Falkirk Council

Appendix 8

Corporate & Commercial Services, Research & Information Unit

Local Housing Strategy Update 2005

Affordability – House Price Trends

1.0 Introduction

1.1 The purpose of this paper is to update the information on affordability in the housing market within the Falkirk Council area as an update to the Local Housing Strategy.

1.2 The Local Housing Strategy requires the Council to consider all aspects of housing in the Council area. The local housing system is dynamic - it changes over time as dwellings age, new ones are built, household numbers and composition change and tastes and preferences change. It is influenced by outside factors such as the state of the economy, national housing policies and surrounding housing market systems. The issue of affordability is one which is frequently raised.

1.3 A paper on affordability was prepared for the initial Housing Strategy document. Its conclusion was that there was no problem of affordability in the local housing market at that time (early 2004). However, rising house prices meant that this would need to be monitored. This paper is the first monitoring report.

2.0 Affordability factors

2.1.1 Background: Until now it has generally been accepted that is no major affordability problem in the Falkirk Council area. However, there is a need for both the Local Housing Strategy and for the Structure and Local Plans to show the extent to which this is the case and to monitor that situation. Falkirk Council area has been shown to be a largely self contained housing market area[1]. It is therefore important to ensure that those who live in the area are able to obtain good quality housing which meets their housing needs and is within their ability to pay.

2.1.2 Affordability is a combination of the cost of obtaining housing (whether by purchase or to rent) and the income of those seeking accommodation. Where incomes are high and costs low, there is no problem of affordability. Difficulties arise when the cost of buying or renting a home are so high that a large percentage of income would be used up in housing costs by those seeking a new property. There is a further factor, as some purchasers may have a capital sum which they can put towards the cost of their new home, even to the extent of being able to purchase a property outright, which can reduce the cost of buying a house.

2.1.3 Affordability should also include looking at the suitability of the housing available at an affordable price. This is much harder to assess and it has not been possible within the resource constraints of this study, or the previous one, to consider this in any detail. This includes the condition of the property and its suitability in terms of size and location for a particular household. Generally, house condition is good in the Falkirk area with very few houses below tolerable standard, although many properties are in need of minor repairs.[2] There is also a wide range of house types and sizes available.

[1] Falkirk Council, "Local Housing Strategy: Falkirk Housing Market", January 2004.
[2] Communities Scotland, "Scottish House Condition Survey 2002: Local Authority Report", 2003

2.1.4 Communities Scotland has published the results of research on affordability in local authorities in Scotland[3]. This was updated in June 2004[4]. This showed that there was no overall affordability issue in the Falkirk area, although there may be issues in relation to small sections of the population.

2.1.5 This report looks at several aspects of affordability in the Falkirk area and updates information where possible:
- Housing tenure
- House sales
- House prices
- Rents
- Incomes.

2.2.1 Housing tenure: Table 1 shows the estimated tenure of the current housing stock in the Falkirk Council area in 2004, it updates the figures from 2003. Since information on housing tenure, particularly in relation to private rented sector is difficult to obtain, these figures should be treated with some caution. Figures for private rented and housing association housing have been left unchanged, in the absence of updated information.

Table 1: Estimated housing stock by tenure 2004

Tenure	2003 No of houses	2003 % of total	2004 No of houses	2004 % of total	Change 2003-2004
Owner Occupied	41,624	62.8%	43,805	65.0%	+2,181
Social rented:					
Falkirk Council	19,323	29.2%	18,309	27.0%	- 1,014
Housing Associations	3,182	4.8%	3,180	4.7%	-
Private rented and other	2,152	3.2%	2,150	3.2%	-
Total	66,281		67,444		+1,163

Source: Falkirk Council Research & Information Unit

2.2.2 Housing tenure has been changing within the Council area. The proportion of owner occupied houses has increased substantially while the number of Falkirk Council houses has fallen. No new Council houses have been built since the mid 1980's and almost all new build has been for owner occupation. At the same time, Council houses have been sold to their tenants so that the number of Council houses has decreased from 33,500 in 1980 to 18,300 now – a decrease of 45% - due almost entirely to Right to Buy sales.

2.2.3 There has been a long term increase in Housing Association properties, although no change is recorded between 2003 and 2004. A small number, averaging about 40 per year, are being built and Communities Scotland (formerly Scottish Homes) have transferred all their properties in the Bo'ness area to Weslo Housing Association and properties in the Denny and Falkirk area to Paragon Housing Association.

2.2.4 Overall, council housing has fallen from 70% of all properties in 1981 to 27% now, while at the same time owner occupation has increased from 26% to 65% of all housing. This is within a context of a total housing stock increase from under 54,000 to over 67,500 in the last 23 years, an increase of 13,500 or 25%. This is almost wholly due to new build.

2.2.5 In the year 2003-2004, approximately 1,000 new houses were built, increasing the total housing stock by just over that amount. The sale of about the same number of

[3] Communities Scotland "Local Housing Need and Affordability Model for Scotland", July 2003.
[4] Communities Scotland "Local Housing Need and Affordability Model for Scotland – update ", June 2004.

local authority houses has resulted in a decrease of 1,000 in the council housing stock and an increase of 2,160 in the owner occupied sector.

2.2.6 This tenure change over the last twenty years has had a significant impact on the area (and on the country as a whole), which will need continued monitoring in future. It means that provision of housing has shifted from the social rented sector (in particular, local authorities) to the private sector. This has an impact on affordability. Housing choice has shifted from renting to owner occupation with a consequence for costs and affordability.

2.3.1 House sales: Since owner occupation is now the main tenure, sales of houses provide the main opportunity for households to meet their housing needs. Information is available from the Register of Sasines on all these sales and were analysed for the years 1997 to mid 2003 for the Local Housing Strategy. Table 3 updates these figures to the first quarter of 2005. The number of sales in three categories is identified for each year.

Table 3: Sales of houses 1997-2005

		New build		Right to Buy		Other	
Year	Total	No	%	No	%	No	%
1997	3,212	536	16.7%	716	22.3%	1,960	61.0%
1998	3,310	590	17.8%	500	15.1%	2,220	67.1%
1999	3,367	535	15.9%	400	11.9%	2,432	72.2%
2000	3,806	565	14.8%	568	14.9%	2,673	70.2%
2001	3,982	670	16.8%	594	14.9%	2,718	68.3%
2002	4,668	807	17.3%	840	18.0%	3,021	64.7%
2003	4,856	889	18.3%	767	15.8%	3,200	65.9%
2004	4,892	851	17.4%	663	13.6%	3,378	69.0%
2005*	1,156	183	15.8%	184	15.9%	789	68.3%

* First three months only
Source: Register of Sasines

2.3.2 The figures for total sales show that sales have increased overall over the period with a higher level of sales particularly since 2000. However, the rate of increase in the number of sales appears to have slowed with only small increases in numbers in 2002/03 and 2003/04. This indicates a slowing in the housing market although there remains good availability of property for those seeking a new home. This appears to be similar pattern to the rest of the country.

2.3.3 An increasingly important segment of the market is the resale of former Right to Buy (RTB) properties. An exercise was undertaken to identify these resales for the Local Housing Strategy and this was repeated for this monitoring report. Altogether some 4,480 RTB resales were identified between 1997 and mid 2003 and a further 1,310 from mid 2003 to March 2005. Table 4 shows the number of these sales and the proportion of all sales in that category.

Table 4: RTB resales 1997-2005

Year	RTB resales	Total transactions	RTB resales as % of total
1997	536	3,212	16.7%
1998	583	3,310	17.6%
1999	598	3,367	17.8%
2000	685	3,806	18.0%
2001	726	3,982	18.2%
2002	820	4,668	17.6%
2003	854	4,856	17.6%
2004	806	4,892	16.5%
2005*	184	1,156	15.9%
Total	5,792	33,249	17.4%

* First three months only
Source: Register of Sasines
Note that the figures for 1997-2002 have been amended slightly from the previous report

2.3.4 It is not surprising that the number of sales in this category has been increasing since the accumulated total of RTB sales is now over 13,500 and so there is an increasing pool of RTB houses which can be resold. The number of sales has appeared to stabilise at about 800 per year in the last three years. The work which was carried out on this sector also showed that RTB resales provide an important source of relatively low cost housing with the current average price being £63,000.

2.4.1 House Prices: Prices are an important element of affordability in the housing market. Information is available from the Sasines and this extends the analysis initially carried out for the Local Housing Strategy. Table 5 shows the average house price in each year together with comparisons for Scotland and the UK. The Falkirk analysis excludes RTB sales and other transactions where no move took place e.g. property transfers as the result of inheritance or divorce.

Table 5: Average house prices 1997-2005

Year	Falkirk	Scotland	UK
1997	£53,450	£59,210	£68,505
1998	£53,550	£60,680	£72,195
1999	£57,305	£61,545	£77,405
2000	£60,885	£61,965	£85,005
2001	£64,525	£63,630	£92,255
2002	£72,040	£68,990	£108,340
2003	£79,150	£79,400	£132,590
2004	£100,745	£95,640	£156,830
2005*	£104,445	£103,560	£160,725

* First three months only
Sources: Falkirk – Register of Sasines; Scotland and UK – HBOS Housing Research
Note that the Falkirk figures for 1997-2002 have been amended slightly from the previous report

2.4.2 Table 5 shows a considerable increase in average house prices in the Council area over the last few years. In particular, there was a very large increase between 2003 and 2004 of £21,595 or 27%. This compares with a total increase in average prices of £25,700 over the whole six period from 1997 to 2003. There has been a further 3.7% increase in the first quarter of 2005.

2.4.3 Prices in Scotland as a whole rose by 20% in 2003/04 and a further 8.3% in the first quarter of 2005. While average prices in Falkirk were generally quite a bit below the Scottish average from 1997 to 2000, they have more recently been above the Scottish figures. This will require to be monitored further.

2.4.4 UK average house prices remain much higher than in Falkirk or Scotland as a whole. They rose by 18.2% between 2003 and 2004, slightly below the Scottish figure and considerably less than the Falkirk increase.

2.4.5 The recent significant increase in house prices in the Falkirk area is a cause for some concern in relation to affordability – this is examined in more detail later in this paper. This will require to be carefully monitored on a regular basis. It may be necessary to consider changes to the Strategy in relation to affordability in the longer term

2.4.6 However average house prices are only one aspect of house price information. Separate analyses have been done on new build properties and RTB resales. Table 6 shows the average prices for these two sales sectors compared to the overall average.

Table 6: Average house prices by sector

Year	New build	RTB resales	Other sales	All
1997	£63,935	£37,115	£55,600	£53,450
1998	£65,385	£36,905	£55,350	£53,550
1999	£78,535	£36,835	£57,505	£57,305
2000	£88,990	£36,640	£61,225	£60,885
2001	£95,020	£39,295	£63,070	£64,525
2002	£107,090	£40,790	£70,405	£72,040
2003	£116,140	£45,790	£76,830	£79,150
2004	£142,520	£57,615	£100,345	£100,745
2005*	£152,665	£63,030	£101,470	£104,445

* First three months only
Source: Register of Sasines
Note that the figures for 1997-2002 have been amended slightly from the previous report

2.4.7 Table 6 shows that there has been a very large increase in the average price of new houses, from just under £64,000 to £152,700, a 139% increase. Since 2003, new house prices have increased by £36,525 or 31%, a similar rate of increase to all house prices. A new house now costs £48,000 more than the average, almost 50% more. This reflects the type of new houses currently being built by developers.

2.4.8 On the other hand, resales of RTB properties showed a slight decrease in price from 1997 to 2000, before beginning to increase to an average of £63,030. This is about 60% of the overall average – a very similar figure to that in 2003. RTB resales therefore provide a substantial volume of properties for sale (about 800 per year) at significantly lower prices. However, it is worth noting that RTB resales have increased in price at a proportionately higher level over the past three years.

2.4.9 Prices of RTB sales themselves are determined by the levels of discount available to purchasers, as well as the values of the properties. The selling prices are about 55% of the value of the houses because of discounts. The average price paid for a RTB house in the first quarter of 2005 was only £22,770. This has increased from £17,640 in 2003. For those living in council rented property, RTB sales represent a very cheap way of moving to owner occupation if they wish to do so.

2.4.10 All other sales of second hand properties have increased in price from £55,600 in 1997 to £76,830 in 2003 (38%) and a further £24,600 by the first quarter of 2005 - a further 32% in less than two years.

2.4.11 Another measure of house prices is the median price. This is the price at which 50% of properties were sold for less and 50% for more. Because average prices can be influenced by a small number of very expensive houses being sold (the highest price paid since 1997 was £725,000 in 2000), the median is often considered a better measure.

2.4.12 Overall (excluding RTB sales and transfers), the median price increased from £47,000 in 1997 to £85,000 in 2005, an increase of £38,000 or 81% in Falkirk. This reflects a big increase in the number of houses sold at higher prices and is a matter of some concern. This will require to be monitored.

2.4.13 Yet another way of looking at house prices is to consider the number of houses sold in different price bands. This is set out in Table 7 where the number and percentage of sales in price bands from under £20,000 to over £200,000 are compared for 1997, 2002 and 2004 (the last full year for which figures are available).

Table 7: House prices by price band 1997, 2002 and

	1997		2002		2004	
Price band	No	%	No	%	No	%
£0-£20,000	29	1.2%	60	1.8%	15	0.4%
£20,001-£30,000	278	12.0%	250	7.5%	102	2.8%
£30,001-£40,000	560	24.1%	538	16.1%	237	6.5%
£40,001-£50,000	432	18.6%	533	16.0%	328	9.0%
£50,001-£60,000	391	16.8%	446	13.4%	403	11.1%
£60,001-£70,000	171	7.4%	214	6.4%	307	8.5%
£70,001-£80,000	177	7.6%	217	6.5%	349	9.6%
£80,001-£90,000	122	5.2%	219	6.6%	246	6.8%
£90,001-£100,000	68	2.9%	172	5.2%	239	6.6%
£100,001-£150,000	80	3.4%	515	15.4%	750	20.7%
£150,001-£250,000	11	0.5%	107	3.2%	453	12.5%
Over £250,000	7	0.3%	68	2.0%	196	5.4%
Total	2,326		3,339		3,625	

Source: Register of Sasines
Note that the figures for 1997and 2002 have been amended slightly from the previous report

2.4.14 The change in the distribution of prices by band shows in particular the very large increase in the number of more expensive houses being sold – those over £100,000 – and the general fall in the number of properties sold at the lowest prices. 38.6% of all houses sold in 2004 cost over £100,000 compared to only 4.2% in 1997 and 20.6% in 2002 However, 30% of houses still sell for less than £60,000, although 73% houses were less than that price in 1997.

2.4.15 The above discussion suggests that prices are increasing rapidly within the Council area, and are close to or above the Scottish average, although they remain well below UK averages. Purchase of public sector housing by sitting tenants continues to provide a very cheap way into owner occupation. While the resale price of RTB houses has increased – and indeed has exceeded £100,000 in a few cases, these properties still provide a good supply of relatively modestly priced property.

2.4.16 Recent increases in house prices suggest that close monitoring of house prices needs to be an important aspect of the monitoring and evaluation of the Local Housing Strategy. This will ensure that any issues of affordability are recognised early so that steps can be taken to increase the supply of affordable housing if necessary.

2.5.1 Rents: 35% of households rent their property, either from the Council itself, another social landlord or privately. So rent levels remain an important factor in affordability. Detailed analysis was carried out on rent levels for the initial report on affordability. This has not been repeated but this should be done for future monitoring purposes.

2.5.2 The average weekly rent in Falkirk Council properties was £42.68 in 2004/05 which is very close to the Scottish average. It has increased from £39.61 in 2002/03 when it was £1.33 below the Scottish average.

2.5.3 While many tenants receive Housing Benefit and are not affected by rent increases, rent levels may be a factor for those on low incomes who are not eligible for Housing Benefit. There may also be an issue about the level of take up of benefits – not all those eligible may claim.

2.5.4 Local authority rents are not increasing at the same rate as the increase in the selling price of owner occupied properties. This means that these rents are likely to remain more affordable, in the short term at least, than owner occupation for those on low incomes.

2.6.1 Incomes: The other side of affordability is incomes – i.e. the ability of people to afford the cost of housing in the area. Income is one area where information is weak. The previous report looked at the CACI Paycheck data and also at the New Earnings Survey. The latter is no longer available and its replacement has not yet been published by the Office for National Statistics.

2.6.2 Information from the CACI Paycheck database remains available. This provides information for each postcode of the number of households in income bands plus an estimate of the average household income in the postcode. It is calculated by modelling information from Census and survey data. This data can be aggregated to areas of interest.

2.6.3 Average gross household income in the Falkirk area was estimated to be £28,730 in 2005 an increase of 18.7% from £24,200 in 2003, well above inflation. However, this average hides the fact that many households have very much lower incomes. Table 8 shows the number of households within particular income bands across the Council area.

Table 8: Household income 2003 and 2005

	2005		2003
Income band	No of households	%	%
< £10,000	9,876	14.6%	24.7%
£10,001-£15,000	8,220	12.2%	16.0%
£15,001-£20,000	8,718	12.9%	13.8%
£20,001-£30,000	15,136	22.4%	19.4%
> £30,001	25,612	37.9%	26.2%
Total	67,562		

Source: CACI Paycheck

2.6.4 This shows a significant fall in the number of households on the lowest incomes and a big increase in the number of households with an income of over £30,000 per year.

3.0 Affordability

3.1 Undoubtedly many people will be unable to afford the more expensive properties within the Council area, both in terms of rents and house prices. Also, people may be unable to afford their ideal home. Nevertheless affordability is only an issue if people are unable to afford **any** suitable property which meets their household needs. This means that the balance between incomes and prices needs to be investigated.

3.2.1 Rental market: For those on very low incomes, Housing Benefit provides a means of paying for rented accommodation. All those on Income Support, Income-based Job Seekers Allowance or guaranteed credit of the Pensions Credit are automatically entitled to full Housing Benefit and so have their rent paid in full. For those on low incomes the position is more complicated, but Housing Benefit, at least in part, may be available to others on low incomes. There is also a savings criterion so that anyone with savings of over the savings limit is ineligible.

3.2.2 Total Housing Benefit claimants in the Council area are around 12,700 – about 54% of all those renting. While the number of benefit claimants has remained virtually unchanged since 2003, the percentage of tenants receiving Housing Benefit has increased. This reflects the fact that social rented housing is increasingly becoming the tenure in which those who are on the lowest incomes are concentrated.

3.2.3 There are a number of issues in relation to affordability in the rental sector. The first is to ensure that there is the maximum take up of Housing Benefit which will assist those on the lowest incomes. If this is done, then renting will be affordable for all those eligible for Housing Benefit. The Council has a role to play in encouraging all its tenants who are eligible to claim Housing Benefit.

3.2.4 Secondly, the Council controls the rent levels in the housing stock it owns. Consideration might need to be given to the affordability issue each year when rent increases are proposed. In particular, what proportion of household income the new rent levels would be for those who are just above the eligibility levels for Housing Benefit.

3.3.1 Owner occupation: This is providing an ever increasing proportion of the housing market in the area as public sector houses are sold under Right to Buy and most new build is for owner occupation.

3.3.2 Most new purchasers are unable to afford to buy a house outright. They therefore seek a loan, usually a mortgage from a bank or building society. Currently, lenders will normally provide a mortgage on three times the household income, although this can vary considerably with personal circumstances.

3.3.3 Currently interest rates are low (the Bank of England rate is 4.75%) and have remained steady for most of the last year. Current speculation is that rates may fall rather than rise. This would make repaying a mortgage less expensive.

3.3.4 Table 7 above shows that 30% of all properties sold for less than £60,000 in 2004. On that basis, and taking a x3 income to mortgage ratio, anyone with an income of over £20,000 should be able to purchase a house in the Falkirk area. Table 8 shows that 60% of households have an annual income of over £20,000. Therefore it can be concluded that, in general terms, at least 60% of all households can afford to buy in the area. However, more detailed analysis would be required in relation to income information on prospective first time buyers to assess more accurately their purchasing capacity. (It is noted that these findings will require to be revisited when 2005 house price information becomes available).

3.6.1 Overall affordability: Notwithstanding the issues noted in paragraph 3.3.4 above, it is estimated that around 60% of all local households can afford to buy a house in the Falkirk area. In addition some 32% of households live in social rented properties with relatively low rents. These should be affordable to those not eligible for Housing Benefit.

3.6.2 This leaves a possible 23% of households who may not be able to afford to buy. This is a maximum estimate given that some of those households who cannot afford to buy will be elderly and living in houses which they already own outright. Others may be able to use capital to reduce the cost of home ownership, while there are still a significant number of houses on the market at below £60,000 which might be affordable to those on household incomes below £20,000. In fact the figure is likely to be very much lower than 23%.

3.6.3 However, this is substantially higher than the 5% figure estimated in the previous report. This reflects the steep increase in house prices in the area in the last two years.

3.6.4 Applying the 23% figure to the estimated 1,410 new households each year (taken from research published by Communities Scotland[5]), this gives a maximum of 325 households per year who might be looking for an affordable housing solution.

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[5] Communities Scotland "Local Housing Need and Affordability Model for Scotland", July 2003.

4.0 Conclusion

4.1 This paper sets out to monitor affordability in the Falkirk Council area. Rising house prices suggest that there may be an emerging problem of affordability.

4.2 Increasing house prices in the area and the continuing decline in the availability of social rented housing means that the situation will need to be closely monitored over the period of the Local Housing Strategy. This should include looking more closely at the sub market areas within the Council area, to ensure that pressures in particular areas can be dealt with. It is proposed that this is done for the next monitoring report.

4.3 There is also a need to look at rent levels and monitor these in future reports.

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Date: 16th June 2004