

# Can rent; can't buy

The affordability of renting and buying for workers across Great Britain

October 2024

**40%**

Full time workers unable to afford a 2/3 bed home

**27%**

Full time workers unable to afford rental costs

**147**

Local authorities where >50% of workers cant afford to buy

## Summary

- New, comprehensive assessment of housing affordability to rent and buy for workers in Great Britain
- 40% of full-time workers can't afford to buy an average priced 2 or 3 bed home, 60% can
- 147 local authority areas where >50% of workers can't afford to buy, mostly in southern England
- Lack of smaller 1 and 2 bed homes to buy compounds unaffordability of home ownership
- Renting is more accessible than buying, 73% workers can afford rental costs
- London and its hinterland is the most unaffordable for renting, hitting middle income earners
- Rising rents and house prices in major cities are resulting in a worsening in housing affordability
- Single earners are at a huge disadvantage, with 57% unable to buy and 43% unable to rent
- Options to improve affordability and access to housing are limited and require compromises
- Three focus areas to improve affordability are 1) expand supply of smaller homes to buy, 2) increase rental supply (private and social) and 3) develop a market for long term fixed rate mortgages.
- The narrative on growing housing supply must move on from a numbers game to the types and tenures of homes that will improve access and support economic growth and labour mobility.
- Without action market forces will continue to shape access to housing with the biggest losers being workers on single or low incomes and in housing need.

## Introduction & why affordability matters

### Introduction

This report investigates the extent to which full time working households can afford to rent or buy homes across Great Britain.

Using the distribution of earnings (residence-based) for workers across each local authority, we calculate the proportion of full-time workers who can and cannot afford to buy or rent. The headline analysis focuses on the ability to afford an average priced 2 or 3 bed property for the average household (with 1.7 earners).

The analysis is run at local authority level and aggregated to region/country and national level. We run supplementary analysis to assess the ease of access to housing for single earner households and also consider the options for how workers might improve housing affordability. The final section reflects on what these findings mean for policy makers and Government where the ambition is to build 1.5m new homes.

The methodology, assumptions, data sources and approach are set out in detail in the Appendix at the end of this report.

### Why housing affordability matters

Affordability is shaping the macro trends in the housing market, across housing tenures and geographies. This has important implications for economic growth, labour mobility and the assumptions that underpin the target to building more homes.

Affordability is important for businesses operating in the housing sector. Lenders, home builders and housing providers have investment plans and business strategies to target sustainable growth. The unaffordability of private housing is a challenge to growing new build housing volumes. Mortgage regulations make it harder for lenders to support access to home ownership for those in middle incomes or with small deposits who must rent for longer.

While moving home is often associated with positive themes such as trading-up to a larger home or moving to a better area. The reality is that for a growing number of households it's becoming more a question of what housing can be afforded and then considering compromises on location, size of home and accessibility to work.

Affordability factors are already shaping home decisions. Zoopla data shows households in the most unaffordable areas looking further afield (>10 miles from where they live) to seek better value.

Ultimately, the ease of access to market housing impacts levels of demand, pricing and transactions with major implication for the types of homes we need to build to try and improve access to housing while supporting economic growth and reducing the social and other costs of unaffordable housing.

**“For many households on lower incomes it's more a question of what housing can be afforded while having to compromise on location, size of home and accessibility to work.”**

# Headline analysis

## The affordability of a 2/3 bed home for the average working household across Great Britain

The headline finding is that two fifths (40%) of full-time workers in Great Britain are unable to afford to buy an average 2 or 3 bed home in the area they live. There is a wide affordability divide for home buyers between southern England<sup>1</sup> and the rest of Britain.

The affordability of renting is better than for buying, despite the rapid growth in rents in recent years. Our analysis finds that just over a quarter (27%) of workers can't afford to rent a 2/3 bed home assuming 30% earnings spent on rental costs. Rental affordability is far more challenging across Greater London than the rest of Britain.

## Buying in southern England least accessible

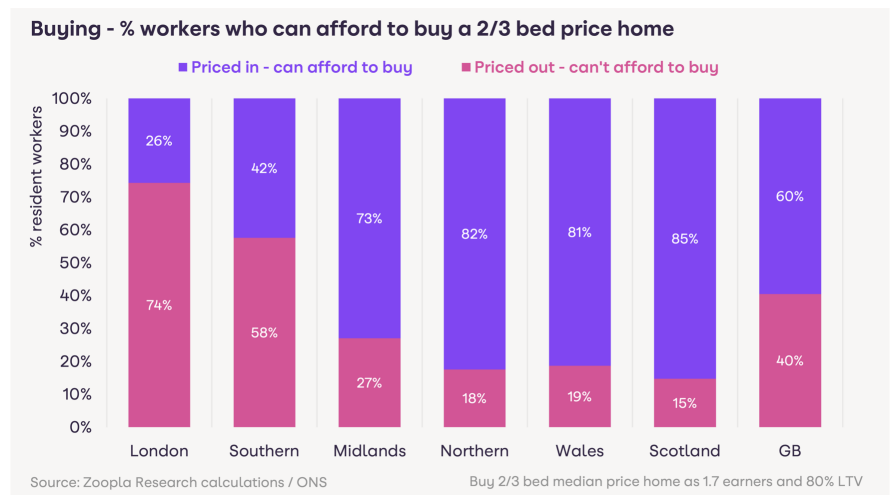
Access to home ownership is more challenging for workers living in southern England than the rest of Great Britain. More than half of full-time workers across southern England and London are unable to buy an average priced 2/3 bed home. Three quarters (74%) of workers can't afford to buy in London with 58% priced out of home ownership across southern England.

Elsewhere across Great Britain access to home ownership is unaffordable for the 15-30% of workers on the lowest incomes, and/or living in local areas with above average capital values.

Access to home ownership is starting to worsen in some major cities as employment growth and migration drives demand for homes in desirable locations pushing home values and rents higher.

Where a sizable proportion of workers are priced out of buying, this reduces demand and hits sales volume and prices. Those unable to buy are forced to buy smaller homes or commute longer distances. Taking bigger mortgages is not an option for most. Ultimately, poor access to ownership stokes demand for private rented homes compounding the growth in rental costs.

“The more people that are priced out of home ownership, the greater the additional demand-side pressure on the private rented sector.”

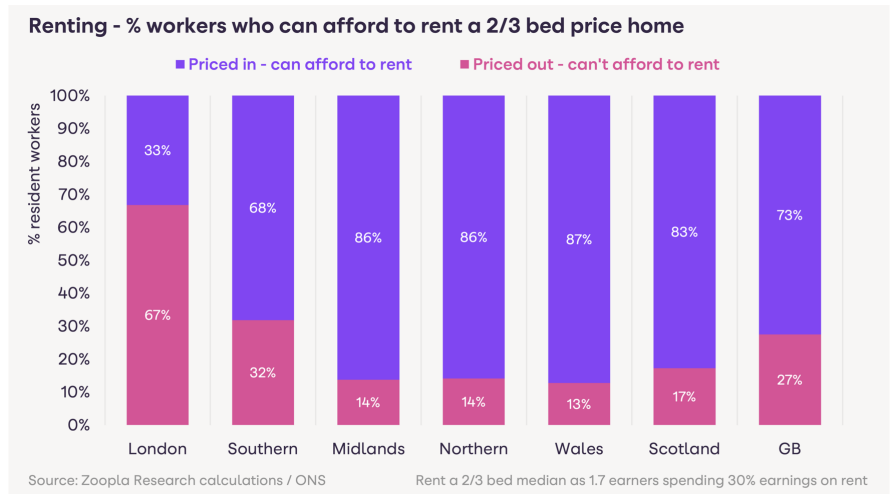


<sup>1</sup> South East, South West and Eastern regions

### Renting more affordable for workers than buying

Most full-time workers (73%) can afford to rent a 2/3 bed home at a national level.

High rents in London, mean two thirds (67%) of workers are unable to afford rental costs for a 2/3 bed home with almost a third (32%) unable to afford rents across southern England. Across the rest of Britain rental costs are a challenge for the lowest 20% of earners.



### Growing pockets of unaffordability in regional cities

While there is a clear north-south divide in affordability at the national level, housing affordability is becoming more challenging across regional cities outside southern England as growth in jobs and incomes pushes house prices and rents higher.

There are 18 local authority areas outside southern England where more than 40% of workers are unable to buy. The worst position is in York where 61% of workers are unable to buy. This is followed by areas including Trafford (57%) in Greater Manchester as well as Leicester (46%) and Edinburgh (45%).

The list is different for renting which is led by Manchester where 56% of workers are unable to afford to rent a 2/3 bed home. This is followed by Edinburgh (48%) and then a further 7 areas where more than 30% of workers are unable to afford rental costs led by Nottingham (38%), Salford (36%) and Glasgow (35%).

While the affordability position in these regional cities is not as challenging as in London and its wider hinterland, this data highlights how affordability is becoming a challenge with variations in the impacts between home ownership and renting.

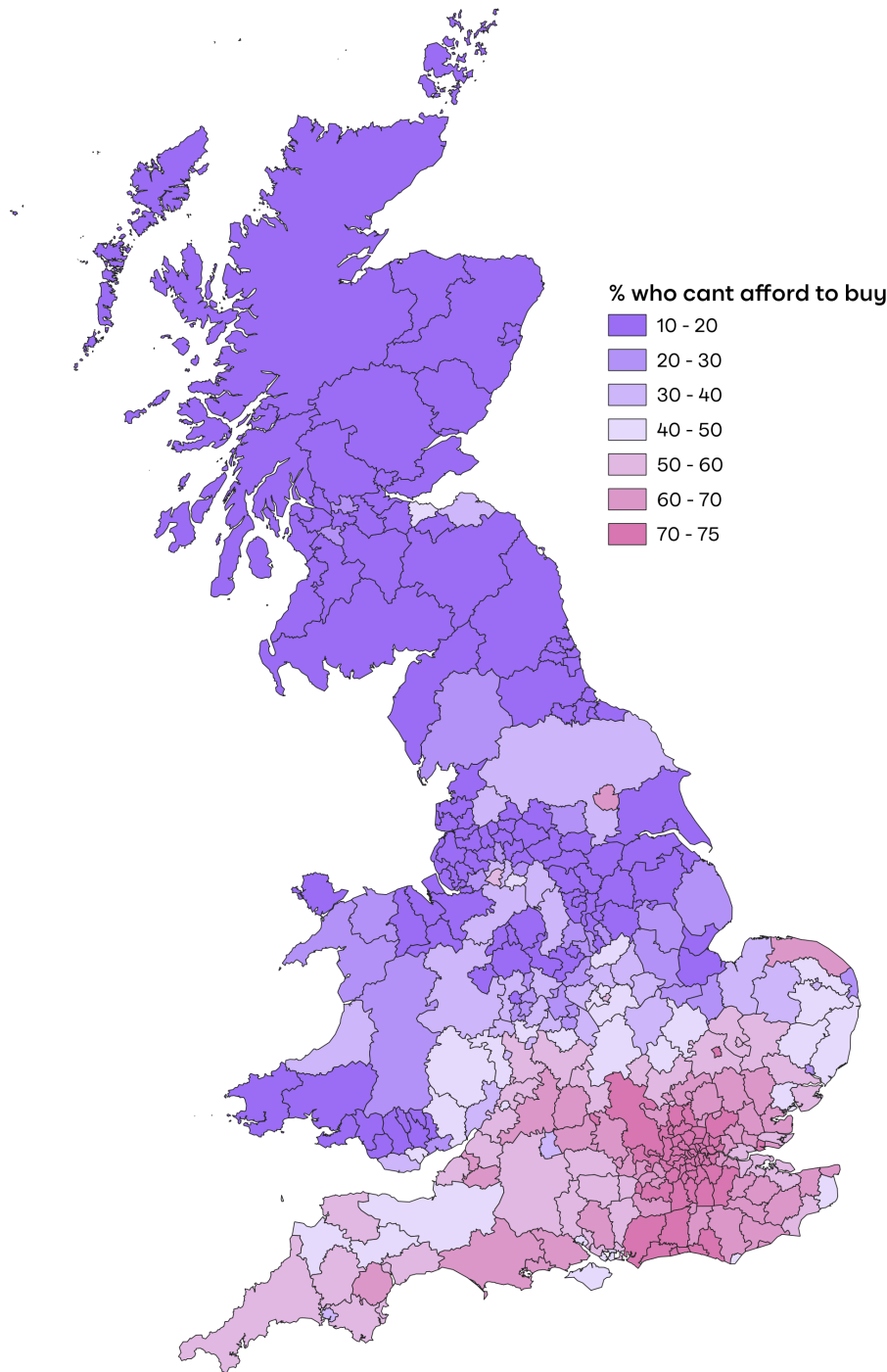
The maps overleaf show the proportion of working households that are unable to buy or rent an average 2/3 bed home.

“Housing affordability is becoming more challenging across regional cities outside southern England as growth in jobs and incomes pushes house prices and rents higher.”

### Local authority view of access to home ownership

The maps show the proportion of workers in each local authority that are unable to afford to buy a median priced 2/3 bed home. The map highlight the extent to which access to housing varies spatially across Great Britain with the greatest challenge for those in southern England

Map 1 – Buying affordability - % workers able to buy a median priced 2/3 bed home

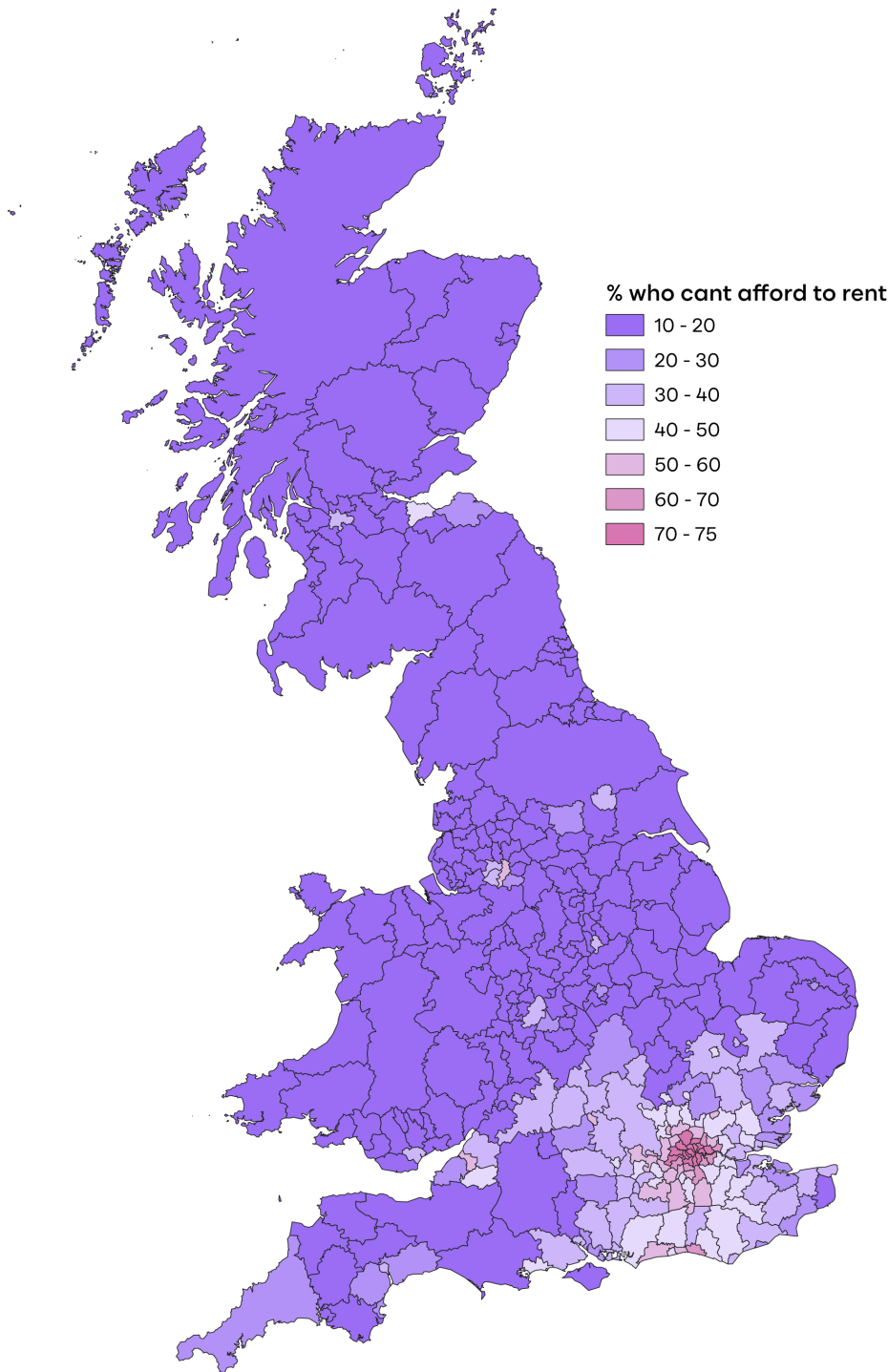


**“There are 147 local authorities where more than 50% of workers can’t afford to buy, most in southern England. There are 19 areas across the rest of Britain with >40% unable to afford buying.”**

### Local authority view of access to renting

The maps show the proportion of workers in each local authority that are unable to afford to rent a median priced 2/3 bed home assuming 30% gross earnings spent on rent. The map highlights how renting is the most challenging in London and its hinterland.

Map 2 – Rental affordability - % workers able to rent a median priced 2/3 bed home



**“Outside London there are 47 areas where more than 40% of workers can’t afford to rent, most in southern England but including several larger cities.”**

## Impact of supply on affordability

### Impact of supply on housing affordability

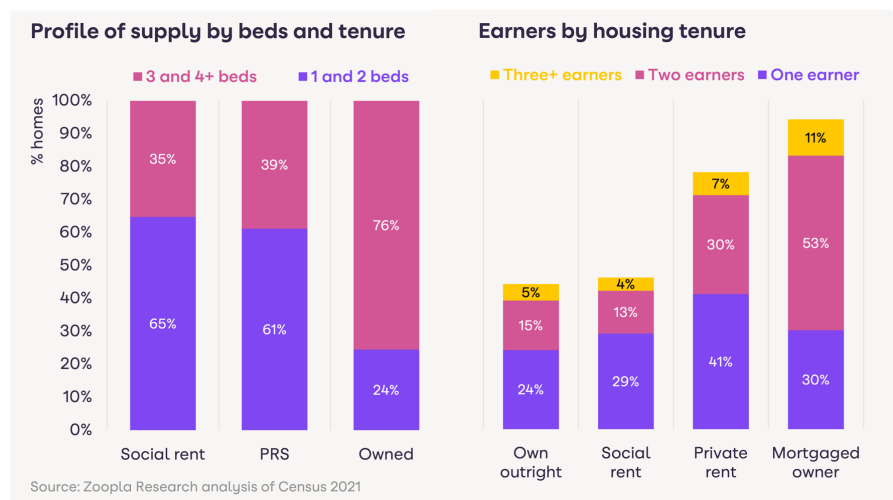
The affordability of renting and buying is a function of rents, house prices and local earnings/incomes. The price of housing is also influenced by the profile of homes by property size and tenure.

Census data shows that more than 60% of private rented homes are 1 or 2 bed properties with good availability of smaller, lower priced homes which supports access to housing. This is in stark contrast to the owner-occupied market where less than a quarter (23%) of homes are smaller 1 or 2 bed properties. Over 75% of owned homes are 3+ beds. The scarcity of smaller homes is one important factor behind limited access to home ownership.

This raises important questions over the type and tenure of new housing required to improve access to housing at a local level. This will vary widely across the UK with no one size fits all approach.

Building more homes of a certain size in some tenures e.g. more family homes in the social rented sector may help alleviate affordability pressures in other tenures e.g. the private rented sector. Increasing the supply of smaller sized homes to buy appears a key requirement to improve access to home ownership whether flats or smaller sized houses.

“One and two bed homes account for less than a quarter of owner-occupied homes. A scarcity of smaller homes compounds the unaffordability of home ownership, especially in southern England.”



### More earners per household for buyers and renting

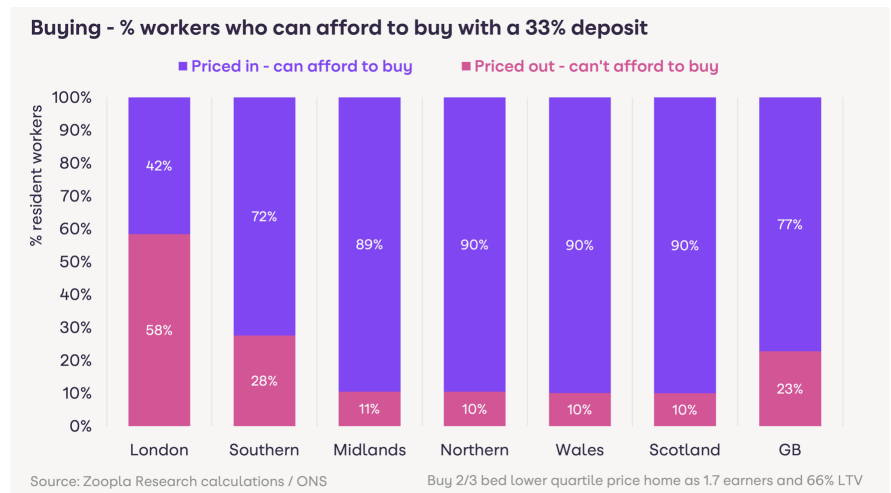
Census data reveals an unequal profile of buying power across tenures which feeds into pricing levels alongside the profile of supply. Almost two thirds of current mortgagees have 2+ earners highlighting how access to home ownership increasingly requires more than one income, especially in southern England. Private renters are more equally balanced between single and multi earners. Renting and buying as a single person is increasingly challenging given the level of prices and rents as we explore later.

## Options to improve affordability and access to housing

### Options to improve affordability of 2/3 bed homes

Working households only have a finite number of options to improve affordability and boost access to housing. The first is to buy or rent a smaller sized home. If this is not an option, then putting down a larger deposit to reduce the size of the loan is an option for buyers. Spending more income on renting is the other option for renters but less of an option for buyers given lender affordability checks.

Increasing the availability of higher LTV mortgages has often been proposed as possible solution to help access to home ownership. Taking a larger loan reduces affordability and access to housing overall. However, higher LTV loans are an option for buyers in areas with lower capital values and smaller loan sizes relative to incomes. High LTV lending is not a viable route to improving home ownership across southern England where regulations have driven the use of larger deposits.



“For many households on lower incomes it's more a question of what housing can be afforded while having to compromise on location, size of home and accessibility to work.”

### Impact of deposit size and cheaper homes on buying

Assuming buyers use a 33% deposit and buy a 2/3 bed home at the lower end of the market (lower quartile) improves access with 77% of workers able to afford to buy, up from 60% in the headline analysis.

This approach delivers the greatest gains in southern England with 70% of workers able to buy, up from 42% assuming a 20% deposit. The benefits are more modest in London where two fifths (42%) of workers can afford buy but with almost 60% priced out of buying.

Buying smaller homes, at the bottom end (lower quartile) of the 2-bed market, with a 20% deposit, prices 40% of London workers into home ownership but, again, leaves 60% unable to buy.

This highlights how deposit size and/or the need to have a higher household income are vital to access home ownership in London and the higher value markets across southern England. This drives the demand for rented housing at a time when higher borrowing costs mean most private landlord sales are in southern England.

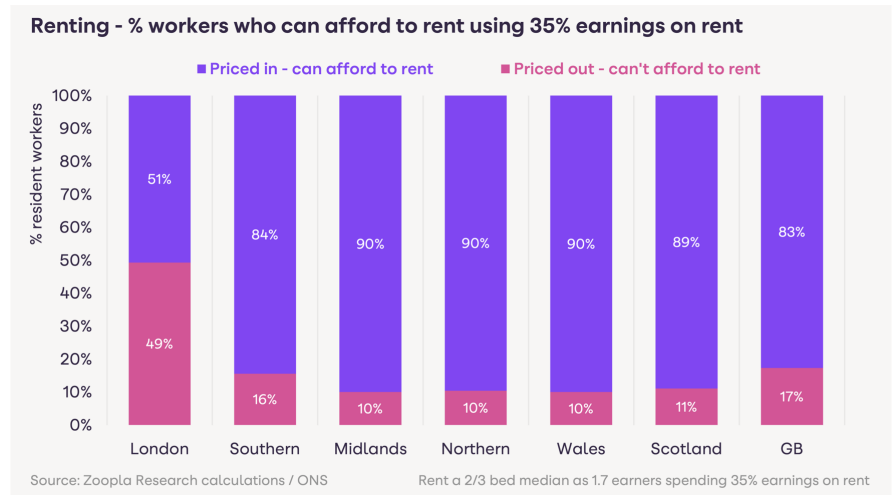


### Spending more on rent and renting a cheaper property

While the affordability of renting is better than for buying, much depends on the proportion of earnings spent on rent and the actual level of earnings available to meet rental costs.

English Housing Survey data<sup>2</sup> shows full time earners spend 27% of income on rent. Private renters who have no support from housing benefit spend 31% on average. Those on lower incomes who get support from housing benefit tend to spend much more.

Increasing the assumed spend on rent to 35% of gross earnings, and renting at the bottom end of the 2/3 bed market (lower quartile rent) improves affordability across southern England making renting affordable to 84% of workers. However, the position in London remains challenging with half (49%) still unable to afford renting.



**“This analysis highlights the challenges facing low-middle income workers, especially key workers and those with families in need of larger homes in London.”**

### London rental market most unaffordable

Pushing spending higher to 40% of earnings and renting at the lower end of the 2-bed market (lower quartile) makes renting affordable for 70% of workers in London. This still leaves 30% of workers on lower incomes unable to afford to rent a 2-bed home.

This analysis highlights the challenges facing low-middle income workers, especially key workers and those with families in need of larger homes in London. Analysis by the Resolution Foundation<sup>3</sup> shows that private renters are having to accept less space per renter over time which is most marked for those on lower incomes.

Moving further afield, in seek of lower value rental markets is the main option to improve affordability or, where applicable, seek support in the form of housing benefit for those on the lowest incomes. Other options include sharing or moving to cheaper areas, but this also comes with additional costs.

<sup>2</sup> 2022-23 English Housing Survey: Rented Sectors Report – Annex Tables Chapter 2  
<sup>3</sup> Housing Outlook Q3 2022, Resolution Foundation

# Affordability for single earners

## Single earner affordability

Single earner households face a clear disadvantage to multi-earner households when it comes to housing affordability. Our analysis of single earner affordability is based on the same assumptions as the headline analysis with the exception that they rent or buy at bottom end of the 2/3 bed market (lower quartile) which is around 10-20% cheaper than the average cost of housing.

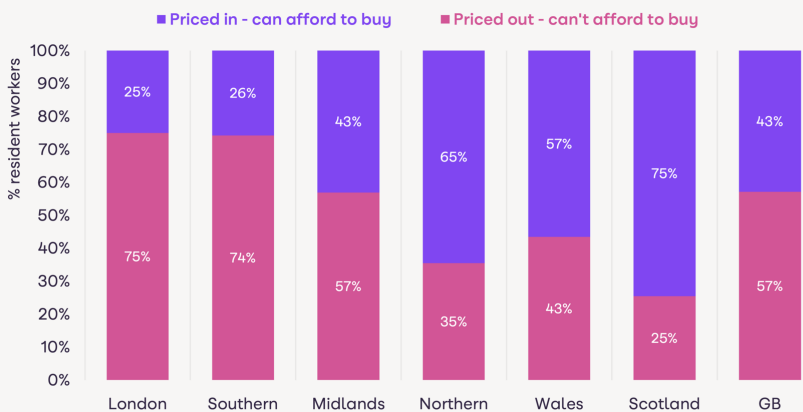
We find that 57% of single earners are unable to buy at a national level, compared to 40% for multi earner households. Over two fifths (43%) are unable to afford renting versus 27% for multi-earners.

The north-south split remains but single earner affordability is worse outside southern England with between 25% and almost 60% unable to buy and a third to 45% unable to rent.

Compromising on the size of a property or spending more on housing only delivers marginal gains for single earners, a group who are poorly served into today's housing market, particularly access to home ownership.

“Compromising on the size of a property or spending more on housing only delivers marginal gains for single earners, a group who are poorly served into today's housing market.”

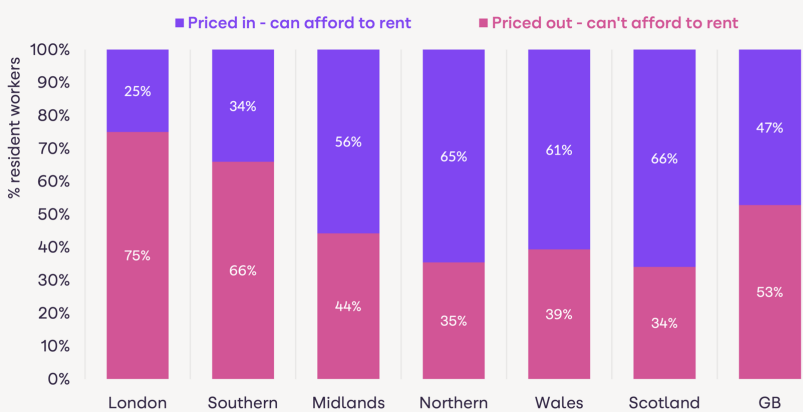
Buying - % single earners who can afford to buy



Source: Zoopla Research calculations / ONS

Buying a 2/3 bed lower quartile price home with 80% LTV

Renting - % single earners who can afford to rent



Source: Zoopla Research calculations / ONS

Rent a 2/3 bed lower quartile priced home using 30% earnings

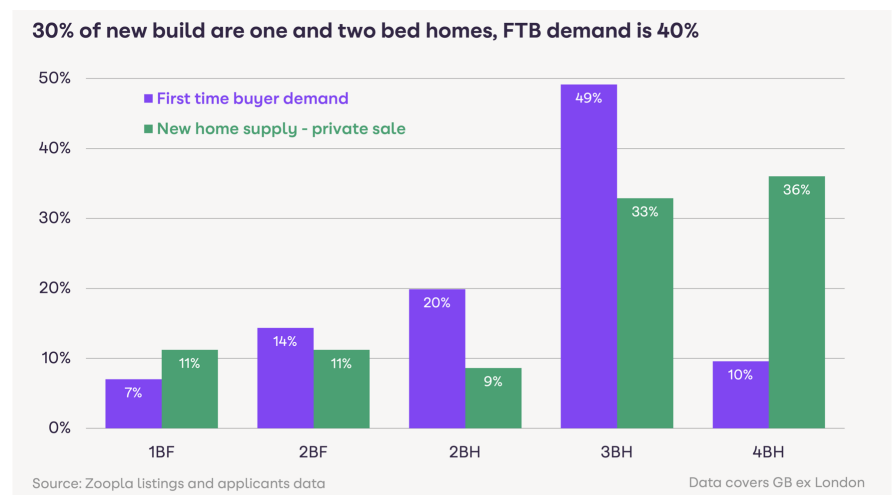
## Conclusions

Britain has a varied pattern of housing affordability with clear differences between buying and renting and across geographies. Pressures in one tenure can have impacts on another. This is most prevalent in the rental market where inaccessible routes to home ownership increase overall demand for renting. There has been no increase in the stock of rented homes since 2016 which has exacerbated the challenges for low/no income renters which has led to a rapid increase in temporary housing/risk of homelessness.

There are no easy solutions for Government and policy makers. We cover three areas worthy of greater policy focus that could start to alleviate affordability pressures in the real market 'pressure points'.

### Grow the supply of smaller sized homes to buy

A scarcity of smaller sized homes is compounding affordability pressures on those seeking to buy. Two fifths of first-time buyer demand<sup>4</sup> is for 1 and 2 bed homes yet just 30% of new build homes are this size. Building smaller sized homes can be harder to achieve given the way infrastructure costs are calculated as one example. Its vital policy doesn't dis-incentivize the development of smaller sized homes.



**“the Government needs to move on quickly to focus on the types and tenures of homes required to support economic growth and alleviate affordability pressures .”**

There is no one size fits all approach to what needs to be built. Recent research by the Resolution Foundation<sup>5</sup> has highlighted the importance of building 3+ bed family homes to alleviate pressures in the social rented sector. This, in turn, could help alleviate pressures in the private rented sector which has had to take-up demand that would be better served in the social rented sector.

The narrative on building 1.5m homes is welcome but the Government needs to move on quickly to focus on the types and tenures of homes required to support economic growth and alleviate affordability pressures facing middle to lower income households.

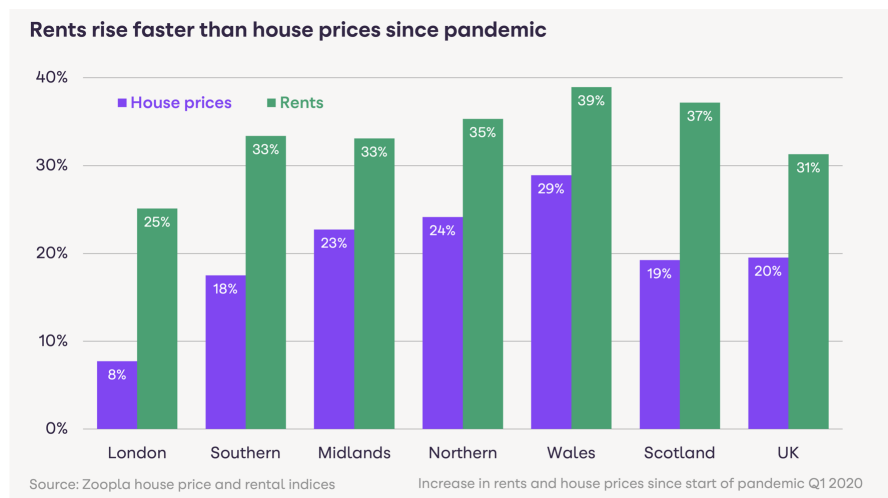
<sup>4</sup> Zoopla applicant demand and availability data September 2024 GB ex London

<sup>5</sup> Housing Outlook Q2 2024, Resolution Foundation

### Grow the stock of rented homes

The unaffordability of home ownership is putting extra pressure on the private rented sector (PRS) which hasn't materially changed in size since 2016. The chart below compares nominal house price and rental inflation since the start of the pandemic in 2020 Q1.

Affordability pressures for buyers have held back house price inflation in southern England since the start of the pandemic although prices keep rising as buyers rely on higher incomes and larger deposits to access home ownership.



Its vital to grow the stock of private rented homes as part of ambitions to build 1.5m homes. At the same time, rental supply needs to be expanded in the social housing market where static supply over the last 30+ years has seen demand for social homes increasingly met in the private rented sector. Over a quarter of private renters receive full or partial housing benefit. Growing supply in the social rented sector can help alleviate pressure in the private rented sector.

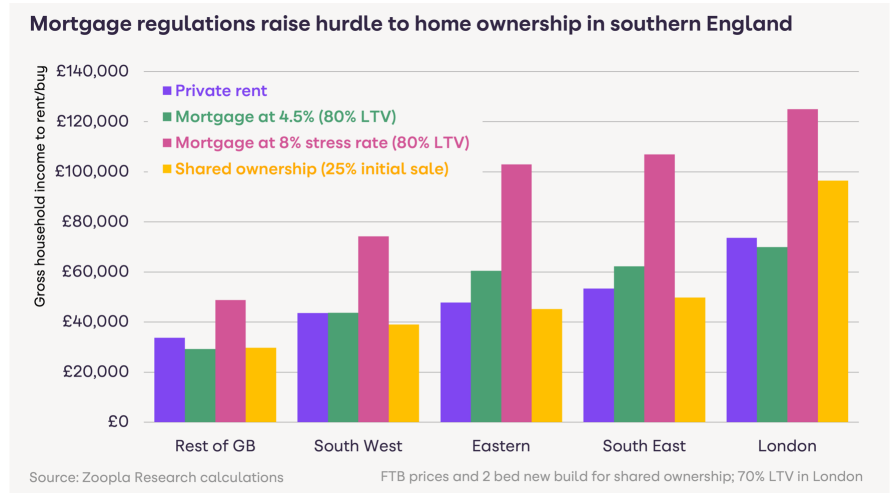
The Government has established a New Towns Taskforce as part of the ambition to grow supply. The 'old' new towns in England started off at close to a 50:50 split between homes for sale and rent. Today's new housing output is closer to 70% private sale and just 30% for affordable rent or low-cost home ownership.

The cross-subsidy model of speculative housing development is under pressure from weaker demand from both private home buyers and housing associations buying homes delivered as part of 'planning gain'. In our view building more homes will require a broader range of tenures and price points to help open-up the pool of potential demand and to provide more certainty and reduced risk for builders. This has implications for land values and the flow of land that can be bought forward for development.

**“Its vital to grow the stock of private rented homes as part of ambitions to build 1.5m homes. At the same time, rental supply needs to be expanded in the social housing market ”**

### Mortgages – need for long term fixed rate loans

Options to innovate in the mortgage market to improve access to housing are relatively limited without more transformational change. This is due to the absolute level of house prices and the impact of regulations introduced in 2015 to stop households taking on too much debt when rates were very low. These have increased the level of household income needed to access home ownership reducing access for buyers with modest income and small deposits.



The chart shows the income required to rent and buy a typical FTB home across Britain, with a focus on southern England. The income to afford mortgage repayments are slightly above the income to rent. However, the income to pass a mortgage affordability stress rate of 8% are much higher, limiting access to buying even though the rental cost of close to actual repayments for the borrower.

These regulations stopped boom and bust as the UK moved from ultra low mortgage rates in 2021 to 4-5% today but this has come at the cost of harder to access housing in southern England.

Its hard for lenders to innovate around these regulations to materially improve access to housing. There is room for some innovation such as higher loan to income ratios, but this only delivers marginal gains. Shared ownership requires lower incomes to buy but it is a product that requires better education for consumers.

The big innovation required in the mortgage market is the creation of a market for longer term (10+ year) fixed rate mortgages which would negate the need to test affordability, removing this hurdle. It's a market that has failed to get off the ground thus far and would likely require Government support to get off the ground.

In the absence of any innovation it seems likely that current regulations will continue to cap buying power and we enter a period of low nominal house price growth where affordability is reset through incomes rising faster than rents and prices.

**“Options to innovate in the mortgage market to improve access to housing are relatively limited. The big innovation required is the creation of a market for longer term fixed rate mortgages .”**

# Appendices Methodology & data sources

## Appendix – Data sources and methodology

The primary data sources for this analysis are:

1. **ONS Annual Survey of Hours and Earnings (ASHE) (resident-based analysis)** for the gross pay of full time workers in 2023. This data includes the distribution of gross weekly earnings by decile at a local authority level.
2. **Zoopla data for the median price and rent of 2/3 bed homes** at a local authority level in 2023. Other price/rent levels are calculated as required.



### Earnings data

The focus on housing affordability for working households is an important aspect of this analysis. ONS data shows the majority (85%) of an average workers' income comes from earnings. We have made 10% adjustment to uprate earnings to cover other sources of non benefit related income such as part time work and other income.

The earnings data does not include any allowance for benefits to support those on lower incomes. Benefits account for a smaller proportion of total incomes for working households, but they are important support to meet rental costs for lower earners in the private rented sector.

Our headline analysis assumes 1.7 earners per household which is the national average based on xxxxxxx.

Our analysis framework allows analysis of single or dual earner households. The analysis also assumes multi-earners are both earning the same level of earnings.



### What sized of home to benchmark against?

The size profile of homes is an important consideration from what a working households might need and what is available.

Census data for England and Wales shows that two and three bed homes are the most common type of private housing (renting and owning) and account for over two thirds of homes.

We calculate the median average price/rent for 2 and 3 bed homes and then take a straight 50:50 average as the input into the analysis. Other price points are used including the lower quartile price for 2/3 bed homes and the lower quartile price/rent for 2 bed homes.



### Affordability assumptions

For buying, the headline analysis assumes an 80% loan to value mortgage which is set at 3.25x gross annual earnings – the typical average for a first-time buyer in 2023 using ONS data.

For renting, we assume 30% of gross earnings are spent on rent which is very close to the average for working renters and those with no state support for rental payments. Rental affordability varies widely by region and age and whether state support for rental costs is included or not.

The report comments on how using large deposits, buying or renting smaller homes or increasing spend on rent changes the headline analysis as options to improve affordability.



### Calculation of proportion who can and cannot access

Based on the earnings distribution for each local authority area, and the affordability assumptions for buying and renting we calculate the % of workers resident in that local authority, or the aggregated geographical area, that can and cannot afford to buy or rent at the relevant pricing level.

This is based on worker numbers supplied at local authority level as part of the ASHE dataset. We have not attempted to calculate the analysis on a per household basis.



### Impact of benefits excluded from the analysis

The rationale for this analysis is that market housing should be accessible for most working households. The more housing is inaccessible to working households the greater the consequences for economic growth and wider costs to society.

The analysis excludes the impact of benefits to support incomes and housing costs. The benefits system plays an important role in supporting those on low incomes to meet private rental costs.

Data shows that around a quarter of private renter households (1.4m) get support towards the cost of private renting either in part (44%) or in full (66%).

State support for mortgagees is minimal with 13,000 claimants under the Support with Mortgage Interest (SMI) scheme versus over 9m outstanding mortgages.

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