

NEED *not* GREED OXON

OXFORDSHIRE AFFORDABILITY

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At the Need not Greed Oxfordshire (NNGO) Steering Committee on 2 March, 2016, I was asked to supply a note on “affordability” applied to housing in Oxfordshire.

This invites the question “affordable by whom?”. “Affordability by anyone” is not a useful concept, except perhaps to developers.

Since the concept of affordability is mainly used in the context of the debate about the relationship between the presumed national housing shortage and local planning policies, it is reasonable to define “affordability” as “affordable by those who need houses – or equivalent accommodation”.

In Oxfordshire a sensible starting point, therefore, should be incomes, which are the main factor determining how much people can afford to pay for housing. Average full-time weekly earnings in Oxfordshire in April 2015 were, by local council area:-

Table 1

Oxford City	£580
West Oxon	£525
Cherwell	£545

Vale	£618
South Oxon	£583

Source: <http://www.neighbourhood.statistics.gov.uk/HTMLDocs/dvc126/>

Converted into pre-tax annual earnings at 52 ¼ weeks per year these incomes range from £27.5k to £32.3k per year.

A helpful government website - www.moneyadvice.service.org.uk - shows how this starting point can be used to calculate the mortgage borrowing and so the house prices such earners can afford. This calculator requires one to make assumptions about current outgoings.

Illustrative results are summarised in Table 2:-

Table 2

<i>Item</i>	<i>Earners A (£27.5 k p.a.)</i>	<i>Earners B (£32.3 k p.a.)</i>	<i>Earners C (2 x (£30 k p.a.)</i>
<i>Units</i>	<i>£s per month</i>	<i>£s per month</i>	<i>£s per month</i>
Monthly take-home pay	1822.27 ⁱ	2087.60 ⁱⁱ	2 x 1964 = 3928 ⁱⁱⁱ
Credit card loan payments	50	50	75
Child/spouse maintenance	0	0	0
Child care/school fees	150	150	1045
Travel	175	200	300
Bills/Insurance	175	200	250
Currents rent/mortgage	600	650	750
Leisure	125	150	200
Holidays	125	150	200
Food, groceries, toiletries	250	300	350
TOTAL ASSUMED MONTHLY OUTGOING (as above)	1650	1850	3170
Mortgage Offer Range (as per 'money	£75,320- 112,980	£88,760- 133,140	£165- 248,000

advice service')			
Repayment period and interest (as per 'money advice service')	25 years, 5%	25 years, 5%	25 years, 5%
Implied house price (if centre-of-range mortgage = 80% of price)	£118k	£139k	£260k

If something much less than £150,000 is the kind of house price that an average earner in Oxfordshire can afford (even given that s/he has the 20% deposit assumed in these calculations), then the houses which developers currently want to build – and pray in aid the national shortage of houses for those in need – are at upwards of £250,000 a unit well beyond the reach of those on average earnings and below. Most of those would still be beyond the reach of even the two full-time earners in a household.

In plain English they are unaffordable. They do not become affordable by simply knocking 20 percent off market prices and calling it “affordable housing”.

ⁱ IFS email of 4/3/2016:- The take home pay of someone earning £27500/y'r in the 2016/17 tax year is £1822.27 per month. I have found this calculation online using a tax calculator (<http://www.thesalarycalculator.co.uk/salary.php>) and checked it with a researcher. Thanks, Eliza Judd, Events Coordinator, Institute for Fiscal Studies, 02072914800, www.ifs.org.uk

ⁱⁱ <http://www.thesalarycalculator.co.uk/salary.php>

ⁱⁱⁱ Ditto