

AFFORDABLE HOUSING IN MALVERN HILLS DISTRICT

Supplementary Planning Guidance June 2004

ADDENDUM

Up-date on the Affordability threshold for new Affordable Housing

The Supplementary Planning Guidance on Affordable Housing, approved in June 2004, provides in paragraphs 2.2 – 2.6 a Local Definition of Affordability, which is based on an update of the 2002 Housing Need Assessment. The definition has now been up-dated in the light of up-to-date earnings information.

The Local Definition of Affordability for affordable housing for sale assumes one full time and one part-time income, from occupations that form the middle half of all employment – i.e. excluding the top quarter, which provided access to open market properties, and excluding the bottom quarter, which were at the level that made social renting the most likely option.

The middle half included occupations that had average earnings ranging from £16,250 to £18,638 (at 2001/2 levels). By applying the appropriate income multipliers for mortgage eligibility, and assuming a 5% deposit, a purchase price of between £75,000 and £88,000 is calculated.

The Supplementary Planning Guidance concluded that:

“Housing for sale would therefore be considered to be affordable as long as it was within the range of £75,000 to £88,000, bearing in mind that affordability will be different for different income groups, and on any one site it should not exceed an average of the mid-point between these figures, which is £81,500.”

Subsequently, in October 2004, through an update of the 2002 Housing Need Assessment, these figures were amended to £80,000 to £92,000 – an average of £86,000.

The latest information on local incomes, as provided by the Worcestershire County Council Research Unit, does not provide the same level of earnings detail for different occupations, but it does give a median figure for full-time workplace based earnings in Malvern Hills District of £20,596. (Source: Worcestershire Economic Assessment 2005/6- Table 5.23: Annual Survey of Hours and Earnings 2004)

As this is the level at which half of all employees will be earning more, and half will be earning less, it is effectively the updated equivalent of the income that would have enabled a purchase at £81,500 referred to above..

The appropriate income multipliers for mortgage eligibility in 2006 would be 3.75 times a single income, or 3.25 times a joint income. These are slightly higher than recommended in government guidance issued in December 2005, but accord with those used in the most recent studies, using more up to date evidence of actual lending practices.

Applying these multipliers to the median earnings figure for the District – on the

same assumption of one full-time income, and one part-time income at half the full time rate, plus a 5% deposit – produces the following calculations:

Affordability Threshold

Single Income

$£20,596 \times 3.75 = £77,235$, which is 95% mortgage on £81,300

Joint Income:

$£20,596 \times 1.5 \times 3.25 = £100,405$, which is a 95% mortgage on £105,689.

The Affordability Threshold is therefore updated as follows:-

“Housing for sale can therefore be considered to be affordable as long as it is within the range of £81,300 to £105,700, bearing in mind that affordability will be different for different income groups, and on any one site it should not exceed an average of the mid-point between these figures, which is £93,500.”

This amendment directly changes the affordability threshold and workplace earning levels stated in the following paragraphs of the SPG :

2.4 – 2.6, 4.11, 4.13 (plus text box), 6.6, 6.10 – 6.12, 7.9 and Appendix 1

The revised affordability threshold was approved for development control purposes by the District Council's Planning Committee on 3rd October 2006 and became effective as from 1st October 2006.