance of detached and semi-detached properties. Less than a quarter of the existing stock is either terraced properties or flats, which means that First Time Buyers will typically have relatively limited choice when entering the market.

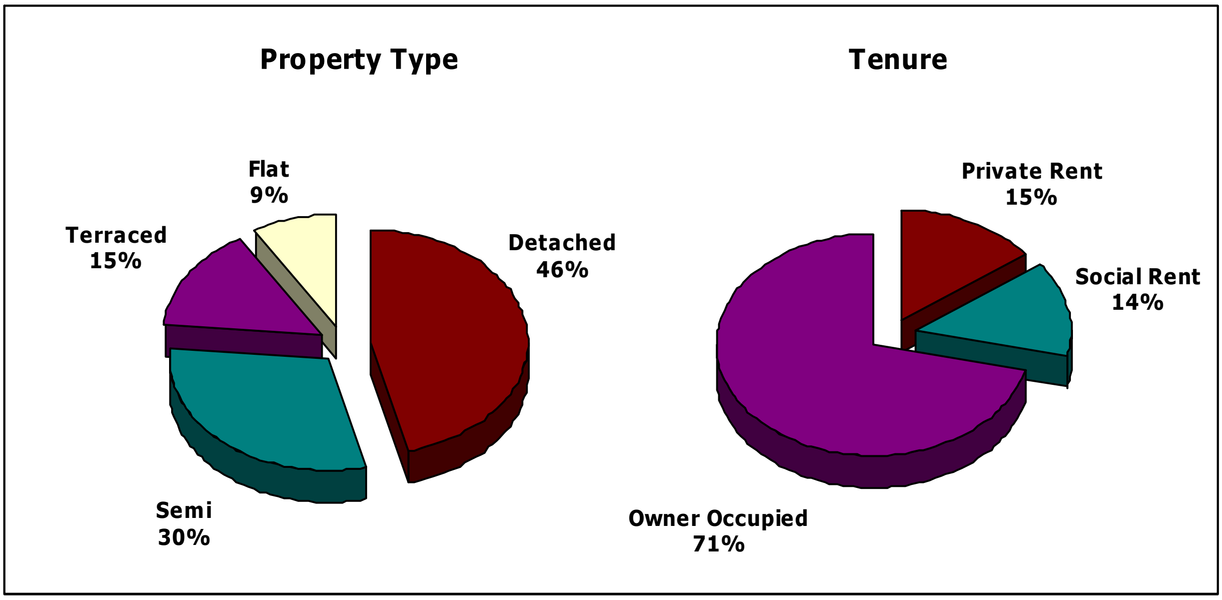


**Figure 1: Housing Stock in North Norfolk**
Source: UK Census of Population 2001

### House Prices and Sales

4. Looking at the average earnings of full-time employees who work, the cost of buying a dwelling in North Norfolk is over nine times the average salary of a full-time worker. Similarly, it takes just over six times the average salary to buy an average flat in North Norfolk (which there are relatively few of). Therefore, house prices are beyond the reach of many local households who do not already own their own home (and therefore do not have any existing equity).

5. Of course, it should be remembered that the average house prices reflect a range of selling prices – therefore there will be more affordable properties because some must sell for below the average price. However, for a person on a typical salary in North Norfolk there is likely to be a shortage of owner occupied housing at a price they can afford.

6. Figure 2 (below) shows the distribution of all property transactions in North Norfolk district registered with the Land Registry for the period 2005-06 broken down by price band.

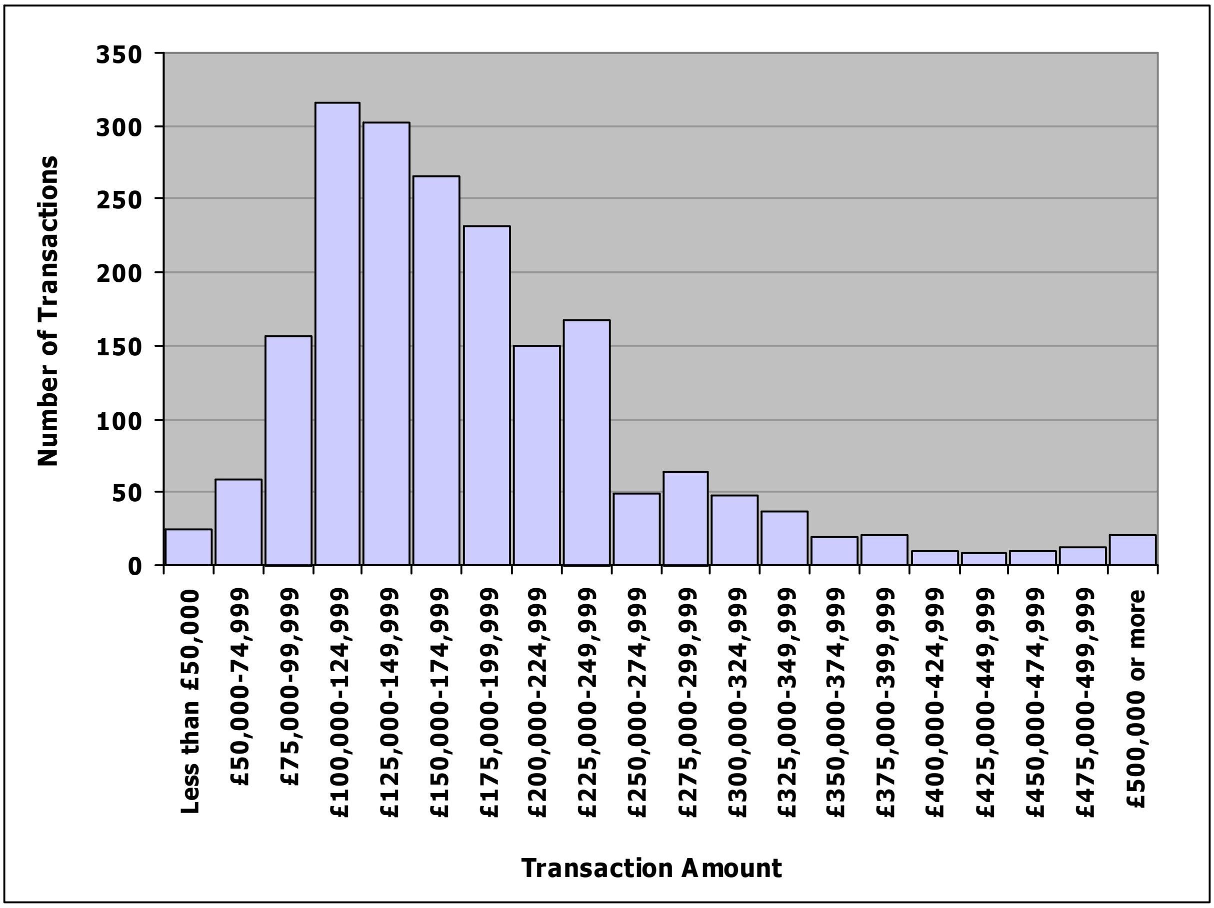


**Figure 2: Property Sale Transactions for North Norfolk 2005-06**
HM Land Registry, All Transactions from April 2005 to March 2006

7. It is apparent that there were very few transactions for less than £75,000, with only about one-in-eight (12.2%) properties selling for less than £100,000. Of course, it has to be borne in mind that at least some of these properties at the extreme end of the scale will not be fit for habitation in their current state, and will require a significant amount of investment to bring them up to an appropriate standard.

8. Emerging guidance from DCLG on Local Housing Assessments states that in determining mortgage borrowing, it should be assumed that a single earner will borrow up to 3.5x his/her gross earnings, with two income households borrowing no more than 2.9x the joint income.

9. On the assumption that no savings or equity contribute to the purchase, Figure 3 shows the distribution of incomes required to access owner occupied housing available on the open market. The red trace shows the proportion of all property transactions available to single income earners within the identified income band, whereas the green trace shows the proportion available to joint income households.

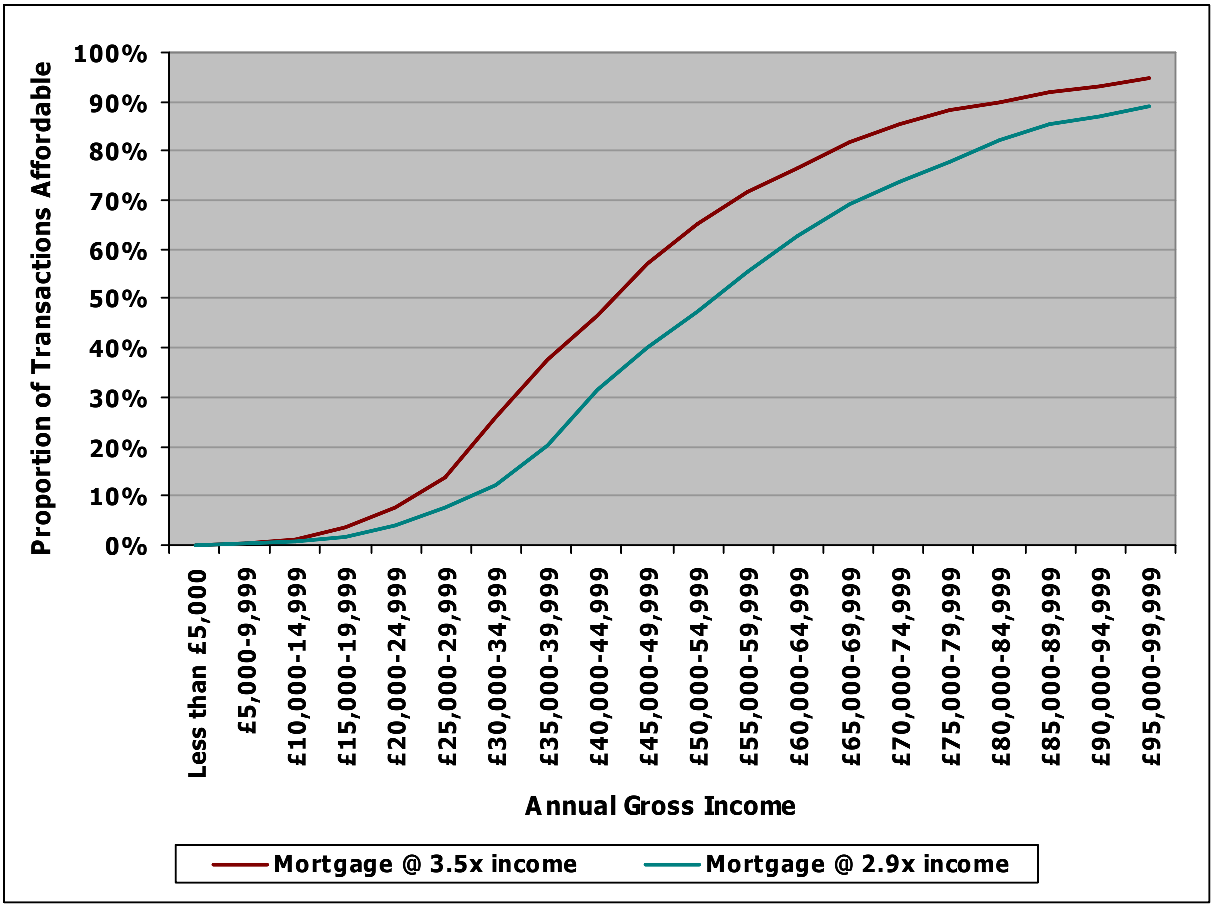


**Figure 3: Income Required to Access Owner Occupied Housing in North Norfolk 2005-06**

10. It is clear that virtually no owner occupied housing is affordable to households earning less than £20,000 p.a., and only 7.7% of properties sold would be affordable to individual earners with incomes from £20,000-24,999 borrowing at the maximum 3.5x ratio. For households to be able to consider the cheapest quarter of properties on the market, individual earners would need to earn at least £30,000-34,999 with joint borrowers needing incomes of £40,000-44,999 or more.

**Cost of Renting**

11. Emerging guidance from DCLG recognises that households should contribute up to 25% of their gross income toward rent payments. Through considering the mix of rented housing (in terms of dwelling type), the cost of purchasing rented stock and the current yield from buy-to-let properties, we can also understand the income required to access properties in the private rented sector.

12. On the basis of dwelling type mix in the private rented sector being 26% detached, 31% semi, 19% terraced and 23% flat (Source: 2001 Census) and the rental yield figures for buy-to-let properties being 5.9% for the final quarter of 2005/06 (Source: Landlord Mortgages), Figure 4 shows the household income required to access rented housing across the district.

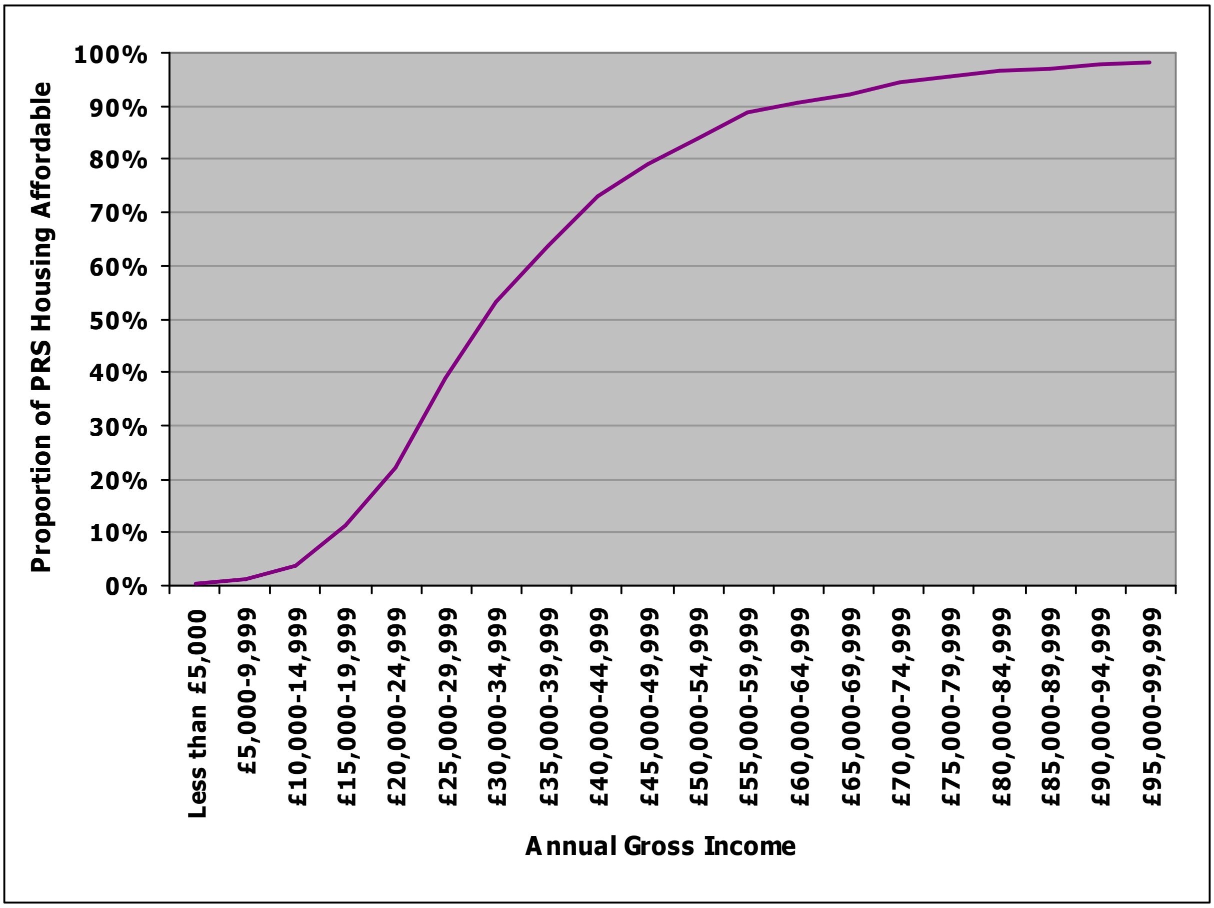


**Figure 4: Income Required to Access Private Rented Housing in North Norfolk 2005-06**

13. It is apparent that the private rented market is affordable to far more households than home ownership – with 11.1% of all properties in the sector affordable to households earning £15,000-19,999, and those with household incomes of £30,000 or more able to access more than half (53.1%).

14. Of course, there is also a proportion of households on lower incomes who are assisted to live in the private rented sector with the assistance of Housing Benefit support. At the end of 2005/06, a total of 2,400 households living in housing rented from the private sector or from a Registered Social Landlord were in receipt of Housing Benefit (Source: DWP) – representing around 31% of households in these sectors.

15. Whilst the proportion of households in receipt of benefit may be higher in the RSL sector, since the private rented sector constitutes the larger share of the combined stock (6,463 dwellings out of 7,678 PRS/RSL total), it is apparent that the housing costs of a significant number of households in the private rented sector are currently being underwritten by benefit payments.

16. To complete the analysis of the rented stock, we should also consider the cost of renting in the social sector. Unlike market housing, rents in the social sector are controlled and generally set in line with Target Rents determined by the Housing Corporation. At the start of 2005/06, the weekly Target Rents for North Norfolk were £54.17 for a 1-bed property;

£57.49 for a 2-bed home; £63.96 for a 3-bed unit and £68.89 for a property with four bedrooms or more.

17. On the basis of households spending no more than 25% of their gross income on housing cost, households would require incomes of £11,300 to service the rent on a 1-bed home; £12,000 for a 2-bed property; £13,300 for a 3-bed dwelling and £14,400 for larger units. Insofar as households with incomes any lower than these amounts would typically qualify for Housing Benefit support to assist with their rent, all social rented properties would inevitably be affordable to all households.

**Cost of Housing in North Norfolk 2005/06**

18. Figure 5 (below) shows the required annual income to service the cost of all housing types in North Norfolk – identifying the proportion of dwellings that would be considered affordable (in the context of emerging DCLG guidance) to households on a range of incomes.

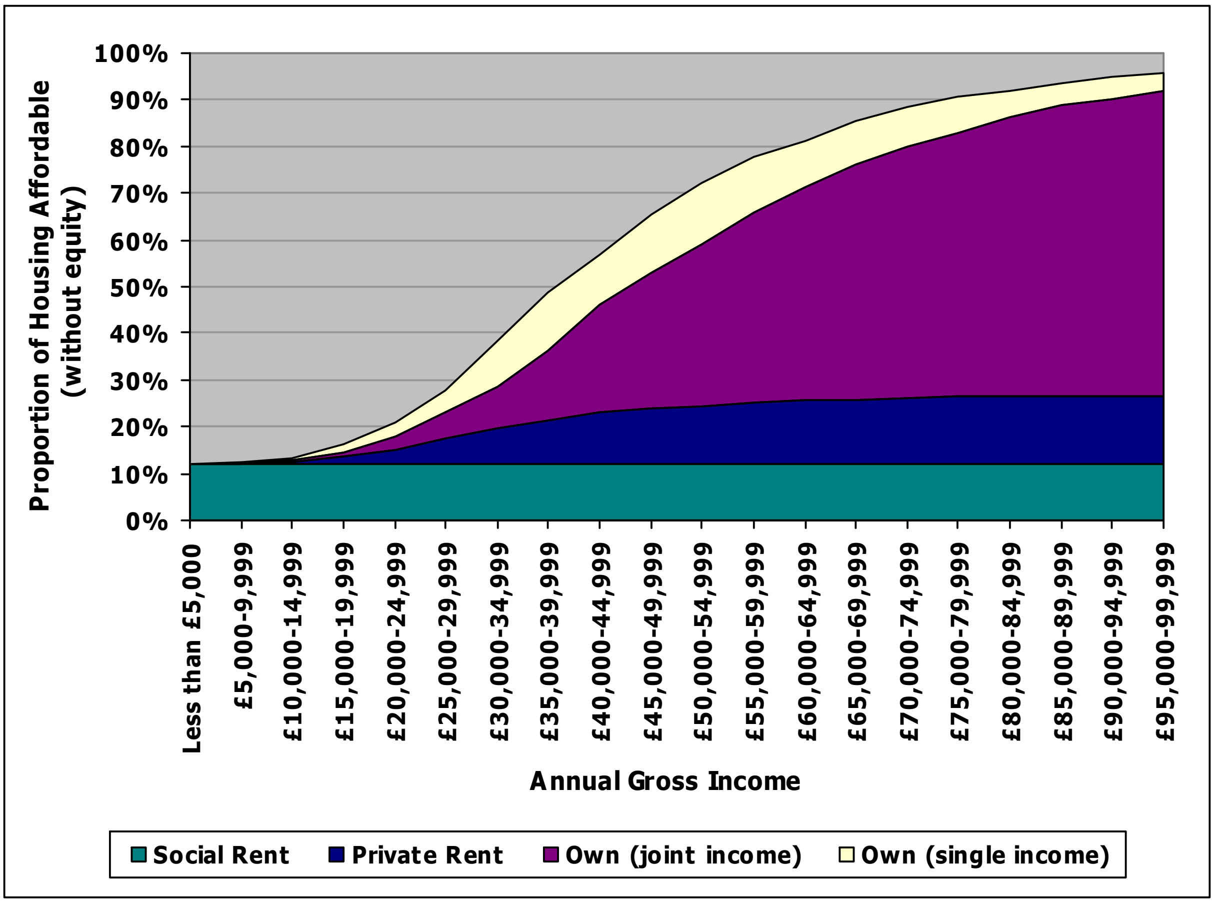


**Figure 5: Income Required to Access Housing in North Norfolk 2005-06**

19. For households earning £15,000 or less (typically assumed to require social rented housing), 13.4% of local housing would be affordable – either in the social sector (with or without benefit support) or in the market sector (without benefit support or any existing equity).

20. Over a third of the stock (38.6%) is affordable to households earning £30,000 or more, with more than half being accessible to those with annual incomes of £40,000+. Of course, given that over 70% of the stock is owner occupied, many households will have existing equity and will not depend exclusively on the household income – but most newly forming households (and households seeking to move out of rented housing) do not benefit from this additional finance.

21. When we remove the cumulative aspect of the above analysis, and consider only those properties that become affordable within the identified band, the limited supply of housing available for those households earning £15,000-24,999 and to a lesser extent £25,000-29,999 becomes quite apparent (Figure 6 below).

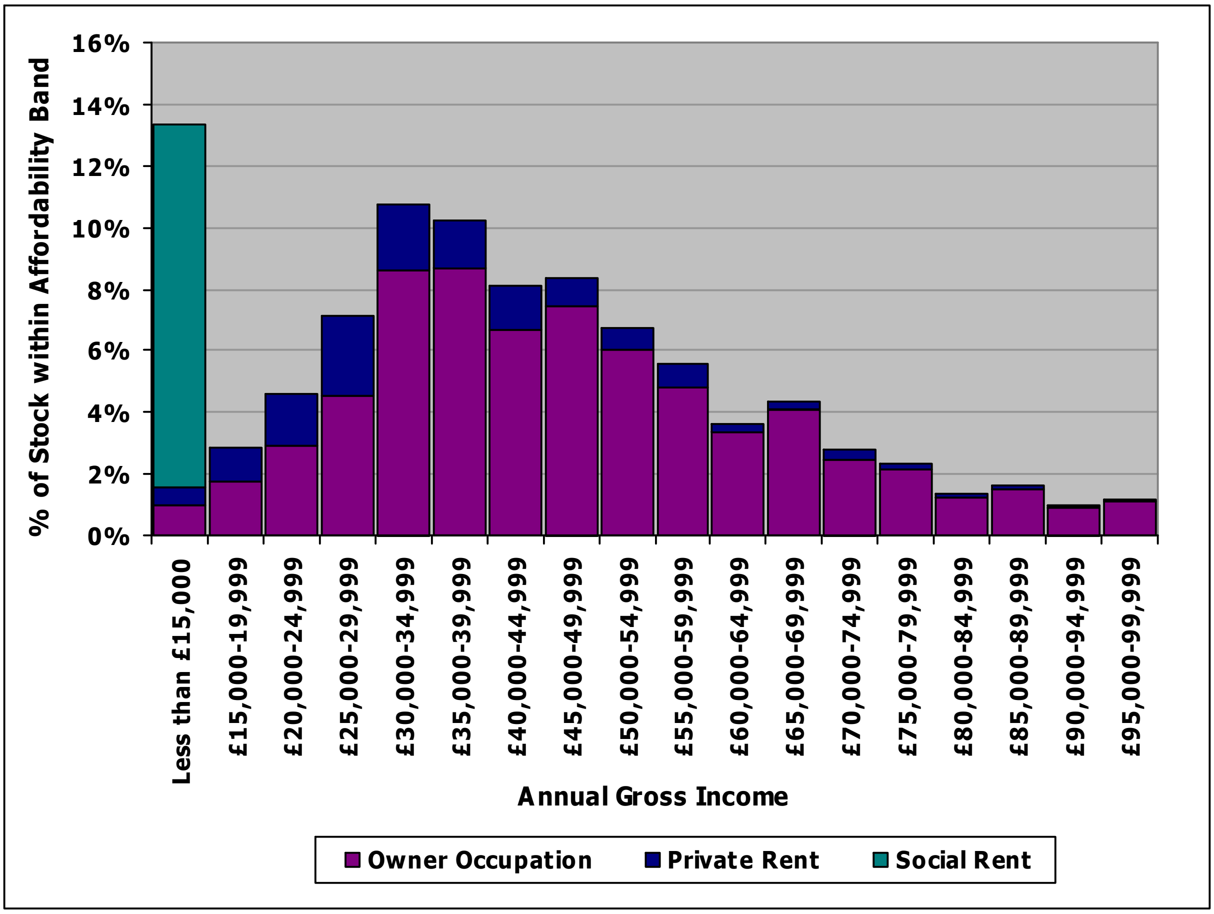


**Figure 6: Available Housing Stock by Required Income in North Norfolk 2005-06**

## Cost of Housing in North Norfolk 2002/03

22. When the same analysis is repeated for the period 2002/03, the profile of annual income required to service identified housing costs in the district is quite markedly different from that seen now.

23. Average house prices in the district were already seven times the average salary of a full-time worker in 2002/03, but at that time flats were less four times the average earnings. Nevertheless, whilst these multipliers were already quite extreme, the distribution of housing still provided some options for households on lower incomes.

24. Furthermore, whilst rental yield in the private rented sector accounted for 6.8% of the property values, given that house prices tended to be lower, private rents were also more affordable.

25. Figure 7 (overleaf) shows the distribution of stock by affordability band for 2002/03 with Figure 8 comparing the overall proportion of stock in each band for the two years under consideration.

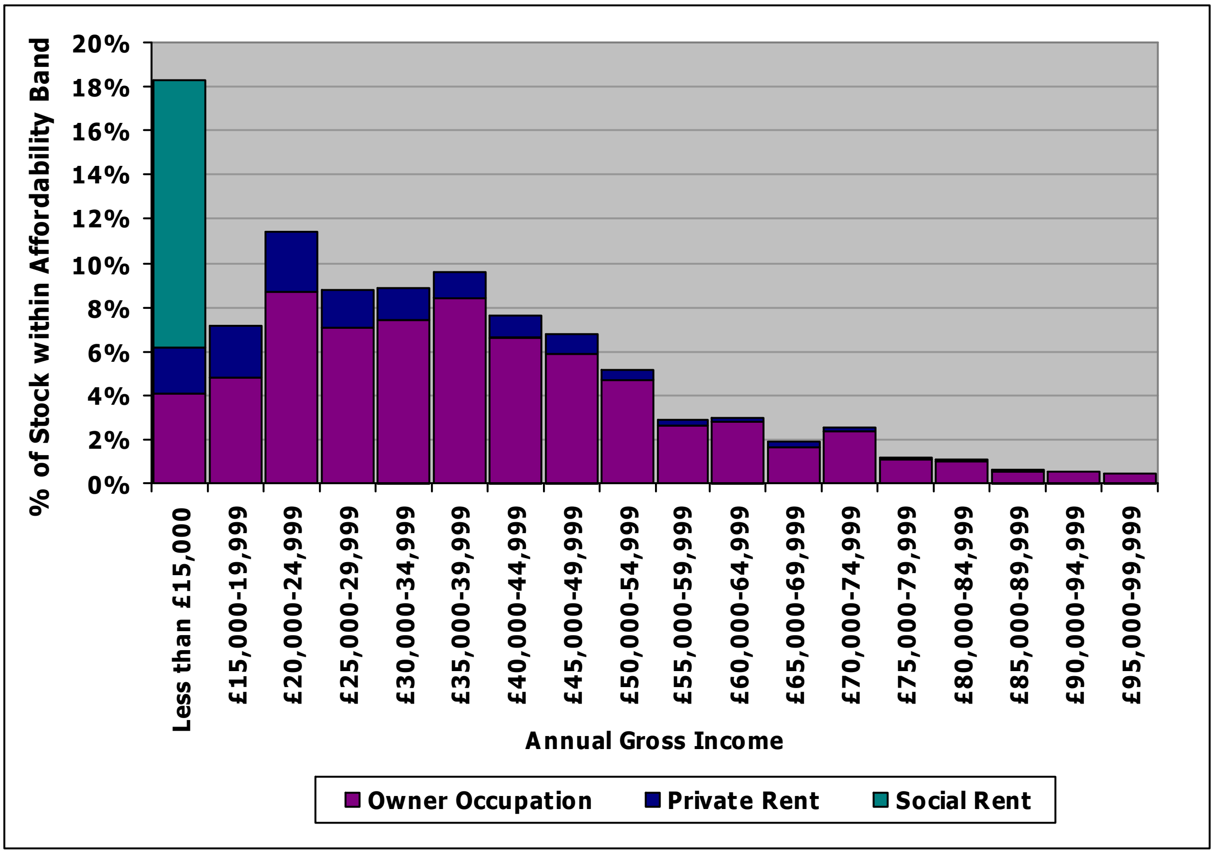


**Figure 7:** **Available Housing Stock by Required Income in North Norfolk 2002-03**

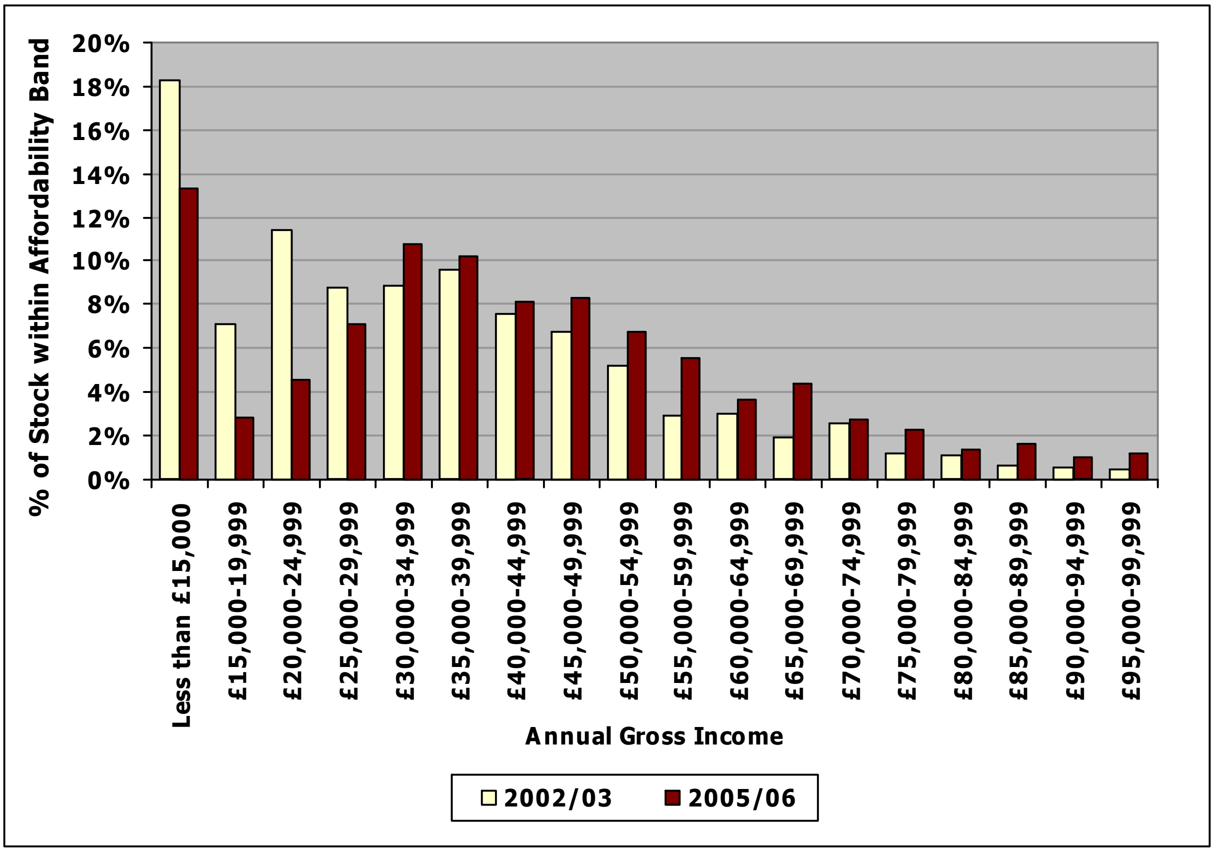


**Figure 8:** **Available Housing Stock by Required Income in North Norfolk 2002-03 compared with 2005/06**

26. When we consider the change in distribution (as illustrated in Figure 9, below), we can establish that the amount of stock available for households with incomes of less than £30,000 has reduced by 17.7% points.

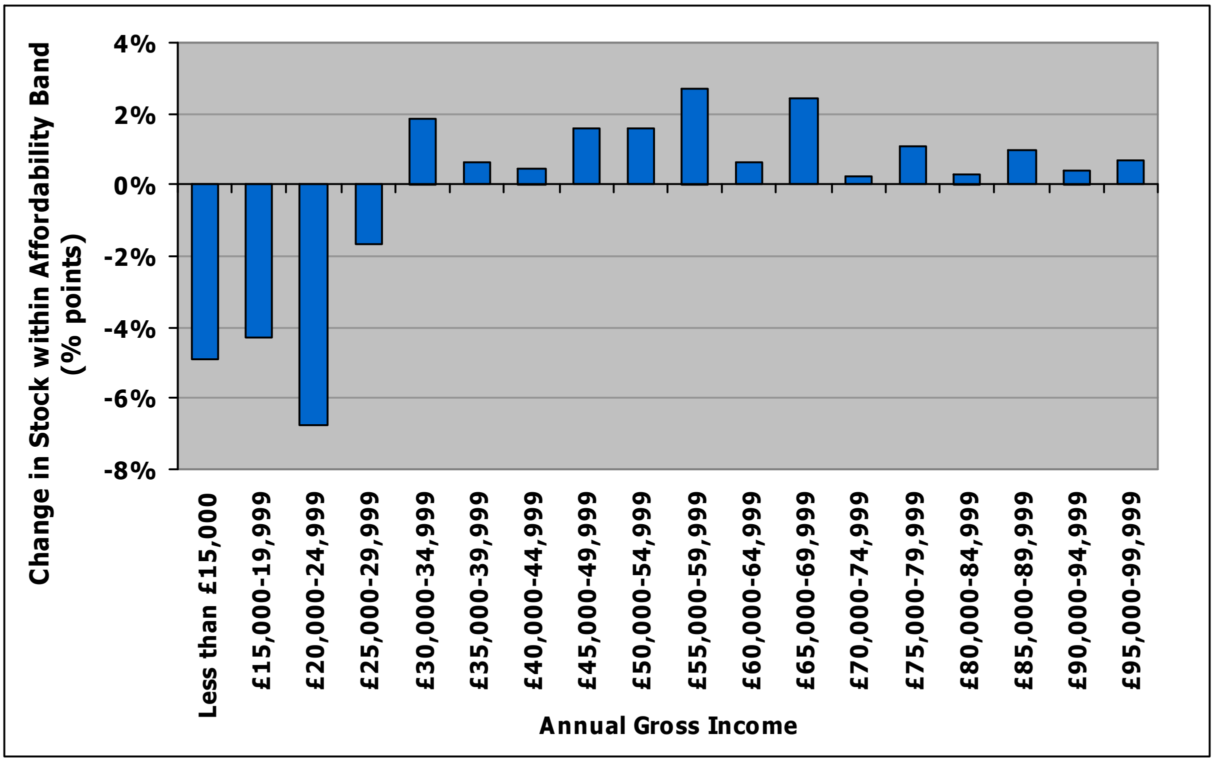


**Figure 9: Available Housing Stock by Required Income in North Norfolk 2002-03 compared with 2005/06**

27. In 2002/03, 45.5% of properties in the district were affordable to households with incomes of £30,000 or less (without depending on equity or benefits, other than in the social rented sector). By 2005/06, only 27.9% of properties remain affordable to this group – a proportionate reduction equating to 38.8% of the stock that was available in 2002/03.

28. When these changes are considered in terms of those earning £15,000 or less vs. those earning £15,000-29,999; the proportion of stock available to those in the lower band has reduced by 27.0% (from 18.3% down to 13.4%) whereas the proportion of stock relating to the higher band has reduced by almost half (46.7%, from 27.3% down to 14.5%).

29. Given this significant reduction in available stock for those households earning £15,000-29,999 p.a. (the key target group for intermediate housing) it is apparent that whilst the North Norfolk analysis of housing need updated in 2002 did not consider that there was a significant role for shared ownership or other intermediate housing products in the district, it is clear that the need for such housing has increased markedly since this report was published.

30. Of course, in delivering such intermediate housing products, it will be important to ensure that the housing is truly affordable to those households within the income brackets identified above.