

SEEDA

THE ECONOMIC IMPACTS OF HOUSING AFFORDABILITY

REPORT

SPRING 2003

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CONTENTS

EXECUTIVE SUMMARY	i-vi
1 INTRODUCTION	2
The Brief.....	1
Study Approach.....	1
2 REVIEW OF KEY ISSUES	2
Introduction	2
Defining Affordable Housing.....	2
Defining Key Workers	2
The Changing Policy Environment	3
3 HOUSING AFFORDABILITY COMPARISONS	5
Introduction	5
Methodology	5
International Affordability Comparison	6
National Affordability Comparisons	6
Affordability Comparisons within the South East	7
Terrace House Affordability for the Average Earner	8
Affordability by Occupation	10
4 THE IMPACT OF HOUSING AFFORDABILITY	12
Introduction	12
Methodology	12
Recruitment and Retention.....	13
Public Service Delivery	21
Inflation	21
Commuting	23
Economic Efficiency of Business	24
Business Migration	25
Business Expansion Decisions	26
Loss of Inward investment	26
Neighbourhood Effects.....	27
Rural Affordable Housing Issues.....	27
Cyclical Housing Market Issues.....	27
Labour Migration	29
Labour Market Flexibility	29

5	EMERGING INNOVATIVE PRACTICE.....	31
	Introduction	31
	Emerging Planning Practice.....	31
	Public Sector Innovative Practice.....	32
6	ACCOMMODATING FUTURE DEMAND	36
	Introduction	36
	Location of Future Demand.....	36
7	CONCLUSIONS	40

APPENDICES

- Appendix 1: International Comparisons
- Appendix 2: Geographical Distribution of Housing Affordability Distribution
- Appendix 3: Structural Changes in the Housing Market
- Appendix 4: Survey Phase 2: Detailed Methodology
- Appendix 5: Survey Phase 1: Findings

EXECUTIVE SUMMARY

Introduction

- 1 SEEDA recognises that housing affordability is a concern to both the private and public sector in the South East. Companies in some sectors and locations report being particularly badly affected, reporting that high housing costs are reducing their ability to grow, reducing labour market flexibility, increasing commuting times, and reducing competitiveness. Parts of the public sector report similar concerns, also stating that their ability to deliver quality public services is at risk.
- 2 This study was commissioned by SEEDA in order to investigate these issues and to assess the impact of housing affordability on both sectors of the economy. The study was also asked to identify best practice that either public or private organisations are developing to respond to their concerns about a lack of affordable housing.

Housing Affordability Comparisons

- 3 We carried out a number of housing affordability comparisons at international, national and intra-regional levels.
 - Internationally, house prices in the South East of England is towards the top end of the “league” of SEEDA’s eight international benchmark comparator regions, being in third place behind West Nederland and Kanagawa prefecture in Japan.
 - At a national level, housing in the South East tends to be less affordable than that in Wales and the north and west of England, although it is an over-simplification to believe that high housing cost to income ratios are entirely confined to the South East.
 - At the regional level, we divided unitary authorities and counties in the region into four affordability bands. The less affordable areas (such as Windsor and Maidenhead) were placed in band one, whilst the more affordable areas (including areas such as Kent and Medway) were placed in band four. We found that 43 districts and Unitary Authorities in the South East have terrace house prices¹ of more than 4.6 times earnings. In six districts the price of this market entry property is more than 6.6 times average earnings. In only four districts can the average earner purchase a terraced property with the normal mortgage rate of 3.5 times annual earnings. Three of these four districts are in Kent, with Milton Keynes being the only other local authority area. Putting this into context of an individual’s mortgage, the mortgage shortfall for a terraced home in the South East is over £11,000 in the teaching profession, £29,000 for health associates professional, and £45,000 for industrial operatives.

The Impacts of Housing Affordability

- 4 Having scoped the geographical distribution of the problem, we then went on to investigate some of the economic impacts of housing affordability in the South East.
- 5 Research in this area was undertaken in two phases. The first phase commenced in July 2002. Semi-structured interviews were undertaken with 33 private sector employers and 17 public sector organisations were undertaken in the following three weeks. Following the delivery of a draft report, we were asked to undertake more research, covering the same areas but with a larger research sample size. This became phase two of the project. In this phase, 200 structured interviews were undertaken

¹ Terrace house prices were used for this exercise because they generally represent properties at the lower end of the market. The category of flats/maisonettes usually have lower values but are not well represented in all parts of the region and so could not be used with confidence as our ‘benchmark’ for property prices at the bottom end of the market.

with private sector business units across the South East, and a further ten interviews were undertaken with the public sector.

- **Private sector recruitment issues:** we found that in practice, employers found it very difficult to gain an accurate picture of how they are being affected by housing issues specifically and how much they are being affected by general skills shortages and a tight labour market. Private sector organisations reporting recruitment problems were in the minority (28%), and an even smaller number ascribed those difficulties to local housing costs (12% of the total private sector interviewees). Our survey showed a weak but positive correlation between recruitment problems and high housing cost areas. In the private sector, difficulties were being predominantly experienced in recruiting workers at the lower end of the pay scale, with 50% of those companies reporting difficulties saying that they had problems recruiting lower level staff. The transport and communications and hotels/restaurants sectors experienced the greatest recruitment whilst the retail and wholesale sector experienced the least difficulties.
- **Public sector recruitment issues:** the difficulty of disentangling the extent to which housing was responsible for recruitment and retention issues was particularly acute within the public sector interviewees. Acute care nurses, maths and science teachers are reportedly scarce across the country regardless of housing costs, due to a national shortage of people with the right skills. Our survey shows that the public sector's recruitment difficulties are more intense than those experienced by the private sector, with 78% of public sector respondents stating that they experienced recruitment difficulties. Public sector managers are also more likely to believe that their recruitment problems are caused by high housing costs, with 63% of interviewees believing that housing costs were an obstacle to recruitment. Again, there is a positive correlation between housing costs and recruitment difficulties. In band 2, 89% of respondents experienced recruitment difficulties compared to 78% in band 3 and 67% in cheapest band 4. The survey showed that in the public sector, difficulties were being experienced in both recruiting and retaining workers at all levels. Retention was less of a problem than recruitment (a third of public sector survey respondents reported that housing costs were causing retention problems) although more public sector respondents thought that this was a problem than their counterparts in the private sector.
- **Emerging coping mechanisms:** we found that in both the public and private sector, methods were evolving to cope with recruitment and retention difficulties. In the private sector we found that some companies were offering flexible working patterns, improved pay, and improved terms and conditions to compete in a tightening labour market. Other companies were able to employ older people or younger people, finding that these groups were not affected to a great extent by affordability issues. The public sector, there are in some circumstances a subtle breakdown in national pay scales, with "grade inflation" becoming more common, agency staff being more widely used, and expanded relocation packages. There were other attempts to improve the supply of staff by recruiting from abroad. We heard anecdotal evidence that overseas nurses had their own ways of coping with high housing costs, often sharing cramped accommodation with colleagues from their respective countries.
- **Inflation:** our survey showed that 10% of private sector employers had raised wages as a result of increased housing costs, which could in part contribute to inflation in future. Public sector employers have less freedom to alter wages, although as we have noted, there may be more flexibility in public sector pay structure than might be thought. However, inflation is not currently a major concern for policy makers; the risk of deflation is perhaps of equal concern. There are a wide number of reasons for current low levels of inflation. However, from our research, we can begin to speculate on why housing price changes seem not to be having an inflationary impact. Firstly, of private sector respondents to our survey who said that their costs were rising due to a shortage of affordable housing, 20% (only accounting for 3% of the 200 companies surveyed) said they could pass their cost pressures on to consumers. Any additional costs are therefore being absorbed by companies and are in this respect non-inflationary. Secondly, most workers in the

South East's economy have been resident in the South East for some time, and are not directly affected by rising housing costs. Indeed, given the current low interest rates, many are enjoying the lowest interest rates on their mortgages since the 1950s.

- **Commuting:** 19% of private sector employers and 44% of public sector employers report that commuting journeys are extended due to high local housing costs. Though no very firm trend exists, longer commuting patterns tended to be concentrated in areas of high housing cost. In the public sector, the majority of interviewees reported that workers were travelling long distances at all wage levels, rather than the problem being confined to a particular wage level. In the private sector, a number of companies reported that problems were only occurring at particular wage levels, with the mid-management level experiencing the highest occurrence of long distance (1 hour+) commuting. It is important to bear in mind that long commuting distances are not solely created by the lack of co-location of housing with employment opportunities. The increased number of dual-income couples resulting from the feminisation of the labour market and the south-east's relatively high numbers of managerial employees could "hard-wire" longer commutes into the region's economy.
- **Business efficiency:** Ultimately, higher housing costs may contribute to an increased cost of labour. Some companies are able to adjust to this increased cost of labour by substituting capital for labour or substituting one type of labour for another. 12% of all private sector respondents and 25% of companies affected by housing costs reported investing in capital goods in order to reduce their demand for people. There is evidence that this can also take place in people-intensive service industries where it is commonly thought to be difficult to substitute labour for capital. However, these adjustments are not always available. Research in Cambridge has shown that some industries, such as the care industry, find it practically impossible to substitute capital for labour.
- **Business relocation:** Concerns have been expressed that rising housing costs in the South East will cause the region to lose competitiveness, causing companies to relocate both nationally and internationally. Our survey found that only 10% of private sector companies surveyed had looked into the possibilities of relocation outside the South East due to high housing costs. But companies reporting recruitment difficulties were no more likely to be considering relocating than those companies not reporting recruitment difficulties. Our survey therefore suggests that for the majority of businesses, the locational advantages of the South East (access to knowledge clusters; access to high quality labour pools; access to key infrastructure; proximity to Europe) outweigh the costs of doing business in the region. Clearly, though, there is a minority of companies who are considering moving. For such businesses, cheaper areas are more profitable. Our survey tended to indicate that these businesses were in the more cost-sensitive mature markets.
- **Business expansion decisions:** Concerns have been expressed that high housing costs will reduce companies' ability and willingness to grow. This survey found that 6% of all private sector businesses surveyed and 13% of companies affected by housing costs stated that they were deferring or cancelling investment in their companies due to rising costs or a lack of competitiveness.

Innovative Practice

- 6 The brief required the study to identify innovative practice in responding to affordable housing issues across both the public and private sector. We found that:
- Private sector responses to a shortage of affordable housing for workers were relatively rare. These included some involvement by larger companies in housing fora, an example of a company buying flats for (very) long distance commuters, a pension-opt out scheme which funds a house deposit, and an innovative approach to housing Heathrow Terminal 5 construction workers

(obviously, though, this is in the London rather than the SEEDA area). These approaches were the exception rather than the rule.

- Public sector innovative practice was more prevalent. Responses came through the planning system (increasing S106 employees), key worker housing strategies, housing assistance to new employees, improving relocation packages, providing specific accommodation to teachers, estates rationalisation, close working with private sector developers, work with private sector landlords, and providing loans to cover the deposit and rent in advance required in order for people to enter the private rental sector.

Accommodating Future Demand

- 7 We then turned to the future and asked if there is likely to be a better match between economic needs and the supply of affordable housing.
- 8 The South East is likely to be the fastest growing UK region between 2000 and 2010, with GDP increasing by an annual average of 3.2%. This economic growth ranking is not translated into a similar ranking for population growth. If the need for affordable housing 'follows' population, then it will be Berkshire, Buckinghamshire and Sussex where the pressure will be greatest and as we have seen already, at least for the first two, affordability is already heavily stretched. However, in the real world this is far from being the whole story and completely ignores supply side issues. The ability to deliver affordable housing will be affected by the overall supply of housing planned for and achieved in an area, particularly as affordable housing delivery is increasingly reliant on market led schemes and the use of planning obligations. In turn, the ability of market led schemes to provide affordable housing will be influenced by the economics of development and the availability of public subsidy.
- 9 On the supply side, real challenges are apparent. The region as a whole will have to increase annual completions by over 5,000 dwellings (or more than 20%) before it starts to achieve the new Regional Planning Guidance (RPG 9) rate (28,000 per annum). In some structure plan areas the percentage increases required are very much higher. Housing Corporation figures for 2001/02 show that there were 5,800 affordable housing completions funded through public subsidy, of which just under 1,100 were low cost home ownership (eg. on a shared ownership basis). A significant proportion (approximately 25%) of these 5,800 affordable homes were the purchase of existing properties, and which therefore do not add to the total housing stock (the figures in RPG 9 relate to net additional dwellings). We can reasonably assume that other affordable homes were delivered without public subsidy but we would not expect this to be a large number. It therefore seems that the amount of affordable housing being delivered now is well adrift of the indicators quoted by the Regional Assembly, and may be as little as half of those set out in RPG9.

Conclusions and Recommendations

- 10 We concluded that
- 11 It is right for SEEDA to be concerned about the issue of affordable housing and its impact on the economy. However, at the moment, many businesses do seem to have these issues under control. However, the impact is not uniform across the region and is not uniform across all types of business and all 'grades' of workers. We found that there can also be positive effects of higher housing costs. They can demand innovative responses from company managers; they may help ensure that unsuccessful businesses do not "crowd out" the more successful ones; and they may reduce "neighbourhood effects".
- 12 Where the problem is more acute is in the delivery of community-related services. These are the services which cannot choose their location and have less room for manoeuvre in increasing productivity and/or pay to overcome staffing difficulties. It is this effect on public services, with the

knock-on effect on the region's quality of life and (potentially) on economic growth, that seems to be the most troubling of the negative effects.

- 13 The South East has hotspots of high housing costs that will need particular housing investment if the more negative effects of a shortage in affordable housing are to be addressed or, at the very least, not to deteriorate further. Yet these are not the locations which the government has earmarked for growth in the South East. The delivery of large amounts of new affordable housing in these locations will not readily help problems of affordability in the 'affordability hotspots' (e.g. in Surrey and Oxfordshire) unless a degree of additional commuting is accepted.
- 14 Of equal importance to delivering the right amount of affordable housing in the right location is ensuring that the product mix is right. Where graduate recruitment is a particular issue, low cost rental accommodation may be the more useful product. However, owner occupation is their preferred tenure and that the need is more for family type accommodation rather than 'super student' units. An understanding of the desire of most individuals to move from rented accommodation to owner occupation will be important to create a regional housing strategy which delivers a coherent "housing ladder".
- 15 Finally we put forward a number of draft recommendations which flow from our study.
 - Increasing housing supply: SEEDA and the Regional Assembly should work together to consider whether the current affordable housing targets are sufficient to meet the requirements for those in housing need as well as key workers; that the economics of development and the real potential for cross-subsidising affordable housing through market housing development in the South East are properly understood; and that sufficient public subsidy is available where it is needed.
 - Defining key workers: Our view is that the definition of key workers should be flexible and should be defined on a local basis and by agreement with both the business community and public service providers. However, these recommendations should be caveated. Local structures must be robust enough to cope with potentially contentious decisions to grant or deny key worker status to different individuals. The system must be able to review key worker status, as labour shortages can be expected to come and go. Further, it will be critical to ensure that employers are not using the key worker status of their employees as a way of keeping workers' pay low. SEEDA can play an important role in promoting these concepts and in working with the Housing Corporation to link funding and new development closely to locally defined needs.
 - Co-ordinating company needs: Some companies are far more affected by a lack of affordable housing than others but their ability to deal with this on their own is very limited. One of the solutions to this can come through the setting up of locally based fora to address the issues. SEEDA and the LEPs should be working to establish such fora across the region.
 - Encouragement / pressure on efficient use of assets: some local authorities and public sector landowners are taking imaginative steps to maximise the efficient use of their housing and land assets. But we believe that more could be done and that SEEDA could have an important role in lobbying and sharing innovative practice across the region.
 - Ensure that new supply is in the right place: the new supply of affordable housing is not necessarily where pressures are most acute. Our analysis provides SEEDA with information to help make itself an active part of this debate and to work with the Housing Corporation, Regional Assembly and GOSE and the local authorities to maximise delivery of affordable housing for key workers where it is most needed.
 - Understand which products are required: It is centrally important that individuals get what they are looking for from their accommodation and that public investment is used efficiently. Where

graduate recruitment is a particular issue, low cost rental accommodation may be the more useful product. But staff retention is often about the 28+ age group and it is clear that (affordable) owner occupation is their preferred tenure. This indicates the need for a regional housing strategy which delivers a “housing ladder”.

- London weighting is to some extent distorting the South East’s labour market. SEEDA could lobby for a system that takes the South East’s needs into account.
- Continue work on skills and labour market participation rates. Employers in both public and private sectors are often unconcerned with high housing costs. They are more concerned with the symptoms of high housing costs, which they see as a shortage of suitable labour. The historically high employment rates in the South East’s economy present a real opportunity to break down the remaining social barriers to labour market participation, particularly those concerned with race, gender, age and parenting status.

1 INTRODUCTION

- 1.1 Government housing policies have traditionally sought to provide publicly subsidised housing for those in greatest housing need. But attitudes have changed recently as house prices (at least in the South East of the country) have risen beyond the means of many who would previously have expected to buy their home. The most obvious response has been the Starter Home Initiative which has provided a range of low cost home ownership options, targeted at a limited number of public sector workers and reflecting their key role in maintaining public services. The SHI has been followed by the introduction of the Challenge Fund which has similar objectives. The forthcoming Sustainable Communities Plan may well extend the range and amount of housing for key workers.
- 1.2 There is already anecdotal evidence that housing affordability is a concern to both the private and public sector in the South East. Companies in some sectors and locations report being particularly badly affected, reporting that high housing costs are reducing their ability to grow, reducing labour market flexibility, increasing commuting times, and reducing competitiveness. Parts of the public sector report similar concerns, also stating that their ability to deliver quality public services is at risk.
- 1.3 This study has been commissioned by SEEDA in order to investigate these issues and to assess the impact of housing affordability on both sectors of the economy. The study was also asked to identify best practice that either public or private organisations are developing to respond to their concerns about a lack of affordable housing.

The Brief

- 1.4 The study was intended to test the evidence being presented to SEEDA that employers were unable to recruit and retain staff due to the high cost of housing in the South East. The problem was seen to be particularly severe in the public sector (for example in the “key worker” areas of teachers, NHS employees and police). However, there were also said to be particular problems in the private sector, particularly with lower paid staff.
- 1.5 The brief therefore required us to
 - understand the current and potential impact of the rising cost of buying and renting homes in the South East; and
 - Identify good practice amongst employers in both the public and private sectors in order to attract and retain the staff they need.

Study Approach

- 1.6 This study was undertaken in two phases. The first phase commenced in July 2002. Semi-structured interviews were undertaken with 33 private sector employers and 17 public sector organisations in the following three weeks. Ten other public sector organisations were also interviewed for their general comments. To support the primary research, we also undertook a literature review and constructed affordability indices to benchmark the South East both nationally and internationally.
- 1.7 Following the delivery of a draft report, we were asked to undertake more research, covering the same areas but with a larger research sample size. This became phase two of the project. In this phase, 200 structured interviews were undertaken with private sector business units across the South East, and a further ten interviews were undertaken with the public sector.

2 REVIEW OF KEY ISSUES

Introduction

- 2.1 This section reviews some of the key concepts and policy changes that underpin the study. It defines the terms “affordable housing”, “key workers” and examines the quickly changing policy environment.

Defining Affordable Housing

- 2.2 This study has used the term ‘affordable housing’ to cover subsidised housing for rent, sub-market rental and low-cost market housing.

Defining Key Workers

- 2.3 Some interviewees noted worries about the term “key worker”, stating that whilst nurses, teachers and police were important, NHS administrative staff and other municipal workers such as refuse collectors were just as important to social provision. One interviewee believed that “All NHS employees are key workers – otherwise we wouldn’t employ them”. These comments underscore the point that modern economies are made up of individuals undertaking highly specialised tasks. Stating that certain individuals’ economic function is more important (more “key”) than others is therefore a difficult value judgement, and arguably misunderstands the deeply intermeshed nature of modern society.
- 2.4 That said, the phrase “key worker” has entered into common parlance. It has found a number of different definitions. Some definitions of the phrase generally refer only to teachers, police, nurses and other essential health staff that are in short supply (eg the SHI)²; some definitions take these categories and add care workers (e.g. Runnymede District Council and Crawley Borough Council)³; others include both public and private sector personnel whose employers are facing difficulties in recruitment and retention related to housing costs and whose employers are unable to respond to these problems by increasing wages or relocating elsewhere (e.g. Surrey LGA).⁴ The Government’s Challenge Fund defines key workers closely, as being either health service workers, police or teachers. The Housing Corporation’s ADP, though, allows the funding of other key worker groups where the necessary evidence and justification can be provided.
- 2.5 This range of definitions perhaps indicates the difficulty that exists in understanding the phrase. Such concerns remain academic. However, this lack of clarity could have real repercussions in practice. When translated into policy, the phrase will be used to provide a basis upon which housing subsidy will be allocated, and therefore needs to be robust enough to withstand close scrutiny. Each of the above definitions may run into practical difficulties:
- If we use the SHI and Challenge Fund definitions of “key worker” to allocate housing-related compensation to certain types of government employee as part of an overall employment package (as in the Starter Homes Initiative) the process of definition will be administratively straightforward. However, it may cause resentment on the part of other government employees who are excluded from assistance.

² The Government’s Starter Homes Initiative has prioritised SHI teachers, police, nurses and other essential health staff. SHI includes funding for 400 other workers including social workers, fire fighters and transport workers, perhaps showing the potential difficulty of excluding other groups of workers from the category for assistance.

³ *Runnymede Key Worker Strategy*, Runnymede District Council

⁴ Monk, Morrison, Smith, Stubley and Whitehead: *Research into Key Worker and Affordable Housing in the Cambridge Area*. University of Cambridge for Cambridge City and South Cambridgeshire District Councils 2002

- If we use the definition of key worker contained in the Runnymede and Crawley strategies, where the definition of those eligible for key worker assistance is extended to the private sector (such as employees of private care homes), then the dividing lines between those who are defined as key workers in these sectors and those who are not are very much more difficult to draw and may lead to real difficulties in equitable allocation of housing.
- If we use the Surrey LGA definition of key worker (stating that key worker status is only available to those industries facing recruitment and retention difficulties), we are bringing in real complexities in the administration of access to key worker assistance. If key worker status is effectively defined by labour market shortages, housing officials will be required to undertake a rolling process of local economic assessment and appraisal, constantly monitoring the labour market for changes in the supply and demand for labour. There are questions about how effectively this will work in practice.

2.6 However, the phrase “key worker” remains useful shorthand. If employers of nurses, teachers and others wish to give housing subsidies as part of a package of employment and refer to them as key worker initiatives, then this should be at their discretion. However, we should be very careful in loading more onto the term “key worker” than it can bear, and should be circumspect in the phrase’s use when framing strategy or policy.

The Changing Policy Environment

- 2.7 Affordable housing is currently an area of great policy change. Recent announcements from the ODPM state that there will be a comprehensive housing strategy to tackle market imbalances between supply and demand across the country, with an increase of over £1bn to £5.9 billion between 2002/03 and 2004/05 and a comprehensive long-term programme for the next 10 to 15 years. This will result in more resources for affordable homes to own and rent, with expanded provision for key workers particularly in the South East and London. Policy stresses the need for higher densities and driving forward growth areas for further housing development (e.g. Thames Gateway, Milton Keynes, Ashford, and Stansted).
- 2.8 Whilst we wait for announcements about the way in which the 'new money' for housing is to be allocated (in the forthcoming Sustainable Communities Plan), press reports suggest that there will be an emphasis on providing housing for key workers and that this will cover both low cost home ownership and sub market rent. Although subsidy has been available for the former over a number of years, public policy has not previously recognised a need for a subsidised rental product other than social rent (targeted as it is to those in greatest housing need).
- 2.9 This changed last September when Lord Rooker announced that £200m had been set aside in a new 'challenge fund' to deliver 4,000 new homes in the south east, a proportion of which would be reserved for key workers. Housing associations were invited to submit proposals to the fund (administered by the Housing Corporation). The Housing Corporation hopes that around 20% of the new homes will be ready for occupation by March of 2004 and that the rest will have started on site by then. The money will be available for sub-market (or intermediate) rent models and new build for Home Buy and be targeted at key public sector workers. In November, the Housing Corporation announced that 28 programmes had been approved and that about 2,800 homes would be provided.
- 2.10 At the same time as the funding regime is changing, so too is the institutional framework. New bodies in each region will bring together housing investment and planning, with the aim of creating regional housing markets that are more responsive to demand. This will be supported by a more strategic approach to the regional distribution of funding including a review of formulae and systems. RDAs will be invited to participate in these reforms.
- 2.11 These changes will be backed by the Government's new approach to tracking and enforcing change through the governance system. Public Service Agreement Targets have been set for achieving a more sustainable balance between housing availability and housing demand in all English Regions (PSA

target 5) and extending the target covering housing conditions to the private housing sector (PSA target 7).

3 HOUSING AFFORDABILITY COMPARISONS

Introduction

- 3.1 This section provides a sense of the scale of the housing affordability issue in three dimensions: internationally (comparing housing affordability in some of the world's leading economic regions), nationally (comparing housing affordability in the South East with those across the country) and regionally (comparing housing affordability within the districts and unitary authorities of the South East).

Methodology

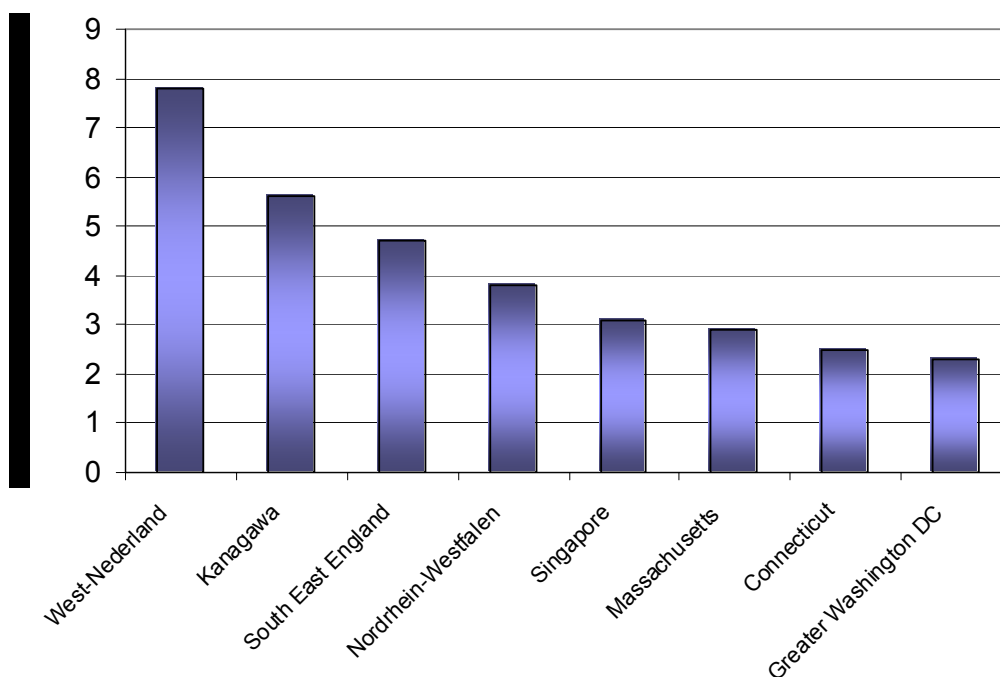
- 3.2 We have used SEEDA's international comparator regions to benchmark housing affordability in the South East. The methodology used is complex and a review of the methods we have used to arrive at this comparison has therefore been attached as an appendix.
- 3.3 Here we briefly review the methodology used to compare housing affordability within the UK.
- 3.4 The Affordability Index shows the relation between house prices and incomes across the UK and within the region. House prices are based on the prices achieved of terraced houses in each district, recorded by the Land Registry between April and June 2001. These were the most up-to-date Land Registry figures available at the time of the project's inception. Land Registry figures lag a few months behind surveys from mortgage lenders Halifax and Nationwide, which record prices at the mortgages approval stage. However, they are closely studied as they are a full record of the entire market. New Land Registry price figures were released in the course of the second phase of the study; we would expect to see continuing price rises reflected in this data, but we would not expect to see very significant changes in the relative affordability between the different areas of the South East. We have used a terraced house as a proxy for entry level home ownership: whilst it is possible that a flat/maisonette will suffice for some first time buyers, it is realistic to assume that terrace housing will provide a wider choice for 'young households' making the move from rental accommodation to owner occupation. Additionally, the use of terrace housing to some extent bridges the gap between smaller flat/maisonette accommodation and the larger semi-detached accommodation favoured by those with families. We therefore are in a position to capture some of the employee retention issues that affect those starting young families which are reportedly affecting some categories of employment in the South East.
- 3.5 Earnings statistics were taken for the New Earnings Survey. This income is collected by the Office for National Statistics through PAYE data. Where relevant, dual average incomes have been used for the affordability index to in order to average the data exclusively for a working population, excluding pensioner and other non-economically active households.⁵
- 3.6 For the international comparisons, we compared South East housing affordability to the international comparator regions for the South East chosen by SEEDA. Further guidance on how this information has been collected is attached as an appendix.

⁵ Using household earnings data rather than two average income earners for these calculations was considered but rejected. Household income data covers people living in traditional households as well as those living in institutions like retirement homes and university accommodation, and therefore does not best reflect the average earnings of a working population. For instance, areas with high resident populations of young people or elderly are likely to show low average incomes, which may not be seen if we looked at the same area's economically active households. Using data for two average income earners also means that it is possible to calculate the typical mortgage a household is able to procure based on the joint earnings of two people. It is difficult to use household income to calculate mortgage affordability with similar clarity, as it is unclear how many adult earners are members of a household.

International Affordability Comparison

- 3.7 Figure 1 shows that housing costs in the South East of England falls outside the upper quartile of the benchmark regions, being third after West Netherlands and Kanagawa.
- 3.8 It should be noted that comparisons between countries and regions are not straightforward. International comparisons do not take account of the differences in standards of accommodation between regions or the particular attributes of the housing markets in each region. For example, the data may lead us to conclude that affordability levels in West Nederland mean that large amounts of Dutch income are being spent on servicing housing debt. However, the Dutch tend to rent rather than buy homes.

Figure 1 International Housing Cost Comparisons

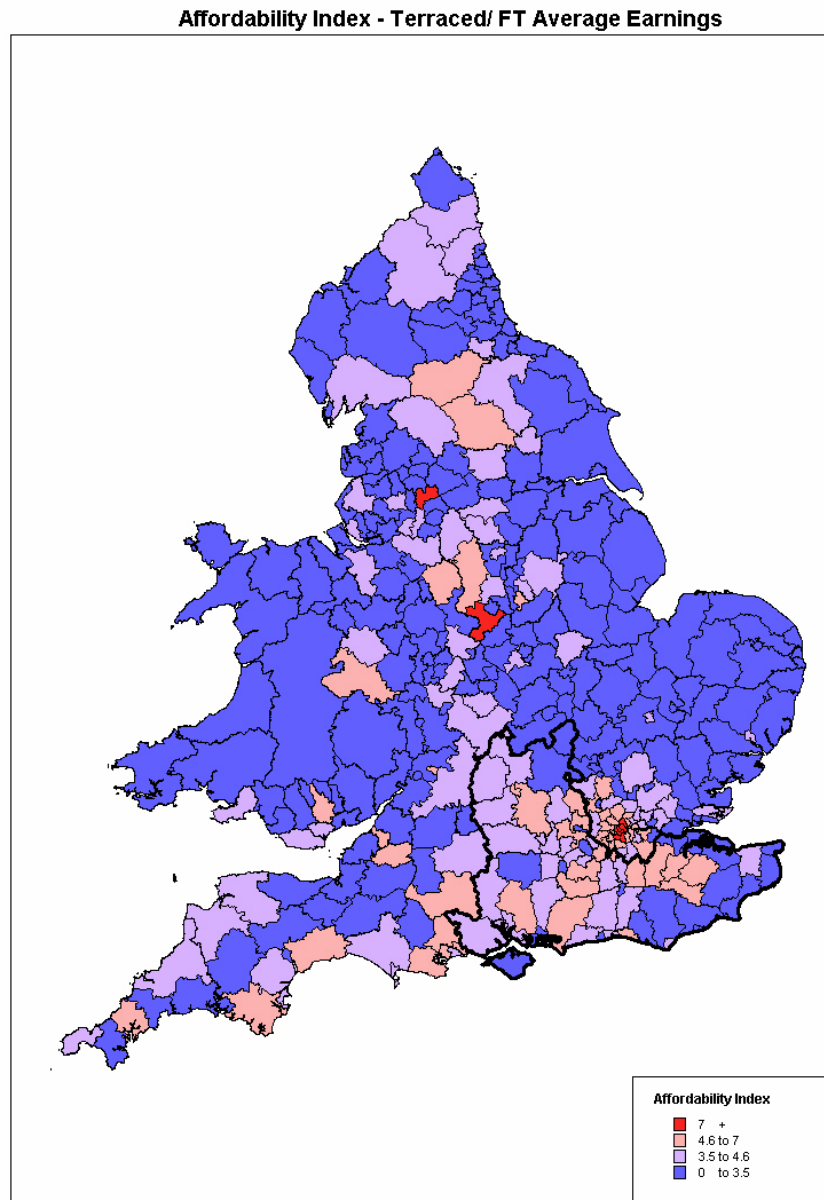


National Affordability Comparisons

- 3.9 Comparisons between the South East and the rest of England and Wales allow us to understand the scale of the housing affordability issue in the South East.
- 3.10 The “north/south divide” is the usual way of typifying the regional disparities in housing costs. However, when looking at housing affordability, rather than seeing a “north/south divide” with the dividing line falling very broadly somewhere between The Wash and the Bristol Channel, we see that houses are relatively more affordable in both the north *and* west of England compared to the South East. (Obviously, though, there are places to the north of this with high house prices and places to the south where affordability is less of an issue). The South East region is, along with London, most affected by affordability problems.

- 3.11 Map 1 shows levels of UK housing affordability. The affordability index for England and Wales as a whole shows that the price of a terraced house is 3.9 times average earnings. In the South East the figure is 4.6.

Map 1 National Housing Affordability



Affordability Comparisons within the South East

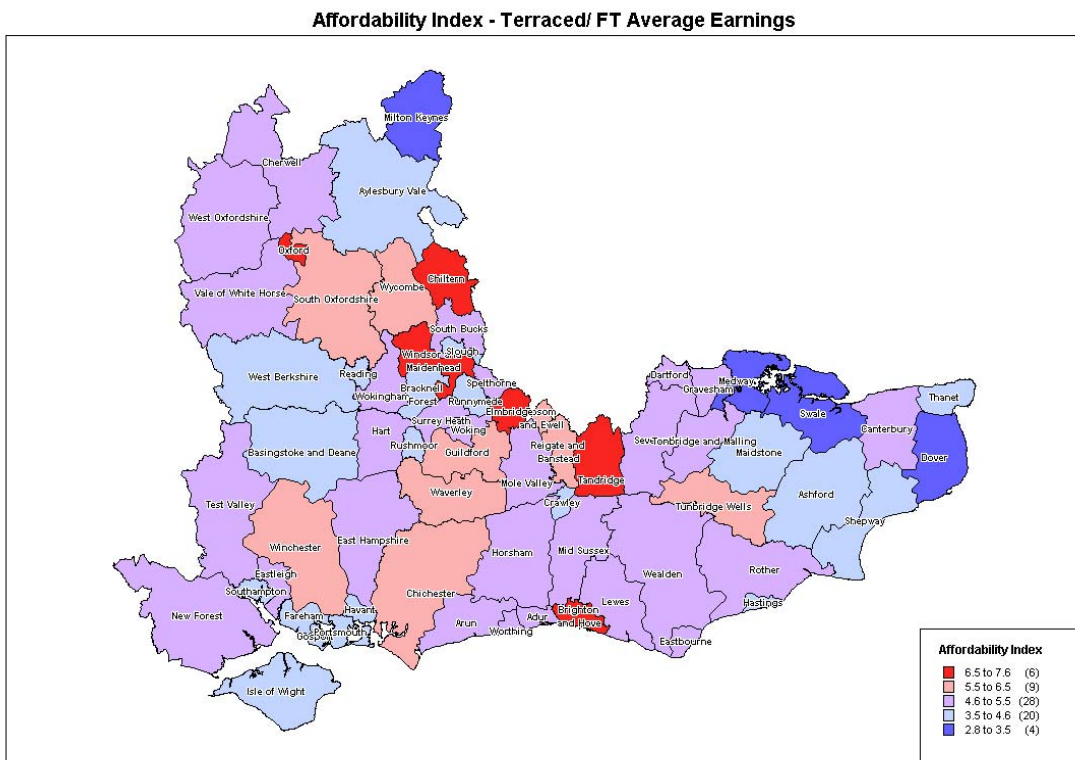
- 3.12 Housing affordability issues in the South East are widely distributed geographically. The Affordability Index has therefore been mapped using a GIS program to enable this spatial distribution to be clearly appreciated. The information has been presented in two ways: firstly, by showing the multiple of income required to purchase a terrace house, and secondly, by showing the mortgage shortfall or surplus of a person applying for a 95% mortgage with a 5% deposit on a similar house.

- 3.13 This information is then taken and used to indicate housing affordability for three occupational groups – teachers, health associate professionals and industrial operatives.

Terrace House Affordability for the Average Earner

- 3.14 Map 2 shows both the high average level of prices in the South East and the incidence of real “hotspots”. 43 districts in the South East have terraced house prices of more than 4.6 times earnings. In six districts (Elmbridge, Oxford, Tandridge, Brighton and Hove, Windsor and Maidenhead, and Chiltern) the price of this market entry property is more than 6.6 times average earnings. In only four districts can the average earner purchase a terraced property with the normal mortgage rate of 3.5 times annual earnings. Three of these four districts are in Kent, with Milton Keynes being the only other local authority area.

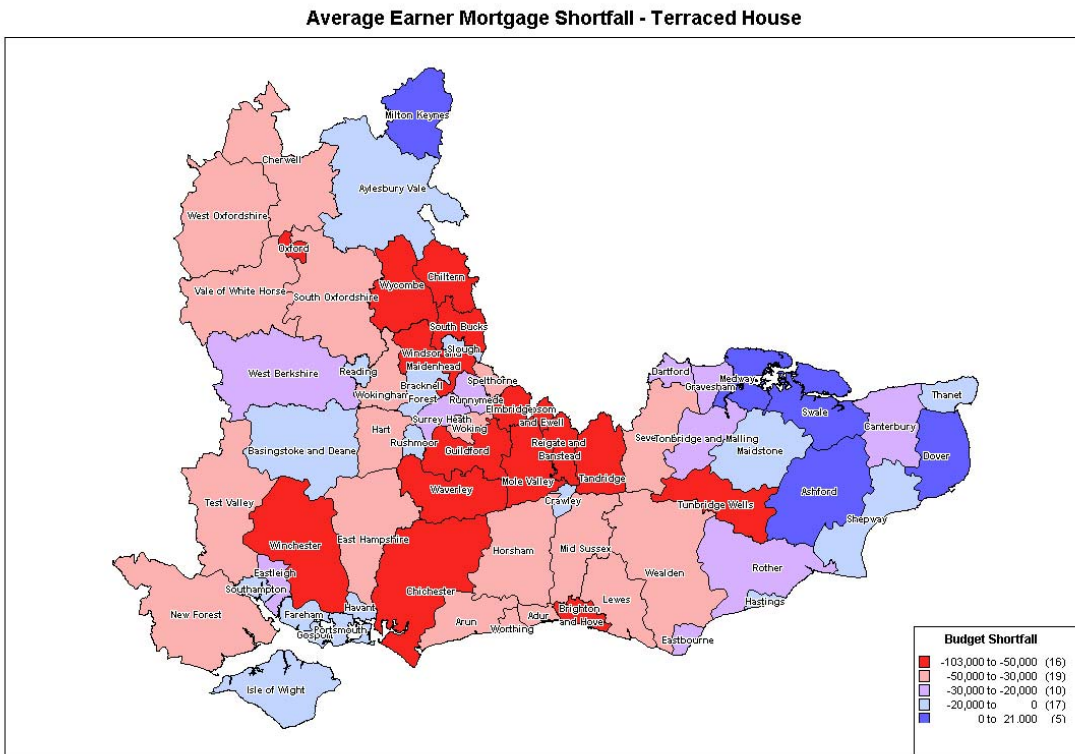
Map 2 Terrace House Affordability on Average Earnings



- 3.15 Map 3 translates this data to show what the mortgage shortfall will be in these areas. The calculations of the available amounts to buy a house are based on a mortgage of 3.5 times annual earnings for single buyers with a 5% deposit. Multiples have been taken from the Nationwide Building Society, the largest lender in the country.
- 3.16 For the average earner buying a terraced house in the South East there is an average shortfall in budget of £22,000. At district level there are 16 districts, almost a quarter of the South East districts, where the shortfall is £50,000 plus. As Map 2 shows, these areas are found in Surrey, the southern

part of Buckinghamshire, and a few other districts elsewhere, including Tunbridge Wells, Brighton & Hove, Oxford, Chichester and Winchester. Only five districts in the South East (four in Kent plus Milton Keynes) show no shortfall in mortgage for a terraced property.

Map 3 Mortgage Shortfalls for Average Earners

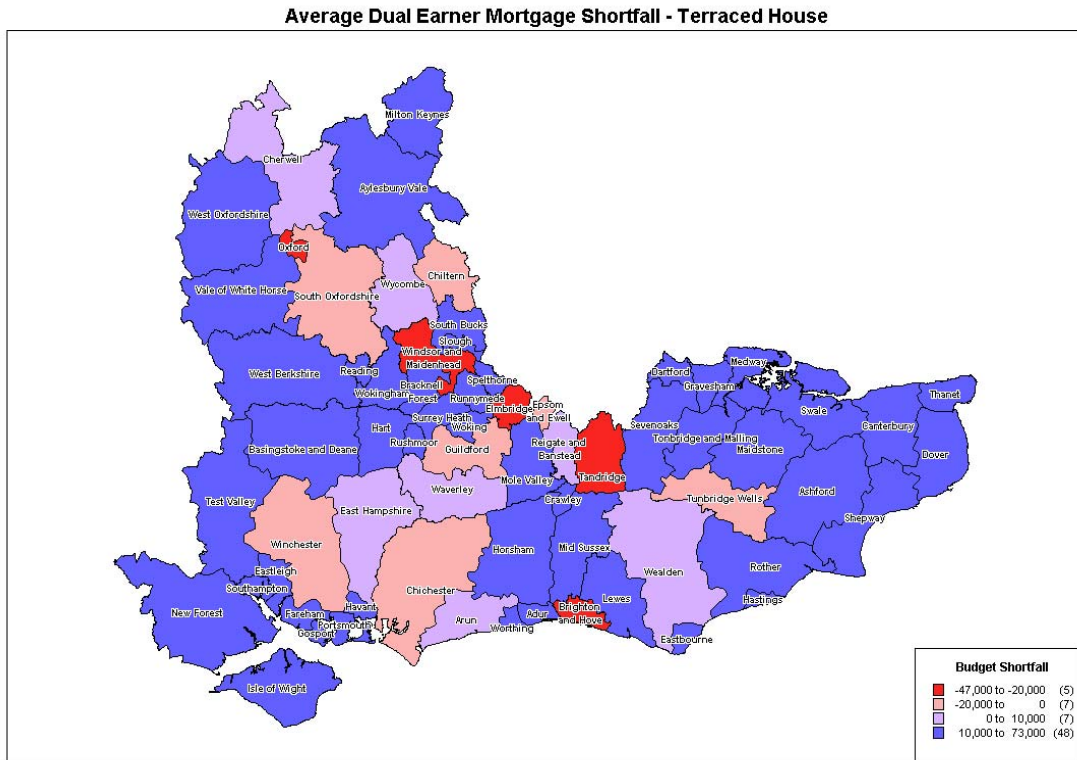


- 3.17 Map 4 shows the situation for two joint buyers. Life cycle analyses suggest that two buyers will be relatively commonplace situation for first time entrants to the market.⁸ We have taken average earnings for two people and used the 2.75 times earnings rate⁹ (used by the Nationwide Building Society for joint applicants) and a 95% mortgage to find for mortgage shortfall for districts in the South East. Here the colours of the map change considerably, with dual earners having sufficient funds to purchase a terraced home in the majority of South East districts. However, shortfalls still exist in a fifth of South East districts, and more starkly in five districts (Brighton and Hove, Tandridge, Windsor and Maidenhead, Oxford, and Elmbridge) where the shortfall is more than £20,000.

⁸ (p67) Champion, Fortheringham, Rees, Boyle and Stillwell: The Determinants of Migration Flows in England July 1998 University of Newcastle reports work by Warnes (1992) which shows that there are reasonably common stages of development in the life of an individual. Warnes usefully sets out the life course transitions and their associations with housing needs, distance of moves and ages, though he stresses that the transition sequence should not be regarded as a description of (or prescription for) everybody's life.

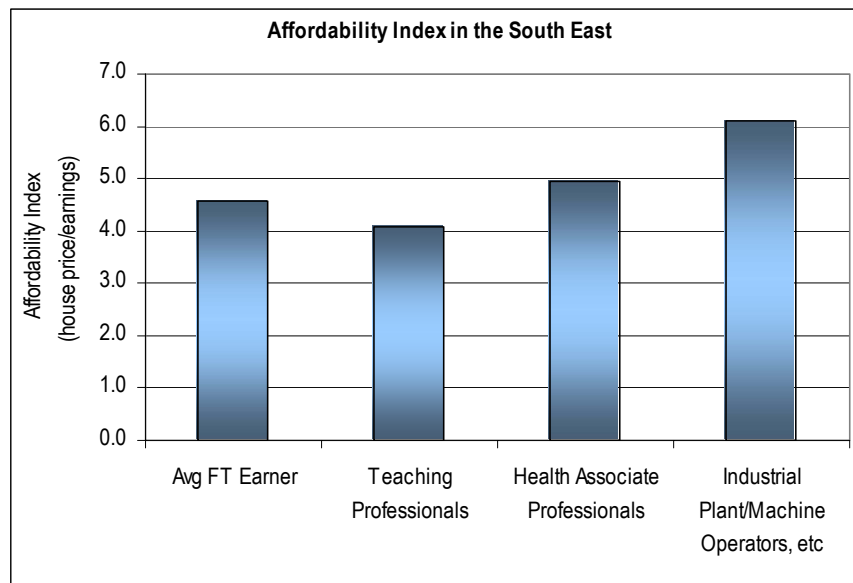
⁹ The rate for two buyers is an average between the rates offered which vary between 2.5 to 3 times dual earnings depending on other expenditure outgoings.

Map 4 Mortgage Shortfalls for Dual Earners

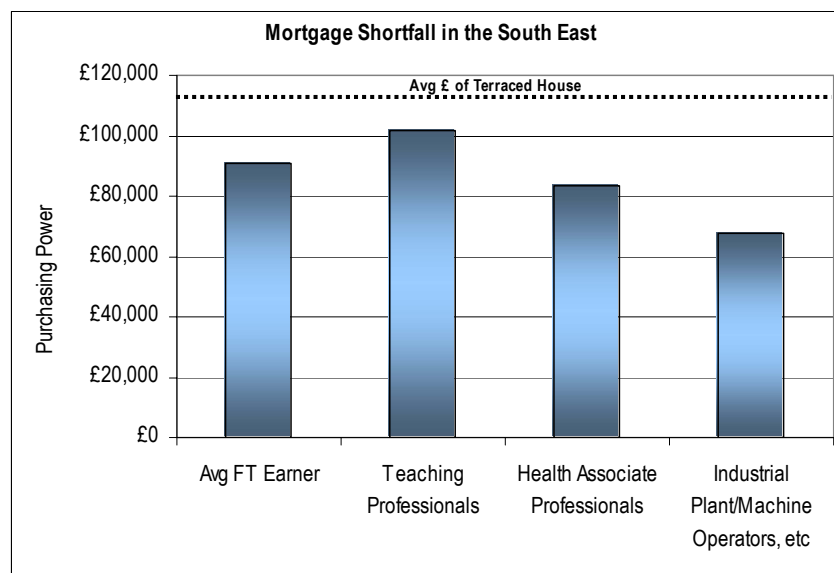


Affordability by Occupation

- 3.18 We now turn to an analysis of affordability by occupation and have selected three occupations (teachers, health associate professionals, and industrial plant/machine operators) to illustrate the different levels of affordability they experience. Figure 2 shows the affordability index by occupation for the South East as a whole. This illustrates that the price of a terraced property is more than 4 times the average earnings in each of the three occupations. The teaching occupation has the best affordability ratio of all the occupations with an income multiplier of 4.1 (making homes easier to afford for teachers than the average earner). Industrial operatives fare the worst with an affordability index of 6.1 - quite likely excluding them (all other things being equal) from owner occupation in large parts of the south east.

Figure 2 Affordability Index by Occupation

- 3.19 The mortgage shortfalls for these occupations are illustrated in Figure 3. As this shows, the mortgage shortfall is over £11,000 in the teaching profession, which fares better than the other three occupations and average earners. For health associates professional the shortfall is £29,000; and for industrial operatives an extra £45,000 of funding is required to purchase a terraced home.

Figure 3 Mortgage Shortfalls by Occupation

- 3.20 Detailed work on the geographical distribution of affordability by occupation has been undertaken and is attached as an appendix.

4 THE IMPACT OF HOUSING AFFORDABILITY

Introduction

- 4.1 The brief requires us to examine the economic impacts of the current level of affordable housing in the South East. This section presents:
- The findings from the primary research interviews undertaken. The statistical findings of this research concentrate on investigating the relationship between housing costs and
 - staff recruitment
 - the related, but distinct, issue of staff retention
 - commuting
 - inflation
 - the economic efficiency of businesses
 - public service delivery
 - business migration and expansion decisions
 - Where possible and appropriate we have used at least two other similar sources of research to corroborate our statistical findings (a process known as “triangulation”). This technique is used to highlight instances where one survey’s quantitative findings are unusually high or low, so enabling those results to be approached with the necessary caution. We have presented these statistical findings alongside a discussion of other secondary sources.
 - The results of secondary, desktop research. This aspect of the work covers a discussion of the relationship between housing costs and
 - neighbourhood effects
 - the broader economic determinants of housing markets
 - labour migration
 - labour market flexibility

Methodology

- 4.2 **Private sector:** The survey work was undertaken in two phases. In the first phase, 33 semi-structured interviews were undertaken with companies whose names had been supplied by Local Economic Partnerships. Further information giving the opinions of ten other businesses and agencies were also considered for qualitative input. We included comments received from interviews carried out by the EER, comments from the CBI and interviews undertaken by RTP with businesses for the Thames Valley Multi-Modal Study. In the second phase of research, 200 structured interviews were undertaken. These interviews were chosen from a data download of 1500 business units supplied by the Yellow Pages. All statistics quoted in the main body of this report originate from the second phase of survey work, whilst qualitative input from both surveys has informed the analysis. More information on the methodology used in phase two is attached as an appendix.
- 4.3 **Public sector:** Again, this survey work was undertaken in two phases. In the first phase, 17 semi-structured interviews were undertaken. Further information giving the opinions of ten other agencies was also collected in other meetings and telephone interviews (including the Affordable Housing Unit, Thames Valley Police, Surrey County Council, Pavilion Housing Association, Sevenoaks District Council, NASUWT, TGWU and the NHS Estates Directorate). In the second phase, ten further semi-structured interviews were undertaken. The findings from these interviews have been combined, and statistics quoted in the text represent the combination of phase 1 and 2 interviews, giving a total of 27 public sector interviews. In both phases of public sector interviews, we avoided running through questions mechanically, preferring to use the questionnaire to structure a more qualitative conversation

which teased out the key points experienced by each authority. In some instances, therefore, the flow of conversation may have meant that a certain question was not asked. These instances are at all times apparent from a reading of the statistical tables quoted. Please see the appendix for the methodology employed in selecting the authorities interviewed.

- 4.4 In order to capture the different effects of housing costs in differently priced areas, we split the South East into a number of “price bands” by Unitary Authority and County level. Band 1 had the most expensive housing, whilst Band 4 was the cheapest. Please see Appendix 4 for more details on the price bands for each area.
- 4.5 All interviewees were assured of anonymity. Names of companies and organisations have only been quoted if the information related is already in the public domain.

Recruitment and Retention

- 4.6 This section examines the effects of current levels of affordable housing provision on employers’ ability to recruit and retain labour within the South East.
- 4.7 In practice, employers found it very difficult to gain an accurate picture of how they are being affected by housing issues specifically and how much they are being affected by general skills shortages and a tight labour market. Ultimately, housing problems manifest themselves as skills shortages to the employer.

The Private Sector

Private Sector Recruitment difficulties

- 4.8 The survey showed that 28% of all private sector business units surveyed were experiencing difficulties in recruiting the staff that they required. Of the 28% who stated they were experiencing difficulties, 44% said that that high local housing costs had a bearing on those difficulties. This number represented only 12% of all private sector business units surveyed.

Table 4.1 Private sector recruitment difficulties across the South East

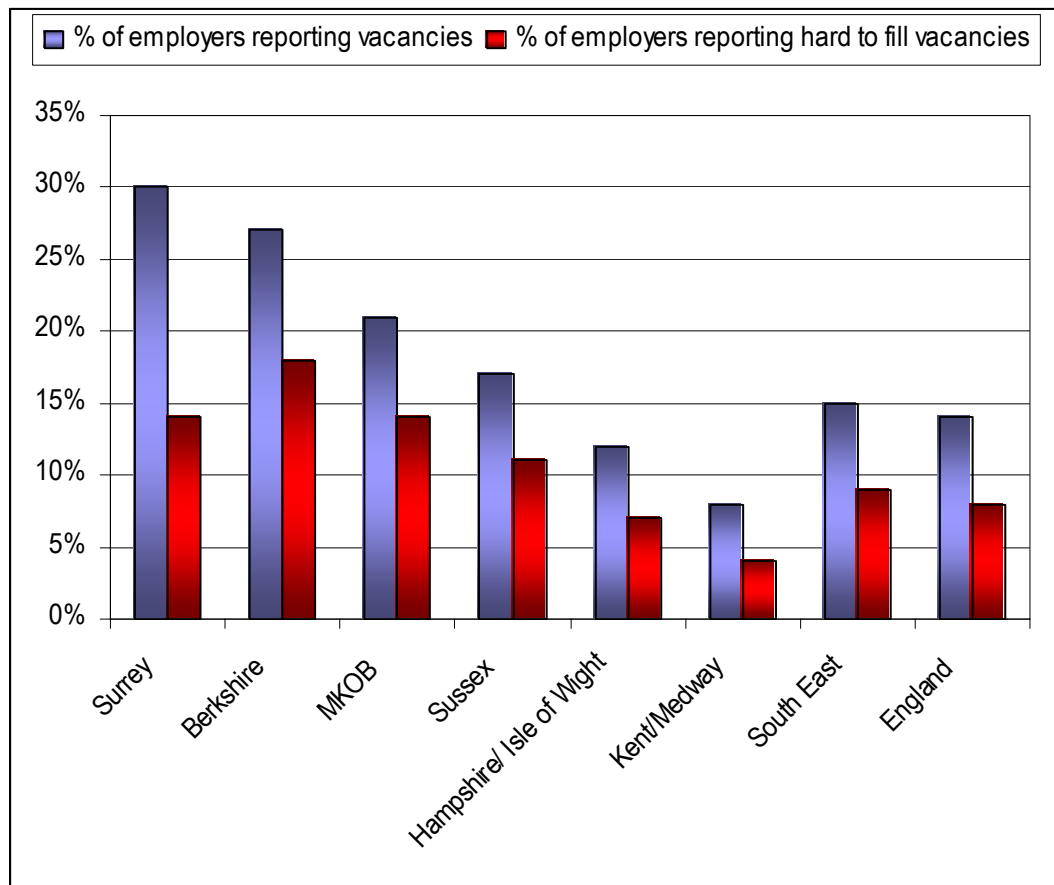
Sector status	Experiencing difficulties in recruiting the staff		Believe that housing costs are an obstacle to recruitment		Believe that housing costs are an obstacle to recruitment (% of those experiencing difficulties recruiting)
	% of total (actual number)		% of total (actual number)		
Private	28%	(55)	12%	(24)	44% (24)

- 4.9 We have attempted to triangulate our data with information from other sources.
- 4.10 In December 2001 Runnymede District Council sent out a survey to both public and private sector employers in Runnymede, receiving 252 responses. Similarly to this survey, the Runnymede research was designed to establish whether or not employers had a problem with recruitment and retention of staff and whether or not this was specifically linked to difficulties in obtaining accommodation. Of those that replied to the survey just over 40% (105 organisations) stated that they were having problems with recruitment and retention of staff. Of those, 36% (38 employers) ascribed their problems in the main or in part to housing costs. Teaching and caring were the worst affected occupations. It should be pointed out, though, that this survey did not distinguish between responses from public and private sectors of the economy, and we should therefore be cautious in using it to triangulate the data presented above, which was taken solely from the private sector.

- 4.11 Much seems to depend on whether affordable housing is specifically mentioned in the questionnaire, so triggering a response. For example, the DTI sends Small and Medium Size Enterprises in the region a simple quarterly economic questionnaire. When responding to open-ended question that did not suggest housing costs as a possible answer, only four companies out of 150 (2%) specifically mentioned housing as an important issue. Of the four companies mentioning housing prices, two stated that this was not currently a problem, but could be one in future.
- 4.12 Perhaps the best source of information is the Employers Skill Survey 2001, commissioned by the Department for Education and Skills from the Local Learning and Skills Council (LLSC) to provide information on the extent, causes and implications of skill deficiencies amongst employers in England. This report uses data from the South East (3,908 both public and private sector employers surveyed but had a particular emphasis on Milton Keynes, Oxfordshire and Buckinghamshire). This study found that employers reported fewer recruitment problems than those found by RTP. The difference was significant – only 8% of South Eastern employers reported having vacancies that they found hard to fill, although this question referred to specific open vacancies rather than more general recruitment difficulties. There was no further analysis on the ramifications of high local house prices, but this survey does provide a valuable indication of the extent of recruitment difficulties.

Relating Private Sector Recruitment Difficulties to Local House Prices

- 4.13 Our survey showed a weak but positive correlation between recruitment problems and high housing cost areas. 32% of business units in higher price band 2 had recruitment problems, as opposed to 27% in cheaper band 3 and 23% in lowest priced band 4. Brighton, Reading and Oxfordshire were the most affected areas with the region, with 60%, 44% and 36% of business units in these areas experiencing recruitment difficulties respectively. It is worth noting, though, that Reading is situated in the less expensive Band 3, showing that recruitment difficulty does not always follow high house prices.
- 4.14 The geographical distribution of recruitment difficulties was again compared to the results of other studies. The LLSC study quoted above does in general suggest that there is a correlation between recruitment difficulties and areas of high housing costs. Surrey and Berkshire are the areas worst affected by hard-to-fill vacancies, which could perhaps be expected given their high local house prices (the RTP Affordability Index shows that Surrey and Berkshire find themselves with relatively highly priced homes). However, there is something of an anomaly around the fact that the LLSC study shows that Milton Keynes is experiencing labour shortages even though its housing stock is amongst the most affordable in the region. Less surprisingly, the Affordability Index shows that Kent and Medway generally has the least housing pressure of any South Eastern sub-region, correlating with the LLSC figures which show that they have the lowest proportion of employers with vacancies (8%) and hard-to-fill vacancies (4%) (see Figure 4).

Figure 4 Proportion of employers with Vacancies, and Hard-to-Fill Vacancies by South East LLSCs

Source: Milton Keynes, Oxfordshire and Buckinghamshire LSC: Employers Skill Survey - Key Findings for the Milton Keynes, Oxfordshire and Buckinghamshire Area July 2001

Relating Income Levels of Hard-to-Recruit Private Sector Staff to Housing Costs

- 4.15 Our survey showed that in the private sector, difficulties were being predominantly experienced in recruiting workers at the lower end of the pay scale, with 50% of those companies reporting difficulties saying that they had problems recruiting lower level staff.

Table 4.2 Private Sector Recruitment Difficulties by Income Level/ Type

Wage levels/ type of hard-to-recruit workers	Companies reporting difficulties by category:	
	% of those reporting difficulties (actual number)	
Lower	50%	(12)
New graduate	38%	(9)
Management	13%	(3)
Senior	0%	(0)
All levels	21%	(5)

NB Percentages may not total 100 due to multiple responses

- 4.16 Again, we have attempted to triangulate this data. Research carried out on behalf of Sussex Enterprise and Sussex LSC in July 2002¹⁰ covered 1,453 employers across the county. The survey found that both recruitment and retention problems are concentrated in low skilled occupations. Of those employers reporting difficulties with recruitment, 58% were experiencing difficulties recruiting low skilled workers. A possible reason for this is that a comparatively high proportion of the existing jobs in Sussex (37%) are low skilled, and workers, faced with increased living costs, will either not accept jobs below an expected wage or will accept them but quickly move on to a better opportunity. Unpopular jobs are therefore being “crowded out”.
- 4.17 Another study carried out in Sussex, also in 2002, by Tetlow King Planning¹¹, surveyed 170 private employers across the districts of Crawley, Horsham and Mid-Sussex. This found that, within the private sector, manufacturing and distribution industries are the most affected by recruitment and retention issues.

Private Sector Recruitment Difficulties by Industrial Sector

- 4.18 Our survey shows that in the private sector, the transport and communications, and hotels and restaurants sectors experienced the greatest recruitment difficulties, with 50% and 45% of businesses in those sectors experiencing difficulties respectively. The retail and wholesale sector experienced the least difficulties. Many firms in this sector reported that they get a large number of applicants for each job advertised.

Table 4.3 Private Sector Recruitment Difficulties by Industrial Sector

Sector	Respondents experiencing recruitment difficulties	
	% of respondents in that sector (actual number)	
Banking, Finance and Business Services	27%	(16)
Construction	27%	(3)
Hotels and Restaurants	45%	(5)
Manufacturing	23%	(13)
Other Services	33%	(4)
Retail and Wholesale	19%	(7)
Transport and communications	50%	(7)

Private Sector Retention Difficulties

- 4.19 Retention appeared to be a smaller problem than recruitment for private sector employers in the South East. Our survey showed that only 5% of the 200 business units surveyed reported experiencing retention problems as a result of high housing costs. This represented a considerable change from Phase 1 research, which had shown problems in this area, with retention problems being experienced by companies employing workers at the lower end of the income scale. Companies mentioning

¹⁰ Sussex Annual Business Survey 2002, Sussex Skills Review 2002

¹¹ Tetlow King Planning on behalf of Crawley Borough Council, Horsham District Council and Mid Sussex District Council (March 2002), The Potential for Key Worker Initiatives in Crawley, Horsham and Mid Sussex.

retention difficulties in the first phase of research had problems with shop workers, bus drivers, cleaners, production line workers and hotel workers. Such workers tended to leave seeking higher wages, because the work was considered unattractive or because they were working to finance further onward travel (for example, Australian hotel workers). We believe – though we cannot provide evidence – that the cooling labour market is likely to be the major cause of this discrepancy between the findings of phase 1 and phase 2 research.

Private Sector Companies' Strategies for Coping with Recruitment and Retention Problems

4.20 From our survey, we can identify a number of broad strategies companies are adopting to overcome the recruitment difficulties they face.

- **Company reputation:** one large multinational reported no difficulties recruiting administrative and other staff. This could be due to the company's reputation as a safe corporate employer.
- **Company working conditions and benefits:** one retailer reported that its unique membership structure for staff meant that they were not experiencing recruitment difficulties in the South East. One company in High Wycombe had adopted flexible working patterns to cope with long distance commuting, and there is anecdotal evidence from the CBI of a growth in teleworking. A bus company in Surrey reported that, unlike other bus companies in the area, they were not experiencing recruitment difficulties. The company believed this to be due to good staff conditions. Similarly, a banking and finance company in Surrey is offering better pensions and flexi-hours to attract new staff. Our survey showed that 36% of companies which reported difficulties with recruitment had acted to improve conditions and benefits in response to labour market conditions. However, of the total 200 companies surveyed, only 10% were offering improved terms and conditions.
- **Improving pay:** 10% of all business units surveyed reported that they had increased pay in response to local housing prices, although this increased to 33% of those who had experienced difficulties in recruiting. This can be compared to the LLSC survey, which found that 59% of South East employers had increased pay, whilst this course of action was taken by only half the employers in England as a whole. Our survey found that small pay increases seemed the most common. For example, a consulting engineering company paid a relatively modest £750 South East weighting, much lower than the company's London weighting of £2500. One supermarket chain had required managers to "bid into" a recruitment and retention fund before they could raise local wage rates, requiring them to make a clear business case of why the rise in rates was necessary; increases were small at 5% on top of existing salary.
- **Employing "keytime" workers:** one service sector employer in East Sussex said that she could employ women returners to the labour market, with such women being in relatively plentiful supply. This group tended to be less concerned with pay levels but more concerned with flexible hours to work around school home-times and holidays.
- **Career contribution:** a pharmaceuticals research and development company was located in high-price central Oxford but are able to attract a workforce at all levels due to the importance attached by other companies in the industry to having worked for an Oxford-based company.
- **Methods of recruitment:** a number of employers used agencies to find staff for their production line. They reported no problems recruiting low-paid workers locally, though the work was relatively casual in nature leading to retention problems.
- **Upgraded recruitment processes:** a bus operator reported that they found it easier to recruit bus drivers in their area of operation due to a recent advertising campaign. They now have few

recruitment problems. The LLSC survey found that 77% of employers in the South East said that they had increased their advertising/recruitment spend, compared with 60% in England.

- **Ongoing levels of high pay:** some organisations are simply willing to pay whatever is necessary to secure the right workers. A high value research and design sector company in a housing hotspot (Government-owned but with commercial freedom), said that they did not experience difficulties as they were able to pay whatever was required to source the right staff. Likewise, an IT company in Oxfordshire said that the type of people they recruit tend to be highly qualified and thus very well paid, so housing affordability was not an issue.
- **Employing young people:** a number of employers noted that they predominantly recruited young people (particularly school leavers) who tended to live at home with their parents. Two insurance companies in Surrey both stated that recruitment was targeted at local school leavers, who were generally unaffected by housing issues.
- **Employing older people:** one hotelier in Oxford stated that he preferred to employ “older, married ladies”. This group had generally paid off mortgages and so were relatively unaffected by housing price changes. The employer found other benefits in employing this group: their stage of life meant that when one such person joined the staff, they tended to become long-standing employees with low rates of turnover.

Public Sector

Public Sector Recruitment Difficulties

- 4.21 As with the private sector respondents, interviewees from the public sector found it difficult to disentangle how far their recruitment difficulties were caused by a general skills shortages in a tight labour market and how far high housing prices were contributing to their difficulties. This difficulty was particularly acute in the public sector. Acute care nurses, maths and science teachers are reportedly scarce across the country regardless of housing costs, due to a national shortage of people with the right skills.
- 4.22 Our survey shows that the public sector's recruitment difficulties are more intense than those experienced by the private sector, with 78% of respondees stating that they experienced recruitment difficulties. Public sector managers are also more likely to believe that their recruitment problems are caused by high housing costs, with 63% of interviewees believing that housing costs were an obstacle to recruitment. Our survey also showed that 75% of respondents believed the problem was due to the cost of housing to buy rather than rent, with the remaining 25% believing that both buying and renting property was a problem for new recruits. No respondent said that the problem was confined to renting property only.

Table 4.4 Public sector recruitment difficulties across the South East

Sector status	Experiencing difficulties in recruiting staff		Believe that housing costs are an obstacle to recruitment		Believe that housing costs are an obstacle to recruitment	
	% of total (actual number)		% of total (actual number)		(% of those experiencing difficulties recruiting)	
Public	78%	(21)	63%	(17)	89 %	(17)

Relating Public Sector Recruitment Difficulties to Housing Costs

- 4.23 Our survey revealed that there was a positive relationship between housing costs and recruitment difficulties. In band 2, 89% of respondents experienced recruitment difficulties compared to 78% in band 3 and 67% in cheapest band 4.
- 4.24 The only significant exception to this general picture of recruitment difficulty increasing in line with house prices can be seen in one area. Although local housing costs are very high, teacher recruitment at Newly Qualified Teacher level is not a problem because of the attraction of the lifestyle of this (seaside) location. That said, though, recruitment difficulties do emerge when more senior staff are needed. For potential older recruits, particularly those coming from lower cost areas, these lifestyle advantages become less of an attraction when set against the housing costs of family homes.

Relating Income Levels of Hard-to-Recruit Public Sector Staff to Housing Costs

- 4.25 The survey showed that in the public sector, difficulties were being experienced in recruiting workers at all levels. Of those respondents who did not report difficulties at all wage levels, more experienced difficulties in recruiting staff at management and senior levels than at low or graduate levels.

22 Table 4.5 Public Sector Recruitment Difficulties by Income Level/ Type

Wage levels/type of hard-to-recruit workers	% employers reporting difficulties (actual number)	
Lower	6%	(1)
New graduate	6%	(1)
Management	25%	(4)
Senior	19%	(3)
All levels	44%	(7)

Public Sector Retention Difficulties

- 4.26 Housing costs appear to be less of a problem for retention within the public sector. A third of public sector survey respondents reported that housing costs were causing retention problems.
- 4.27 A number of interviewees noted that employees may move on for career progression purposes whilst others reported that people are moving away to get a better quality of life. For example, one NHS Hospital Trust in Surrey stated that "People move away because they realise that they can have a higher quality of life where housing is cheaper".
- 4.28 There are some important nuances. All six of the LEA Recruitment and Retention Managers surveyed believed that housing costs caused a retention problem in the South East. This statistic merits further analysis. Within the teaching profession, two problems can be distinguished. Firstly, there is the problem of losing teachers from the profession entirely. Secondly, there is the problem of retaining teachers within the profession but losing them from the South East. Housing could be a contributory factor in both cases.
- 4.29 Regarding the first problem, our consultations suggested that housing costs are not the primary cause of loss of teachers from the profession, though low pay issues and related housing costs do not help retention. Disillusionment with workload and pupil behaviour is more important factors.

- 4.30 Consultees suggest that housing costs can be said to be more responsible for the second problem, that of the difficulty in retaining more experienced teachers within the South East. Such teachers have generally been qualified for between 3-10 years and find themselves at a stage when they wish to find a home of sufficient size to start a family. Teachers of this age often moved out of the region in order to ensure that their salary goes further on housing in a cheaper area. All six local education authorities surveyed believed that this was a major issue, only partially addressed by the Starter Home Initiative.

Relating Income Levels of Hard-to-Retain Public Sector Staff to Housing Costs

- 4.31 We further analysed our findings on public sector retention by breaking them down by income level/type of occupation. We had the following results.

23 Table 4.6 Public Sector Retention Difficulties by Income Level/ Type

Wage levels/type of hard-to-recruit workers	% employers reporting difficulties (actual number)	
Lower	0%	(0)
New graduate	0%	(0)
Management	22%	(2)
Senior	0%	(0)
All levels	78%	(7)

- 4.32 The survey revealed that the public sector employers reporting problems in retention were experiencing general problems recruiting staff at all levels, with some reporting particular difficulties recruiting at management level. None expressed particular retention difficulties in the lower, graduate and senior levels.
- 4.33 A particular retention issue which has emerged for public sector employers is the relationship with London. Public sector workers in London often attract an enhanced salary (London weighting) yet house prices in some parts of London may be lower than those in the affordability hotspots of the South East. The problem can be compounded if London workers are entitled to a travel allowance of some kind and therefore have a wider choice of area in which to find a home they can afford. London then can become a more attractive location in which to work, to the loss of the South East.

Public Sector Employers' Strategies for Coping with Recruitment and Retention Problems

- 4.34 Like their private sector counterparts, public sector managers have developed a number of ways of dealing with recruitment and retention problems. Such methods are as follows:
- **Grade inflation is becoming more common.** Put simply, employers appoint individuals to grades in advance of their particular experience. This is being carried out extensively within the NHS, and can be a very significant addition to salaries for some workers (£3k to £6k additional payments were mentioned). A University is also paying cleaners and security staff national rates plus a salary uplift of between 20-33%.
 - **Agency staff are being used widely.** Agency staff, which are becoming more common in hospitals and schools, are not subject to national pay agreements. Agency staff are generally paid significantly more by the agency than they might expect if they were in post as a standard full time employee. This is in effect a de facto breakdown of the national pay bargaining system for some nurses and teachers.

- **The increasing use of workers from abroad.** The NHS Trusts reported having serious problems with nurses, care/hotel staff and lower paid specialist staff such as physiotherapists and radiographers. As raising wages is not allowed, the NHS Trusts reported increasingly to recruiting from abroad. The NHS interviewee noted that staff from abroad are more willing to tolerate cramped living conditions than their UK counterparts, often sharing cramped accommodation with colleagues from their respective countries.
- **Recruitment and Retention payments.** Recruitment and retention salary points are now available for schools. These give headteachers the flexibility to award one-off payments to teachers who are considering leaving and can also help with relocation costs for teachers being recruited. However, in some areas these are not working as planned (ie being targeted at certain schools and individuals) but are instead being generally distributed as a pay increment available to all staff.
- **Expanded relocation packages.** The public sector is taking on an approach traditionally characteristic of the private sector, with relocation packages becoming fairly widespread and often surprisingly generous. More information on this has been provided in section 6.

Public Service Delivery

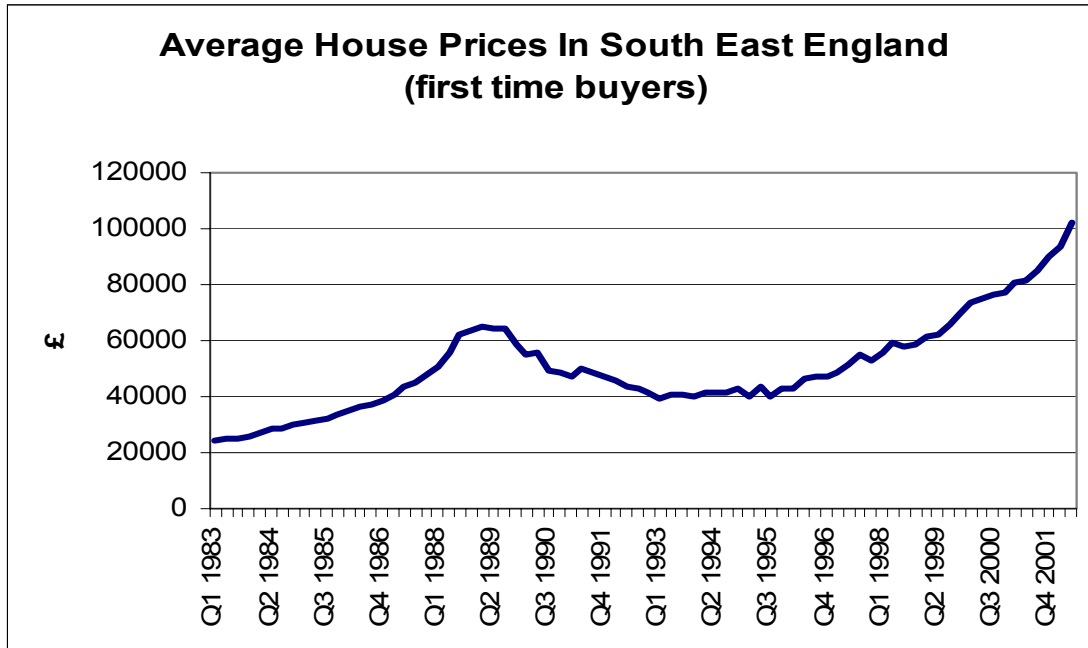
- 4.35 Public sector interviewees were asked whether their organisations were deferring, reducing or cancelling services in the South East due to problems obtaining or retaining suitable staff.
- 4.36 Our survey found that 31% of respondents believe that the quality of public services they are able to provide have been affected, whereas 65% believed that they had not and 4% were unsure. Of those who believed that services had not been affected, many interviewees mentioned that gaps in staffing were being plugged by more expensive agency staff or by overworking existing staff.
- 4.37 Interestingly, there was no clear geographical trend to these responses. Public service providers in higher price Band 2 locations reported public services being affected by labour shortages in only 13% of cases, whilst cheaper Band 3 and Band 4 areas reported labour shortages affecting services in 44% and 33% of instances respectively. In order to pursue this line of enquiry, attempts were made to correlate recent health service performance data to areas of high housing cost. No clear correlation could be made, suggesting that contingent issues around quality of hospital management might have more effect than local house prices on service delivery. However, problems could emerge in future as housing prices continue to bite.

Inflation

- 4.38 Perhaps due to the experience of the late 1980s house price boom, a significant proportion of the concern expressed by industry around the perceived lack of affordable housing in the South East tends to be around the fact that rising housing costs are inflationary.
- 4.39 Rising housing costs may be inflationary in two ways: firstly, employers may be required to pay more to their employees in order to allow their employees to keep up with these rising housing costs. This may generate an upward wage/price spiral, in which rising wages create rising prices, which in turn generates a demand for higher wages. Secondly, rising housing prices may stimulate feelings of increased wealth on the part of home-owners, generating an increased willingness to spend. This spending may be fuelled by housing equity withdrawals.
- 4.40 As stated previously, our survey showed that 10% of private sector employers had raised wages as a result of increased housing costs, which could in part contribute to inflation in future. Public sector employers have less freedom to alter wages, although as we have noted, there may be more flexibility in public sector pay structure than might be thought.

- 4.41 However, if this type of movement in housing costs does increase inflation, we should perhaps be seeing the effects already. Policy makers believe that inflation lags behind other economic movements by approximately 18 months. Given the long upward trend of housing prices in the South East, inflationary effects should have been feeding through to the marketplace for the last few years (see Figure 5).

Figure 5 First Time Buyer House Price Rises in South East England



Source: Nationwide Building Society

- 4.42 However, inflation is not currently a major concern for policy makers; the risk of deflation is perhaps of equal concern to the Monetary Policy Committee.
- 4.43 There are a wide number of reasons for current low levels of inflation. However, from our research, we can begin to speculate on why housing price changes seem not to be having an inflationary impact.
- Firstly, of private sector respondents to our survey who said that their costs were rising due to a shortage of affordable housing, 20% (only accounting for 3% of the 200 companies surveyed) said they could pass their cost pressures on to consumers. Any additional costs are therefore being absorbed by companies and are in this respect non-inflationary. Perhaps the concern heard from companies on this aspect of the affordable housing issue is in part related to the impact on company profits rather than the impact on "factory gate" prices.
 - Secondly, migrants and new entrants to the housing market are most affected by rising house prices. Most workers in the South East's economy have been resident in the South East for some time, and are not directly affected by rising housing costs. Indeed, given the current low interest rates, many are enjoying the lowest interest rates on their mortgages since the 1950s. Payments as a proportion of take home pay are therefore currently around 35% for a repayment mortgage compared with nearly 50% in 1982 and 44% in 1992¹².

¹² <http://www.nationwide.co.uk/hpi/quarterly/headlines.htm>

Commuting

- 4.44 Our survey asked both private and public sector organisations whether they thought that high local housing costs were contributing to a rise in extended commuting. Extended commuting was classed as over one hour duration.
- 4.45 The results are mixed and differ by employer location and by employee income level. 19% of private sector employers and 44% of public sector employers report that commuting journeys are extended due to high local housing costs.
- 4.46 Though no very firm trend exists, longer commuting patterns tended to be concentrated in areas of high housing cost. One company, for example, reported that one worker was making regular journeys from Bournemouth to the company's office in High Wycombe because local house prices were too high, stating that the rest of his staff were travelling to High Wycombe from Bicester and Banbury, approximately one hour's drive away.
- 4.47 In the public sector, the majority of interviewees reported that workers were travelling long distances at all wage levels, rather than the problem being confined to a particular wage level. In the private sector, a number of companies reported that problems were only occurring at particular wage levels, with the mid-management level experiencing the highest occurrence of long distance commuting.

24 **Table 4.7 Workers with long distance commutes (private sector)**

Wage levels of workers travelling long distances for work	Public sector employers with employees with long commutes		Private sector employers with employees with long commutes	
	% of those travelling long distances (actual number)		% of those travelling long distances (actual number)	
Lower	0%	(0)	19%	(7)
New graduate	0%	(0)	19%	(7)
Management	14%	(1)	24%	(9)
Senior	14%	(1)	5%	(2)
All levels	71%	(5)	41%	(15)

NB Percentages may not total 100 due to multiple responses

- 4.48 It is important to bear in mind that long commuting distances are not solely created by the lack of co-location of housing with employment opportunities. Research by the University of Newcastle has pointed out that there are a number of factors that induce individuals to travel further to their place of work.
- Dual career couples seek locations which give partners maximum locational choice of jobs, and partners are prepared to commute long distances as a result. The aspirations of both partners are best satisfied in large labour markets such as London and the South East, where the rate of movement of women into managerial jobs is high compared with other regions¹³.

¹³ Champion, Fortheringham, Rees, Boyle and Stillwell: The Determinants of Migration Flows in England July 1998 University of Newcastle p69

- Individuals are willing to commute longer distances for managerial positions. The higher up the occupational hierarchy, the more likely it is that a qualified person will move to find a suitable vacancy. These occupations are more common in the South East than in other regions of the UK¹⁴.

4.49 This work indicates that high housing costs near to centres of employment do not necessarily cause long commutes on their own: it is perhaps in the very nature of the South East as a high value modern economy to have to bear long distance commuting patterns.

4.50 The brief requires us to indicate the economic impact of high housing costs on congestion. This is difficult to quantify accurately. Prices have been put on extended commuting times by economists by calculating the number of hours lost to congestion and then pricing them at hourly earnings. In addition, travel may generate significant external social costs, such as congestion, pollution, greenhouse gas emissions, and a depletion of finite resources. The increased demand for travel which may be created by any increase in commuting therefore has results beyond that which can be readily measured by this study.

Economic Efficiency of Business

4.51 The brief requires us to indicate the impact that increased housing costs have on the efficiency of businesses.

4.52 Ultimately, higher housing costs may contribute to an increased cost of labour. Some companies are able to adjust to this increased cost of labour by substituting capital for labour or substituting one type of labour for another.

4.53 Whilst we have not collected information on efficiency directly, our survey has asked questions of companies' responses to rising housing costs. We have collated information which indicates that capital has been substituted for labour in a small number of cases.

- 12% of all private sector respondents and 25% of companies affected by housing costs reported investing in capital goods in order to reduce their demand for people. There is evidence that this can also take place in people-intensive service industries where it is commonly thought to be difficult to substitute labour for capital. For example, evidence from the hotel sector shows how the need for kitchen staff has been reduced by investment in a large steam oven which can heat pre-prepared meals for a large quantity of people. The hotel manager stated that this represented a significant improvement in efficiency.
- The survey also indicates that the management of some companies are substituting types of labour. This allows them to continue operating efficiently in times of local labour shortage. For example, the hotel trade reports finding it difficult to source workers locally given tight labour markets and high housing costs. Interviewees report a substitution of overseas workers for UK workers in some lower-added value positions. In these instances overseas workers are recruited over the internet, and given living accommodation in a designated staff block. This is an attractive package for many young people from overseas, particularly Canada, South Africa, Australia, Spain and France. Non-English speakers are provided with free English lessons. Interestingly, there could be considerable soft cultural benefits to the UK through having foreign young people working in the UK and learning English that should not be overlooked.

4.54 However, these adjustments are not always available. Research in Cambridge has shown that some industries, such as the care industry, find it practically impossible to substitute capital for labour. Wage

¹⁴ Champion, Forthringham, Rees, Boyle and Stillwell: The Determinants of Migration Flows in England July 1998 University of Newcastle p77

rates in these industries may need to rise to compensate for higher living costs without any expectation of an efficiency increase¹⁵.

- 4.55 Attempts to triangulate this data using the LLSC survey are perhaps made difficult by the unevenness of LLSC statistics. In the LLSC survey, only 10% of SE employers said they used new technology as a substitute, and was marginally higher in England at 11%. This correlates closely with the RTP figure of 12%. However, the LLSC survey found that a remarkably higher 30% of employers in Milton Keynes, Oxfordshire and Bucks reported substituting capital for labour.

Business Migration

- 4.56 Concerns have been expressed that rising housing costs in the South East will cause the region to lose competitiveness, causing companies to relocate both nationally and internationally. Historically, there is evidence for this process taking place, with research indicating that the late 1980s boom period saw an outward shift of people and firms in search of cheaper locations and less congested environments¹⁶, although this survey indicates that conditions might be different this time, perhaps due to the very fact of the late 1980s shake-out.
- 4.57 Business location decisions are taken on the basis of a number of factors, including the skills of the available labour force, site operating costs, and the value of output. Location decisions are often the result of a trade-off between these factors, with different companies arriving at different decisions depending on their particular industry (for example, logic suggests that those kinds of business use a large amount of land should be more susceptible to higher site costs, whilst those which require a skilled labour force will focus on available labour).
- 4.58 In this respect companies can be very broadly divided into two groups: companies that are geographically footloose (which could operate happily outside the South East) and those which require a presence in the South East for the health of their business.
- 4.59 Our survey found that only 10% of private sector companies surveyed had looked into the possibilities of relocation outside the South East due to high housing costs. This figure suggests that the majority of companies in the South East are not geographically footloose. Interestingly, companies reporting recruitment difficulties were no more likely to be considering relocating than those companies not reporting recruitment difficulties. Our survey therefore suggests that for many businesses, the locational advantages of the South East (access to knowledge clusters; access to high quality labour pools; access to key infrastructure; proximity to Europe) outweigh the costs of doing business in the region. A number of examples are available.
- **Airport-related businesses:** we found a number of instances of companies, particularly in transport and distribution, depending for at least some of their livelihood on airport-related trade. These companies were resigned to paying what they perceived to be higher costs nearby the airport because the alternative - moving out of the area - would mean a substantial loss of airport-related trade.
 - **Research:** research-led companies in Oxford are highly sensitive to location. One reported being willing to pay a high price for an Oxford address that establishes the company's credentials around the world; another stated that they would not move due to the value of the proximity of other cluster companies; and a third stated that they were looking to move, but would not move further than 30 miles as they wished to stay in touch with the cluster.

¹⁵ p14 Monk, Morrison, Smith, Stubble and Whitehead: *Research into Key Worker and Affordable Housing in the Cambridge Area Research Report V 2002*

¹⁶ P86 Champion, Fotheringham, Rens, Boyle and Stillwell: *The Determinants of Migration Flows in England* July 1998 University of Newcastle. For DETR. July 1998

- **Pharmaceuticals:** The locational advantages for some businesses are so strong that they are willing to move from low priced housing areas in the South East to higher priced ones: for example, it is a matter of public knowledge that Pfizer has recently completed a new facility at Walton Oaks, near Reigate in Surrey. This facility will house 600 staff, 200 of whom have been relocated from the comparatively low-cost area of Sandwich in Kent.
- **Business services:** one company in High Wycombe noted that although the company was suffering from tight labour markets and high local costs, the business would not move from the South East because the company wished to be near to its key market. The interviewee did note, though, that the advantage of being in the South East was diminishing.

4.60 Our survey shows that there are companies who are considering moving. For such businesses, cheaper areas *are* more profitable. Our survey indicates that these businesses tend to be in the more cost-sensitive mature markets:

- **Manufacturing:** one manufacturer in Reading strongly agreed that housing had a negative effect and recruitment was a problem across the board in most salary ranges. The company decided to relocate the engineering department to the Midlands expecting rent and labour rates to be cheaper. Staff were offered relocation packages or redundancies.
- **Engineering:** one engineering company stated that “skills shortages are exacerbated by poor local transport making our catchment area quite small. Housing costs will definitely have a long term effect on salary expectations in the area impacting our competitiveness which will accelerate any decision to move manufacturing to a low cost country.”
- **PC manufacture:** due to the tight labour market, one PC company’s representative stated that new employees were generally being taken on at the company’s offices in the South of France. The interviewee stated that it would also be expanding “in Romania, or somewhere similar.”

4.61 The loss of these companies may represent real damage to the South East economy. But this can be of positive benefit to the economy for the following reasons:

- Any businesses finding success in the South East will axiomatically be in higher value-added industries in order to bear the extra costs, meaning that the remaining businesses are likely to be more productive and better paying, generating a higher tax base and level of prosperity.
- The out-movement of unsuccessful businesses will free resources for those companies who do find positive benefit in doing business in the South East.

Business Expansion Decisions

4.62 Concerns have been expressed that high housing costs will reduce companies’ ability and willingness to grow.

4.63 This survey found that 6% of all private sector businesses surveyed and 13% of companies affected by housing costs stated that they were deferring or cancelling investment in their companies due to rising costs or a lack of competitiveness.

Loss of Inward investment

4.64 Inward investment has been important to the recovery of the UK economy in recent years. The UK has been very successful in attracting this investment, gaining a substantial proportion of the investment received by the EU.

- 4.65 It has not been possible to determine the effect of house prices on inward investment yet to take place through this survey due to our lack of contact with managers with these types of investment decisions to take.

Neighbourhood Effects

- 4.66 The concept of “neighbourhood effects” has come to the fore through the work of the Neighbourhood Renewal Unit. Neighbourhood effects may be defined as independent, separable effects on social and economic behaviour that arise from living in a particular neighbourhood. This work offers the view that living in a neighbourhood which is predominantly poor is itself a source of disadvantage, pointing out the fact that deprived neighbourhoods are subject to a number of self-reinforcing negative effects around low income, poor public services and a poor environment.¹⁷
- 4.67 Recent research from the University of Glasgow has indicated the importance of breaking up blocks of social tenure and low income in order to dissipate neighbourhood effects. High housing costs in popular areas of a town or region can force “pioneers” into cheaper neighbourhoods or estates that would previously not have been considered desirable residential locations. Research has indicated that the wealth and social capital that the migrants bring can have a positive effect on deprived areas through the reduction of neighbourhood effects. This type of migration is not as active during times of reduced housing demand.

Rural Affordable Housing Issues

- 4.68 The survey undertaken did not specifically seek to target rural companies. We were therefore unable to cover the issue in detail. However, one company in rural Oxfordshire stated that local house prices were becoming inflated by incomers from London, so reducing the number of workers available locally.
- 4.69 The issue of rural affordable housing is a live one and can be seen as linked to issues of rural economic development (through such mechanisms as a locally based rural community supporting local shops and pubs). Rural affordable housing issues are often as much social as economic in nature, often being more about maintaining community cohesion than forming part of a response to economic conditions. In that sense they therefore fell outside our particular remit.
- 4.70 Some of the unintended consequences of such policies may be less positive economically. A local connection requirement on nominations to some housing in rural areas has been made in order to ensure that local people benefit from local housing developments. However, this sometimes means that labour market inflexibilities are created. A JRF study stated that “Benefits in terms of links to the local labour market were less obvious... in a small number of cases, the requirement to demonstrate a local connection before being allocated housing had prevented work-related allocations or transfers.” Rural housing also served to build long commutes into working patterns. The JRF found “a widespread acceptance of substantial commuting as a normal feature of employment in contemporary rural areas”.¹⁸

Cyclical Housing Market Issues

- 4.71 One argument put forward by commentators is that the current problem with housing affordability is a cyclical problem that will automatically right itself. This could be through a fall in prices or through a period of slow price growth during which incomes grow faster than house prices.

¹⁷ Kintrea & Atkinson: *Neighbourhoods and Social Exclusion: The Policy Implications of Neighbourhood Effects*

¹⁸ Bevan, Cameron, Coombes, Merridew and Raybould: *Social Housing in Rural Areas* JRF/ Chartered Institute of Housing

- 4.72 First time buyers are critical to the housing market, forming an essential part of the “chain” that allows transactions to take place. Recent reports suggest that “the Halifax expects house prices to rise more slowly next year, by 8%, due to the lack of first time buyers, who are finding it increasingly difficult to afford property”.¹⁹ However, this housing price growth figure still remains far in excess of average earnings growth. Other commentators are predicting a fall in prices. Whilst a fall in house prices will improve affordability, history shows that significant house price falls do cause very real economic problems. The crash of the late 80s/ early 90s caused considerable labour market inflexibilities, with households being unable to move due to negative equity, and the associated loss of economic confidence had far-reaching effects on the wider economy.
- 4.73 The current view seems to be growing that current levels are unsustainable and that we will see a fall in values. Roger Bootle, UK economic adviser at Deloitte Touche, projects house prices to rise by about 20 per cent this year, and then fall by 5 per cent in 2004, then by a further 10 per cent in 2005. That would put house prices about 20 per cent lower than their peak, or about 10 per cent less than current levels.²⁰ Others believe that recent rises are sustainable as we move to a period of low global inflation.²¹
- 4.74 We cannot comment on the merits or otherwise of these arguments but would agree with the general point that house prices are determined by a broad number of factors, including but not limited to housing supply. We would therefore tentatively suggest that increasing housing supply alone is unlikely to make substantial changes to the price of housing in the South East, particularly in known “hot spots”. Such a view is proposed in the DoE report *The Relationship between House Prices and Land Supply* (1992) found that even during times of prompt land release during the 1980s, the increase in supply had not had a measurable impact on prices, as demand had always exceeded supply. Additionally, the research showed that price inflation in specific areas (such as the South East) could not be addressed by land releases outside the region, due to very weak substitutability between regions and even sub-regions. The paper found that ‘the extent of additional land release required to have a significant downward effect on prices was far in excess of levels of provision currently envisaged’ and only a sustained policy change would have an impact on prices. Although a critic of planning restrictions, Prof Paul Cheshire has made the point that “because new development is but a small fraction of supply and expectations would take time to adjust it would probably take 50 years of a less restrictive policy to get the housing market back in balance”.²²
- 4.75 The Surrey LGA Housing Report makes a similar point. It states that even meeting the RPG requirement of 2360 dwellings per year in Surrey up to 2016 will increase the amount of housing by less than 1% each year. The report states that “this re-affirms the local authorities’ view that, in Surrey, it is not necessarily the number of new house that are built that is important, rather it is the type of new houses that matters. A greater proportion of any new houses built must be affordable to key workers and meet the needs of those requiring social housing”.²³
- 4.76 Equally, though, even if all new houses built were affordable this may not have a significant effect on price. There are structural changes in the market that may militate against that, including the emergence of “mass affluence”, delay of first children, the attraction of the South East to dual income couples and social polarisation. These variables have been explored further in the appendices.

¹⁹ “Homeowners may face spectre of repossession” Financial Times 31 July 2002

²⁰ “Forecasts diminish hopes of a soft landing” Financial Times; Jan 06, 2003

²¹ FDPSavills July 2002 Market Comment: House Prices - Boom, Bust or Something More Mundane?

²² Cheshire and Sheppard: *Building on Brown Fields – the Long Term Price We Pay*. This was a popular dissemination paper sourced from the Professor Cheshire.

²³ p13 Surrey LGA: Housing to underpin economic success Sept 2001

Labour Migration

- 4.77 There is likely to be a substantial impact on migration patterns following the building of a large number of new homes in the South East. SEEDA may wish to consider the likely migration effects of any building programme proposed as a (partial) solution to housing affordability problems.
- 4.78 A University of Newcastle review of research for the DTLR showed that migration within a county is significantly and positively associated with the completion of new private housing. Modelling of net migration at District level in England has demonstrated a strong positive relationship with scale of new private housing completions, suggesting that net in-migration rates are highly responsive to the release of housing land by the planning system though this analysis perhaps underestimates the linkage between jobs growth and associated housing provision.²⁴
- 4.79 Research has indicated the types of individuals more likely to migrate:
- **Migrants tend to have higher than average income levels:** groups typified in studies as “service class” and “managerial and professional” exhibit inter-regional migration rates 50 to 90% higher than the average. By contrast, the manual occupations (“blue collar”, “crafts, skilled and manual” and “plant and machine operatives”) have inter-regional migration rates only 50% of the average. Other non-manual occupations have rates just below the average. The reasons for these differences is thought to be that the higher up the occupational hierarchy, the more likely it is that a qualified person will have to move to find suitable vacancy.²⁵
 - **Migrants tend to be middle class:** net migration from north to south involves mainly young adults coming from professional and managerial families and destined for occupations similar to those of their parents.²⁶
 - **Migrants tend to have higher than average education levels:** Intra-regional migration rates are around twice the average for those with degree or higher degree qualifications, while they are much lower for those with only school qualifications.²⁷
 - **Migrants are likely to be young:** Age is a surrogate indicator of the “life career” (a combination of work, family and other activity careers). Migratory behaviour peaks at the age of 22, descending through the 30s and reaching a low point in the mid 60s. Migration then picks up as elderly individuals move to be near relatives or move into care²⁸.

Labour Market Flexibility

- 4.80 SEEDA may wish to consider the effects that developments in housing provision will have on labour market flexibility. A debate exists around the types of tenure most likely to contribute to labour market flexibility. Extensive research into this area has been undertaken by others.
- 4.81 A review sponsored by the DETR found that some researchers had argued that the management of public housing discouraged the migration of tenants over long distances. This tenure is dominated by manual workers and, while the allocation system allows for relocation within local authority districts as

²⁴ p89 Champion, Fotheringham, Rens, Boyle and Stillwell: The Determinants of Migration Flows in England July 1998 University of Newcastle. For DETR. July 1998

²⁵ P77 Champion, Fotheringham, Rens, Boyle and Stillwell: The Determinants of Migration Flows in England July 1998 University of Newcastle. For DETR. July 1998

²⁶ ibid P58

²⁷ ibid P64

²⁸ ibid P64

the tenants circumstances change, it is difficult for tenants to move between local authority districts as preference is given to people for the local area already on the waiting lists. Research by the IPPR found that once allocated to a social property “moving to another can be a long and difficult process.”²⁹ Minford et al (1987) argued that unemployment was half a million more than it would otherwise be because of the inability of council tenants to undertake employment related migration. However, other researchers had found that public sector housing as a barrier to mobility varied by region. Relaxing the administrative constraints on moves between local authority districts may have promoted mobility as much as the more wide ranging measure of implementing the right to buy.³⁰

- 4.82 Some researchers argue that it is owner occupied, rather than social housing, that is emerging as the major barrier to labour mobility, particularly for those in the secondary labour market. ³¹ Current levels of housing costs in the South East may be locking low levels of migratory behaviour into the economy. Champion et al believe that it has generally been shown that there is a negative relationship between regional house prices and migration in Britain, and describe a “mobility trap” characterised by a) home owners from outside cannot afford to move in b) South Eastern homeowners reluctant to move out because they will not be able to move back. Once property prices began to fall, people were reluctant to move into the area because investment in property seemed unwise the down-turn in market activity made it difficult to sell.
- 4.83 On balance, the DETR study found that privately rented property remains the tenure which provides the most flexibility of inter-regional migrants. Places with high proportions of this type of housing may attract people from longer distances than average³².

²⁹ p 29 Regan, Patrick: Squeezed Out – Choice and Affordability in Housing IPPR 2001

³⁰ p87 Champion, Fotheringham, Rens, Boyle and Stillwell: The Determinants of Migration Flows in England July 1998 University of Newcastle. For DETR. July 1998

³¹ ibid p90

³² ibid p103

5 EMERGING INNOVATIVE PRACTICE

Introduction

- 5.1 The brief required the study to identify good practice in responding to affordable housing issues across both the public and private sector. A number of changes to planning policy and to public and private sector management approaches have been found.

Emerging Planning Practice

- 5.2 Housing for key workers is very much an emerging issue. Many county and district councils are still at this research stage, undertaking housing needs surveys, economic studies and consultations in order to determine the level and type of housing need and how it can be addressed. This is in accordance with PPG3 (2000) which requires local authorities to assess housing need and to take it into account when preparing development plans, and with the Local Government Association's report 'Key Workers and Affordable Housing' (2002) which suggests that any need for key worker housing should be identified and defined separately from other affordable housing.
- 5.3 Where councils have produced new policies (either as part of their local plan reviews or as separate supplementary planning guidance) these tend to:
- define key workers as public sector workers - more specifically as teachers, nurses and police;
 - view low cost home ownership as the most appropriate tenure to meet the needs of key workers and;
 - require key worker housing in addition to social rented housing.
- 5.4 Increasingly, affordable housing is delivered through the planning system, using Section 106 agreements.
- Affordable 'low cost' rented (as opposed to social rented housing) and which does not attract public subsidy, is provided by RSLs and also by private companies, who are often keen to have key workers as tenants. The type of product delivered tends to be "super-student" accommodation, i.e. bedsits with shared living areas. One popular mechanism for delivering this type of housing is through the purchase of large street properties for conversion although we did come across a handful of new build schemes. The willingness of RSLs and private developers to enter this market is strengthened by an employer's ability to underwrite the occupancy of the units provided, suggesting that the market is still seen as more risky for the provider.
 - Low cost home ownership (e.g. shared ownership and variants of equity share), however, can attract public subsidy. These homes are provided through the Government's Starter Homes Initiative and the low cost home ownership programme managed by the Housing Corporation (and more recently the Challenge Fund). Additionally developers can provide low cost sale (without subsidy) and often are keen to do so as part of a mixed tenure development delivered through a S106 agreement.
- 5.5 It will be important to ensure that the affordable housing delivered is of the right type to meet the needs of key workers. Much of what is being delivered is social rented housing, critical for meeting the needs of those in greatest housing need but not necessarily delivering the kinds of products which key workers want – research by the IPPR found that all homeowners in their focus groups wanted to continue to be

homeowners and most of those renting privately also wanted to move to home ownership.³³ We have already seen that public subsidy is targeted towards social rented housing (less than 20% of units funded in 2000/01 were for low cost sale). The SHI partly redressed this but the overall affordable programme is likely to retain its emphasis on social rented housing. Delivering affordable housing to support the economy of the region will require a diverse range of housing products with or without some element of public subsidy.

Public Sector Innovative Practice

5.6 The public sector in the South East is responding to the lack of affordable housing in a variety of ways; some of these are detailed below:

- **Expanding Section 106 provision – Oxford City Council**

Until relatively recently, Oxford did not have a target for the proportion of affordable housing built. However, Oxford's Supplementary Planning Guidance now requires 50% of new housing development to be affordable, with an additional 20% to be set aside for key workers. As the structure plan housing requirement has already been met in Oxford within the first third of the plan period, it is considered that the main aim of housing now built is to meet need. These targets were informed by the Council's housing needs survey carried out in 1998 and by consultation with RSLs. Similar moves have been made in a number of areas in the South East and in many London Boroughs.

- **Key Worker Housing Strategy – Crawley Borough Council**

In Crawley a housing strategy for key workers has been produced, which defines key workers as workers in both public and private sector whose jobs are important to the local economy and/or represent essential services to the local community. This covers a wide range of employees including those in the transport, hotel and I.T. industries, although it is recognised that different types of these key workers will have different needs.

- **Providing assistance for new employees to purchase property – Fareham Borough Council**

Fareham Borough Council have a housing support scheme whereby new employees moving from lower cost areas and purchasing property within a 10 mile radius of the Civic offices are offered assistance purchasing the property. Employees can claim a monthly allowance for the first three years of their employment at the Council. The allowance is based on the difference in the average price of the type of dwelling previously occupied in the area of origin and the equivalent dwelling in the South East region.

- **Improving Relocation Packages – Wycombe District Council; Chichester District Council**

Wycombe District Council offers relocation packages of up to £8,000, whilst Chichester District Council is offering a relocation package of £5,400.

- **Providing affordable rented homes for teachers – Hampshire LEA; Brighton and Hove LEA**

This area of effort particularly concerns Newly Qualified Teachers (NQTs) emerging from university PGCE Courses. Hampshire LEA is working to place NQTs in rented Council, RSL and MoD properties. In Brighton, the LEA has set up a House Share Forum to enable teachers who own properties to rent rooms to other teachers.

³³ p11 Regan, Patrick: Squeezed Out – Choice and Affordability in Housing IPPR 2001

- **Recruitment Fora – Southampton LEA; Elmbridge Borough Council**

Southampton LEA has set up a Recruitment Steering Group, consisting of representatives from schools, unions, the LEA and the Inspectorate, to deal with recruitment issues including housing. This forum generally works as a sounding board for new policy ideas and as a feedback mechanism that allows problems and solutions to be communicated around the group. Elmbridge Borough Council has set up a Key Worker Forum, which brings together local employers, service providers and RSLs, to consider the needs for and availability of suitable accommodation for key workers in the Borough.

- **Working with private sector developers - NHS Hospitals Trust, Surrey**

One NHS Hospitals Trust in Surrey has appointed a housing co-ordinator, who is working with Berkeley Homes to provide 80 units of rental accommodation for key workers.

- **Estates rationalisation – UK Atomic Energy Authority (UKAEA) and Qinetiq**

UKAEA, a Government agency which owns the Harwell Business Park near Didcot, have secured planning permission for 300 homes on a vacant part of the site. Some of these are likely to be developed by a housing association and secured as affordable homes for workers at the business park.

Qinetiq is the commercial wing part of the Government DERA Defence Research laboratory. The organisation is currently under public ownership prior to privatisation. The organisation has sites in Farnborough, Bromley, Chertsey, West Drayton and Sevenoaks that are currently being rationalised. Qinetiq's Sevenoaks site currently contains 68 houses, with a number being occupied by workers at the defence labs. Housing uses for the site are being investigated, with provision being made for key worker housing.

- **Working with private sector landlords – Sevenoaks District Council**

Sevenoaks District Council has set up a Landlords' Forum. The Forum works to exchange information in order to encourage private landlords to rent to individuals on the Council's waiting list.

- **Providing loans for tenants – West Kent Housing Association**

The West Kent Housing Association in Sevenoaks have set up a scheme providing loans to cover the deposit and rent in advance required in order for people to enter the private rental sector.

Private Sector Innovative Practice

5.7 Our research has clearly shown that it is the public sector which is in the lead in delivering affordable homes for their key workers. They have the advantage of being able to 'underwrite' occupancy and in some cases have their own land-holdings and property which they can use for the purpose. Although a proportion of the private sector employers interviewed related their recruitment problems to high housing costs, few were addressing the issue through direct action to deliver more affordable housing. We have, however, identified some examples of innovative practice:

- **Guildford Business Forum**

Guildford Homes Partnership has already provided 500 affordable rented homes for students and public sector workers. In response to the identification of high housing costs as a major barrier to private sector recruitment in Guildford, the Council is keen to provide affordable rented homes for

private sector workers and is working with RSLs and the Guildford Business Forum to achieve this. The scheme will enable homes to be provided without any subsidy and without management inputs from employers. The Council and Business Forum made a presentation to the Housing Minister in October and then held some short workshops for local businesses, to discuss how the scheme could be taken forward. SEEDA may wish to undertake a detailed evaluation of this work. If successful, the scheme could be replicated in other areas of the South East.

- **British Airports Authority with Airways Housing Association**

BAA is currently working with Airways Housing Association on a scheme to provide affordable rented housing for the engineers and technicians who will work on the construction of the new Heathrow Terminal 5. Approximately 200 beds will be provided, within 100 units; these will be a mixture of 1, 2 and 3 bedroom flats and houses which will be shared. They will be spread across a narrow area – some will be existing properties and others will be new build. After the construction phase (estimated to last 5-8 years), BAA will retain nomination rights for some of the homes and for others, nomination rights will be handed to Hillingdon Council as part of an agreed community package. BAA is providing £2.5m in subsidy for this scheme.

Responsibility for this approach can be jointly apportioned to BAA and to Hillingdon Council. When planning permission was granted for Terminal 5, BAA had no formal responsibility to provide a community package but was willing to enter into talks with Hillingdon with a view to making some sort of community offer. Out of these discussions, one issue that arose was that the people who would work on the construction phase would require accommodation and that this would put pressure on the local housing market. The resulting scheme alleviates this pressure and provides a benefit, in the long-term, to the community.

- **Runnymede Employers**

Research carried out for the Runnymede Key Workers Strategy indicated that a number of employers might be prepared to contribute towards the cost of housing within the Borough. Apex Housing Group currently provides such schemes for the Police and it is proposed to develop a scheme with the group for consideration by the Housing and Community Services Committee. Any schemes developed would be publicised through the Runnymede Business Partnership.

- **Logica UK – Home Purchase Plan**

Logica provides help both to employees entering the housing market for the first time and to existing home owners looking to move house. Employees have the option of opting out of the company pension scheme for a maximum of 2 years, during which time, the company and employee each contribute 8% (taxable) of the employee's basic annual salary into a savings fund which is then invested. Savings are to be used on housing deposits.

- **Bus Company**

A bus company we interviewed owns two properties which are rented, as shared accommodation, to single bus drivers.

- **Hotel industry**

As noted earlier, the hotel industry across the South East has traditionally provided an element of on-site accommodation for employees. This tends to be shared, rented accommodation and is often provided in response to the fact that hotel staff are often recruited from abroad. A hotel reported that they currently provide accommodation for staff in three houses, and would consider

purchasing another house if there are further recruitment problems. We came across a number of similar examples.

6 ACCOMMODATING FUTURE DEMAND

Introduction

- 6.1 We now turn to the future and ask if there will be a better match between economic needs and the supply of affordable housing. If economic growth in the South East is not to run up against supply constraints, then it will be important that enough affordable housing is delivered in the places which need it. This section reviews the prospects for economic growth and population increases and compares these with potential delivery of affordable housing.
- 6.2 It should be noted that this section of the report is a brief overview of what is a very complex picture. It is not intended to be a substitute for a proper study looking at the location of housing development in the context of housing and population growth.

Location of Future Demand

- 6.3 The following data is taken from a study carried out for SEEDA by Business Strategies Ltd. Business Strategies used a trend-based methodology that did not take account of structure plan housing requirements.

Future Economic Growth

- 6.4 The South East is likely to be the fastest growing UK region between 2000 and 2010, with GDP increasing by an annual average of 3.2%. BSL forecasts average annual UK growth of around 2.7% over this period. As a result, the South East is expected to account for 15% of UK GDP by 2010.
- 6.5 Forecasts indicate that the region's most currently successful areas will continue to outpace others. Berkshire is forecast to be the fastest growing county in the South East, in terms of GDP, between 2000 and 2010, with a forecast average annual growth rate of 4%. Surrey (3.5%) and Buckinghamshire (3.4%) are also forecast to exceed the South East average. The Isle of Wight is likely to experience the slowest GDP growth in the South East between 2000 and 2010, growing by an estimated annual average of 2% per year over this period. Kent (2.4%), East Sussex (2.5%), Hampshire (2.9%) and West Sussex (3%) are also likely to grow more slowly than the South East average over this period.

Table 6.1 South East GDP by County (current prices)

County	1999 GDP per head (£000s)	2010 GDP per head (£000s)	GDP per head % change (1999-2010)
Berkshire	19.8	35.2	78%
Surrey	16.9	29.6	75%
Buckinghamshire	15.5	26.1	68%
Oxfordshire	14.6	24.1	65%
South East	14.4	23.7	65%
West Sussex	14.1	22.8	62%
Hampshire	14.5	23.4	61%
Kent	12	19.2	60%
East Sussex	8.9	13.7	54%
Isle of Wight	8.6	12.9	50%

Source: BSL 2001

Future Population Growth

- 6.6 This economic growth ranking is not translated into a similar ranking for population growth. Surrey, for example, finds itself near the top of the growth league but towards the bottom of the population forecasts. This indicates that either productivity must rise in Surrey or that there will be substantial in-commuting.

Table 6.2 South East Population Growth by County

County	1999 Population (000s)	2010 Population (000s)	% Population Growth change (1999-2010)
Berkshire	809.7	887.4	10%
Buckinghamshire	689.3	756.2	10%
West Sussex	758.7	823.8	9%
East Sussex	753.4	816	8%
Oxfordshire	623.3	671	8%
Hampshire	1657	1776.1	7%
South East	8066.9	8636.2	7%
Surrey	1067.5	1120.9	5%
Isle of Wight	127.4	132.2	4%
Kent	1580.6	1633.2	3%

Source: BSL 2001

- 6.7 If the need for affordable housing 'follows' population, then it will be Berkshire, Buckinghamshire and Sussex where the pressure will be greatest and as we have seen already, at least for the first two, affordability is already heavily stretched. At the other end of the scale, Kent's population is growing most slowly, and affordability is less of an issue, at least in the east of the county. However, in the real world this is far from being the whole story and completely ignores supply side issues. The ability to deliver affordable housing will be affected by the overall supply of housing planned for and achieved in an area, particularly as affordable housing delivery is increasingly reliant on market led schemes and the use of planning obligations. In turn, the ability of market led schemes to provide affordable housing will be influenced by the economics of development and the availability of public subsidy.

Housing Supply

- 6.8 Regional Assembly housing completion statistics show that during the 1990's the average rate of housing completions in the South East was 26,900 dwellings per annum. Although the data for the decade is characterised by relatively small annual increases and decreases, since 1997/98 the regional trend has been downwards, and in 2000/01 housing completions totalled just 23,100. The most recent data relates to the year immediately preceding the publication of RPG 9 and is significant because it demonstrates how the region was performing at the start of the new RPG 9 period. The region as a whole will have to increase annual completions by over 5,000 dwellings (or more than 20%) before it starts to achieve the new RPG rate (28,000 per annum). In some structure plan areas the percentage increases required are very much higher; in 2000/01, only two areas providing housing at the rates now expected of them. It is worth noting that the annual average rate of completions now identified in RPG 9 was only achieved four times in the South East in the 1990s.

Delivery of Affordable Housing

- 6.9 The Regional Assembly generally quotes a figure of 11,500 to 12,000 affordable houses to be built per annum in the South East, based on the indicative figure for the Rest of the South East in RPG 9. We do not have information which provides a direct comparison between actual affordable housing completions and the "indicator numbers" derived from RPG9. However, Housing Corporation figures for 2001/02 show that there were 5,800 affordable housing completions funded through public subsidy (Housing Corporation's Approved Development Programme, Local Authority Social Housing Grant and the Starter Homes Initiative), of which just under 1,100 were low cost home ownership (eg. on a shared ownership basis). A significant proportion (approximately 25%) of these 5,800 affordable homes were the purchase of existing properties, and which therefore do not add to the total housing stock (the figures in RPG 9 relate to net additional dwellings).
- 6.10 We can reasonably assume that other affordable homes were delivered without public subsidy but we would not expect this to be a large number. It therefore seems that the amount of affordable housing being delivered now is well adrift of the indicators quoted by the Regional Assembly, and may be as little as half of those set out in RPG9. Indeed the Regional Assembly's own monitoring work suggests the position could be even worse. Although data is not available for the whole region, that which is available suggests that only 16 per cent of additional homes provided in the South East fall within the regional definition of affordable. This is equivalent to around 3,700 affordable homes each year.
- 6.11 Research has shown that an increasing amount of affordable housing is being delivered through the planning system and that sites developed entirely for affordable housing (with or without subsidy) are diminishing in importance³⁴. An informal survey of local authorities carried out by the Housing Corporation estimated that at least 25,000 affordable housing units could be delivered through the planning system (i.e. through Section 106 Agreements) in the future. It should be stressed that the response from local authorities was only 60% with 11,000 of these units classified as 'timescale not known'. The survey did reveal the potential for increasing supply in the short term with a figure of approximately 2,000 units estimated to be able to be delivered in 2002/2003, increasing to an estimated 8,000 in 2004/2005. Provision of affordable housing to these levels would be very much dependent on other factors such as the provision of the necessary associated services and infrastructure as well as sufficient public subsidy being available.
- 6.12 Information on the potential future supply of affordable housing below the regional level is not available. Therefore we cannot make a ready comparison between the distribution of the future supply of affordable housing and places where affordability is a more critical issue (and where need for affordable housing is likely to be greatest.) However, if we make the very crude assumption that the amount of affordable housing delivered will be closely related to overall housing supply, a broad comparison can be made. The table below shows the annual average rates for total housing provision by 'county' from RPG9. This table would seem to indicate that in some of the areas where affordability pressure is highest, such as Oxfordshire and Surrey, potential delivery of affordable housing is likely to be much lower than in other parts of the region (e.g. Kent) where affordability pressure is generally less acute.

³⁴ For example, ENTEC, Three Dragons and Nottingham Trent University, Delivering Affordable Housing through Planning Policy, (for DTLR), February 2000

Table 6.3 RPG Annual Average Rate of Planned Provision – Post 2001

Area	Dwellings
Berkshire	2,620
Buckinghamshire	3,210
East Sussex	2,290
Hampshire	6,030
Isle of Wight	520
Kent	5,700
Oxfordshire	2,430
Surrey	2,360
West Sussex	2,890
South East	28,050

Source: RPG9

7 CONCLUSIONS

- 7.1 In drawing the threads of the research together we discuss the effects of an apparent lack of affordable housing in the right place, with the right product mix.
- 7.2 It is right for SEEDA to be concerned about the issue of affordable housing and its impact on the economy. Of concern is the idea that we may reach a point where competitiveness is affected to an extent that causes a relatively rapid change in sentiment towards locating business in the South East. It seems likely that a small number of companies currently working in the South East may cease trading or may be lost. However, we found that only 10% of private sector companies surveyed had looked into the possibilities of relocation outside the South East due to high housing costs. These problems do not currently seem acute, but may in the longer term cause gradual changes in business location decisions; some inward investment may also be deterred. However, at the moment, many businesses do seem to have these issues under control. As our research has demonstrated, the effects seem relatively mild, with 28% of private sector employers experiencing difficulty recruiting and only 12% of private sector employers believing that these difficulties could be related to housing affordability. However, the impact is not uniform across the region and is not uniform across all types of business and all 'grades' of workers. These effects are likely to continue to be uneven in nature, with some geographical areas and economic sectors more affected than others. The precise scale and magnitude of effects on both public and private sectors will predominantly be driven by the rate of change of housing market prices.
- 7.3 It would be wrong to conclude that the effect of failing to expand affordable housing will invariably be negative. On the positive side, high housing costs may work to demand innovative responses from company managers, so leveraging up the efficiency of companies. They may force low-added value companies out of business, ensuring that such businesses do not "crowd out" the more successful ones that derive more positive benefits from locating in the South East. And they may reduce "neighbourhood effects", as migrants and companies move into cheaper and less congested areas, bringing wealth and jobs.
- 7.4 Perhaps where the problem is more acute is in the delivery of community-related services. These are the services which cannot choose their location and have less room for manoeuvre in increasing productivity and/or pay to overcome staffing difficulties. Public services, especially those that rely on national pay bargaining, are likely to continue to be faced with the double problem of recruitment and retention of workers. It is this effect on public services, with the knock-on effect on the region's quality of life and (potentially) on economic growth, that seems to be the most troubling of the negative effects.
- 7.5 The effects of failing to get the location of new affordable housing right would be perhaps as significant as failing to build enough affordable housing. The South East has hotspots of high housing costs that will need particular housing investment if the more negative effects of a shortage in affordable housing are to be overcome or, at the very least, not to deteriorate further. Yet these are not the locations which the government has earmarked for growth in the South East - at Ashford, Thames Gateway and Milton Keynes. (The Stansted area is also expected to grow, but is in the Eastern region). Indeed, the Affordability Index shows that Ashford and Milton Keynes are among the least pressured areas in the South East. The delivery of large amounts of new affordable housing in these locations will not readily help problems of affordability in the 'affordability hotspots' (e.g. in Surrey and Oxfordshire) unless a degree of additional commuting is accepted. In any case the growth areas are intended to deliver jobs as well as houses and it is questionable that they will provide a significant supply of affordable housing available to meet needs from elsewhere.
- 7.6 Of equal importance to delivering the right amount of affordable housing in the right location is ensuring that the product mix is right. Where graduate recruitment is a particular issue, low cost rental accommodation may be the more useful product. But in the public sector (the sector worst affected by recruitment and retention problems) it is clear that the single category most affected by staff retention problems is the category of "manager" and others such as teachers moving into the time of life when

they wish to start a family. For this group, owner occupation is their preferred tenure and that the need is more for family type accommodation rather than 'super student' units. An understanding of the desire of most individuals to move from rented accommodation to private tenure will be important to create a regional housing strategy which delivers a coherent "housing ladder".

Recommendations

7.7 Finally we put forward a number of draft recommendations which flow from our study.

- **Increasing housing supply:** There are two linked issues here - increasing the overall level of house building to achieve the levels identified in the regional planning guidance and then ensuring that the affordable housing element of this is maximised. The Government's approach to ensuring that house building targets are achieved is hardening: the Deputy Prime Minister has stated that he will intervene if targets are not met. Whilst many authorities are pursuing active policies to maximise affordable housing numbers the statistics indicate that delivery across the region needs to be stepped up. SEEDA and the Regional Assembly should work together to consider whether the current affordable housing targets are sufficient to meet the requirements for those in housing need as well as key workers; that the economics of development and the real potential for cross-subsidising affordable housing through market housing development in the South East are properly understood; and that sufficient public subsidy is available where it is needed.
- **A more robust approach to Section 106 agreements:** A more strategic approach should be taken to Section 106 agreements. The system at the moment remains relatively haphazard, with wide variations at local level reflecting not only a reasonable response to local market conditions but also a differing commitment to ensuring that the social gains of development are maximised.
- **Defining key workers:** As we have concluded that the affordability problem does indeed impact on public services more than the private sector, the simple definition of key workers already identified through the Starter Home Initiative and Challenge Fund is not necessarily a bad one. But this definition may be too narrow for the hotspot areas where a wider range of 'public service' workers (bus drivers, care workers, leisure centre staff etc) needs to be included and where there is also reason to include some other private sector workers. As discussed, the ADP gives this flexibility, allowing the funding of other key worker groups where the necessary evidence and justification can be provided. Our view is that the definition of key workers should be flexible and should be defined on a local basis and by agreement with both the business community and public service providers. The example of the Guildford Forum is one of good practice which SEEDA should, in collaboration with the LEPs, be promoting. It will then be important to link local definitions of key workers into the planning system and into the investment plans of the Housing Corporation and locally active RSLs.

However, these recommendations should be caveated. If decisions regarding key worker status are to be managed effectively at local level, then it will be necessary to ensure that local structures are robust and transparent enough to cope with what may be highly contentious decisions to grant or deny key worker status (and consequent access to housing) to different individuals. It will also be important to build into the system an ability to review key worker status to respond to changing economic conditions, as labour shortages can be expected to come and go. Further, it will be critical to ensure that employers are not using the key worker status of their employees as a way of keeping workers' pay low, and so transferring their private salary costs onto the public sector.

SEEDA can play an important role in promoting these concepts and in working with the Housing Corporation to link funding and new development closely to locally defined needs.

- **Co-ordinating company needs:** Some companies are far more affected by a lack of affordable housing than others but their ability to deal with this on their own is very limited - they do not have the resources or the time to become house builders and housing managers. Again one of the solutions to this can come through the setting up of locally based fora which both identify and quantify local need then, working with the local authority and RSLs, can get developed the affordable housing which is required. SEEDA and the LEPs should be working to establish similar fora across the region.
- **Encouragement / pressure on efficient use of assets:** some local authorities and public sector landowners are taking highly imaginative steps to maximise the efficient use of their housing and land assets. But we believe that more could be done and that SEEDA could have an important role in lobbying and sharing innovative practice across the region. Good practice in this area could be publicised with research and seminars.
- **Ensure that new supply is in the right place:** As we have already commented, the new supply of affordable housing is not necessarily where pressures are most acute. There are no easy answers to this - often the areas of most need are also areas where policy is deliberately intended to restrict development. However, our analysis of the geographic spread of the affordability problem in the region provides SEEDA with information to help make itself an active part of this debate and to work with the Housing Corporation, Regional Assembly and GOSE and the local authorities to maximise delivery of affordable housing for key workers where it is most needed.
- **Understand which products are required:** It is centrally important that individuals get what they are looking for from their accommodation and that public investment is used efficiently. An understanding of the "life cycle" should be part of these considerations. Where graduate recruitment is a particular issue, low cost rental accommodation may be the more useful product. But it is clear that staff retention is often about the 28+ age group and that (affordable) owner occupation is their preferred tenure. This indicates the need for a regional housing strategy which delivers a "housing ladder".
- **Lobby for a more sensitive approach to pay weighting that reflects realities of labour market.** London weighting is to some extent distorting the South East's labour market. A more sensitive system is required that takes the South East's needs into account, perhaps by instituting a number of "weighting bands".
- **Continue work on skills and labour market participation rates.** Solutions to problems caused by a shortage of affordable housing need not relate to housing directly. Employers in both public and private sectors are often unconcerned with high housing costs. They are more concerned with the *symptoms* of high housing costs, which they see as a shortage of suitable labour. Much could still be done to alleviate these symptoms by boosting labour participation rates. (Whilst labour participation rates in the South East are high, there is still room to drive them higher – indeed, given the aging demographic profile, it could be an imperative). Efforts to boost participation rates can be justified both on the narrow grounds of economic efficiency (more economic growth can be accommodated from within the existing housing stock if participation rates rise), and can also be justified on social grounds: the historically high employment rates in the South East's economy present a real opportunity to break down the remaining social barriers to labour market participation, particularly those concerned with race, gender, age and parenting status.

APPENDIX 1

INTERNATIONAL COMPARISONS

SEEDA have established a list of international comparator regions for the South East. Like the South East, these regions have strong, knowledge-based economies with high GDPs. In respect to major cities they are well positioned, containing or adjacent to one or more. These regions are also subject to the same kinds of growth pressures that the South East faces. In an analysis of affordable housing, the comparator regions may provide viable international benchmarks.

It has not been possible to obtain house price to income ratios for the regions themselves. However, we have sought to make some kind of comparisons.

The Global Urban Observatory (GUO), however, collects information about housing costs and income in more than 140 cities worldwide. Some of these cities fall within the SEEDA comparator regions and can serve as rough approximations for the regions. Still, we would be unwise simply to compare our affordability index for the South East directly to the international data for several reasons:

- Due to urban housing pressures, the regional ratios should be lower than the urban ratios. The South East and each of the comparator regions have different relationships to their constituent and adjacent cities. We cannot estimate the regional ratios with any accuracy.
- The international data is based on median house price and median income. Our affordability index for the South East uses average house price for terraced/flats/maisonettes and average income. These two methods should be broadly comparable but will still have some discrepancies that arise from sampling and outliers.
- The international data relies on 1998 figures, while RTP's data uses 2001 figures. Again, the difference may not be prohibitive; but as the average house price in the South East rose 67% from 1997 to 2001, even small periods of time may skew the comparison.

The solution is to use the GUO's figure for London as an approximation for the South East. We can reasonably compare London to the other cities as a proxy for comparing the South East to the other regions.

Table 1 International Comparisons contains the data on those cities within the GUO database that correspond to a SEEDA comparator region, as well as the data for London. The comparator cities are ranked in descending order by house price to income ratio. For context we provide rent to income ratios and ownership rates where available. Relative to incomes, house prices are lowest in the American cities and highest in the Asian and European cities. London's ratio is higher than all but Amsterdam and Tokyo. It is curious that Amsterdam has the highest ratio. This extreme may be the result of a significant supply constraint in owner occupied housing. The low ownership rate in Amsterdam (13.9%) suggests as much.

Table 1 International Comparisons

City	Associated Comparator Region	SEEDA Region	House price-to- income ratio	Rent-to- income ratio	Formal Ownership Rate
Amsterdam, Netherlands	West-Nederland		7.8	17.5%	13.9%
Tokyo, Japan	Kanagawa		5.6	2.5%	
Cologne, Germany	Nordrhein-Westfalen		4.3		
Duisburg, Germany	Nordrhein-Westfalen		3.2		
Singapore, Singapore	Singapore		3.1	2.0%	93.4%
Boston, USA	Massachusetts		2.9	31.0%	60.1%
Hartford, USA	Connecticut		2.5	29.0%	66.3%
Washington DC, USA	Greater DC	Washington	2.3	26.0%	64.4%
London, UK	South East		4.7	15.6%	56.0%

Averaging the two figures for Nordrhein-Westfalen and including the South East in the ranking, we reproduce the house price to income ratios by region in Table 2. Despite the numerical inaccuracies, we can safely assume that the ordinal values are correct. By house price to income ratio, the South East ranks third out of eight international regions. Comparing these results with our own ratio of 4.3 for the South East, we note that this method of international comparison seems broadly valid.

Table 2 House Price to Income Ratio

Region	Proxy House price-to-income ratio
West-Nederland	7.8
Kanagawa	5.6
South East	4.7
Nordrhein-Westfalen	3.8
Singapore	3.1
Massachusetts	2.9
Connecticut	2.5
Greater Washington DC	2.3

APPENDIX 2

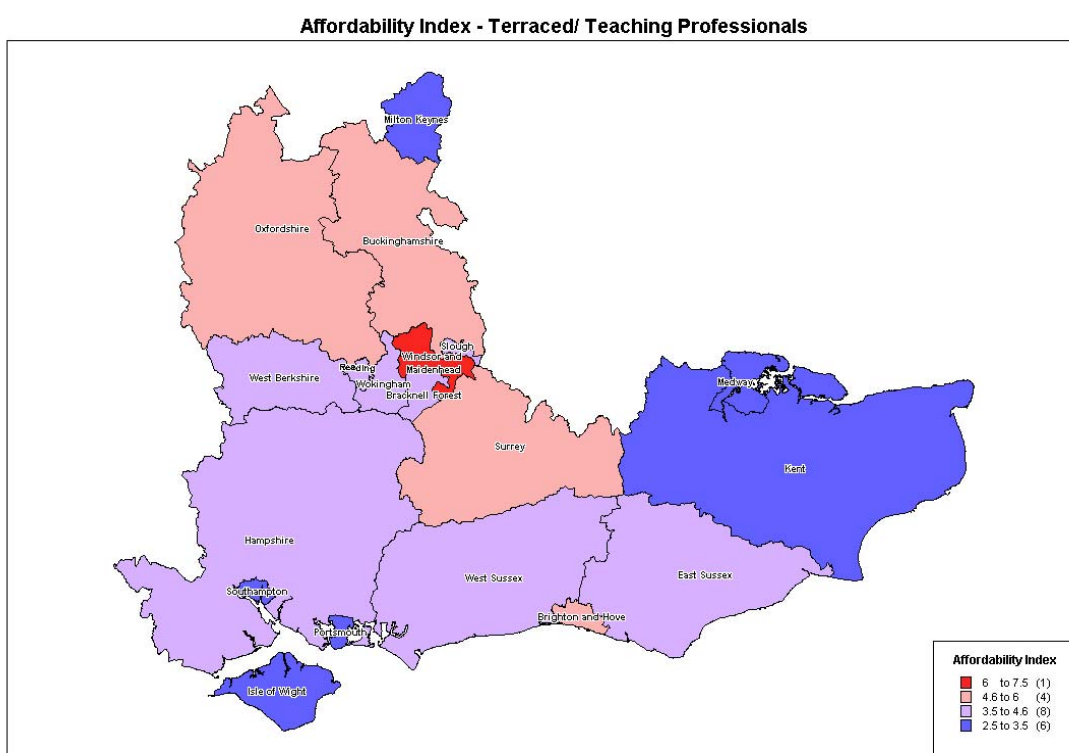
GEOGRAPHICAL DISTRIBUTION OF HOUSING AFFORDABILITY BY OCCUPATION

The following maps show housing affordability for teachers, health associate professionals, and industrial plant/machine operators. We base the index on average gross annual full time earnings by occupation provided in the New Earnings Survey. Owing to the small sample size for occupation earnings data at district level, we look at the trend by county and unitary authority area rather than districts.

Teachers

Map 5 shows the affordability index for the teaching profession at county and unitary authority level. In Milton Keynes, Portsmouth, the Isle of White and Kent, a teacher requires between 2.5 to 3.5 times their earnings to purchase a terraced property, making purchase of a terraced house in these areas relatively affordable. A standard mortgage loan will therefore be suitable for teachers wanting to buy and live in these areas. However, in all other areas the mortgage is likely to fall short. The main pressures are in areas where teachers' earnings multiples are greater than the average earner in the South East at 4.6 times, which is the case for Surrey, Oxfordshire, Buckinghamshire, the western part of former Berkshire and Brighton & Hove.

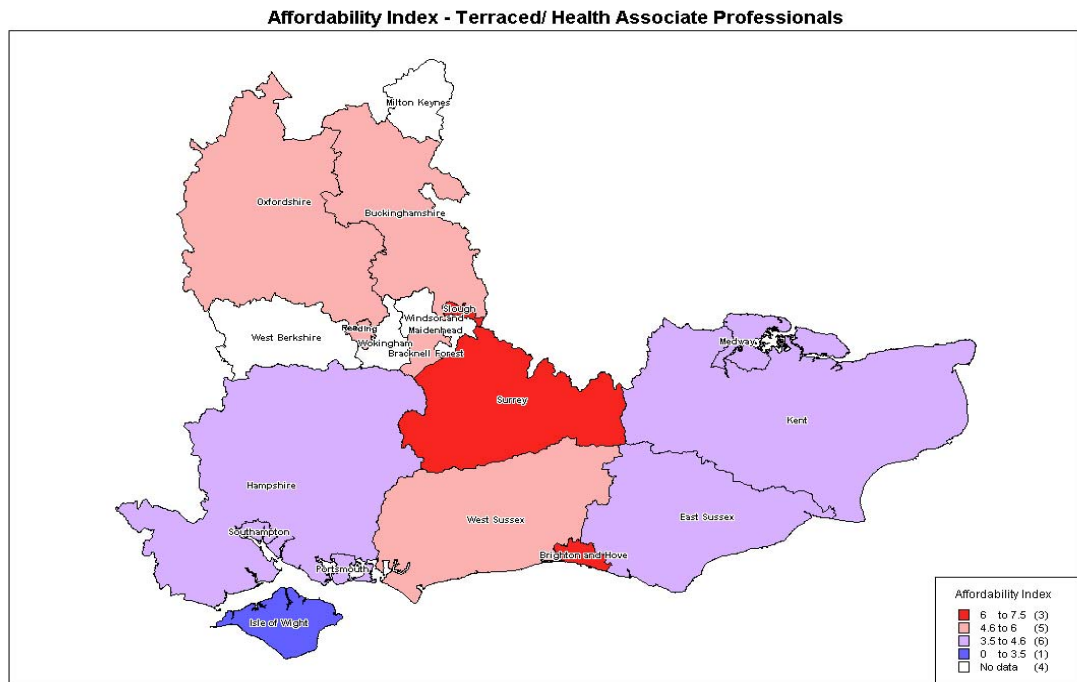
Map 5



Health Associate Professionals

In Map we look at the housing affordability situation for health associate professionals. Small sample numbers resulted in no data for Milton Keynes and most of former Berkshire. The pressures are generally higher for this occupation group than for teachers. Only the Isle of Wight has an affordability index of less than 3.5, whilst the Kent and Hampshire county and UA areas have an index above 3.5 but below the South East average earner index of 4.6. The main pressures again are found in Brighton and Hove, Surrey and Slough, while Oxfordshire, Buckinghamshire and West Sussex have a lower intensity but nonetheless require 4.6 to 6 times the average earnings of a health associate.

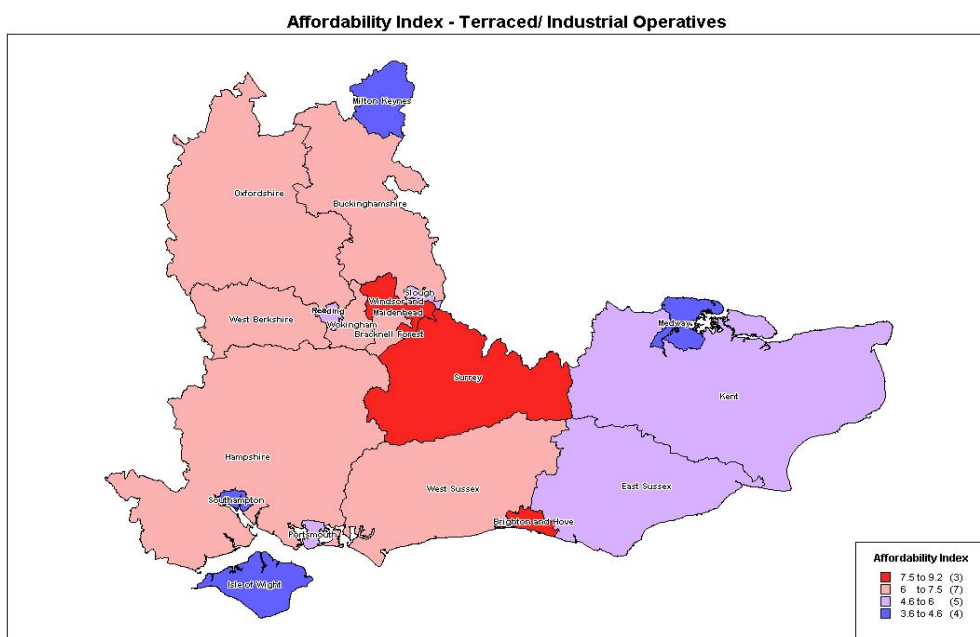
Map 6



Industrial Plant/Machine Operators

Finally, Map 7 shows the affordability index of industrial plant/machine operators. For this occupation group the affordability problem stands out much more in the South East. No area has an affordability index below 3.5, and in the majority of cases the affordability index is over six, with a high of 9.1 in Brighton & Hove.

Map 7



APPENDIX 3

STRUCTURAL CHANGES IN THE HOUSING MARKET

There are a number of structural changes in the housing market that suggest that increases in the supply of housing may have a relatively low impact on price. No econometric analysis has been undertaken to test the impact of an increasing housing supply on price. However, a literature review suggests a number of influences.

This appendix discusses those structural changes.

- **Mass affluence** – property prices are being dragged up by the appearance of what is being termed the “mass affluent”. An estimated four million people in the UK have non-property assets above £50,000 and 1.2 million enjoy an income of at least £50,000 pa. A substantial number of these individuals are found the South East, allowing prices to be bid up. More than a quarter of estates inherited are worth at least £100,000, fuelling an ability to put substantial equity into housing.³⁵ The group most likely to bolster this demographic profile is growing in the South East: the number of professional and associate professional workers is also expected to increase more quickly in the South East, growing on average by 1.4% and 1.8% respectively, between 2000 and 2010. Again, these growth rates are likely to be faster than forecast for the UK as a whole³⁶.
- **Delay of first child and return of women to the labour market.** More women are working than in earlier decade and fewer men, relatively speaking.³⁷ Social changes mean that couples spend a longer time earning before having their first child (linked to the ability to pay a deposit) and have an ongoing ability to service higher levels of mortgage debt (as women are returning to the labour market).
- **The South East provides careers for dual career couples.** This influences migration at the upper end of the labour market when both partners in marriage or consensual union have professional or managerial jobs. The aspirations of both partners are best satisfied in large metropolitan labour markets such as London (served by the South East), where the rate of movement of women into managerial jobs is high compared with other regions. Successful couples will tend to congregate in South East – bidding up prices relative to the rest of the country³⁸.
- **Major infrastructure investments:** the South East continues to take the major share of UK infrastructure investments. Airport expansion is expected to create more growth, more jobs, therefore more demand for housing. Some this growth in housing demand is being satisfied by BAA's co-operation with RSLs, but it is unlikely to be more than a tiny fraction of housing demand created. Depending on the outcome of the planning enquiry, housing proposed for the Stansted area may accommodate some of the extra demand but planned solutions are unlikely to cover all growth.
- **Social polarisation** – wide gaps in income and in standards of living between the successful in the labour market and the unsuccessful are being seen as a result of changes in the transfer mechanisms built into the taxation and welfare systems. Researchers believe this polarisation is expressed in the growing differences between areas of middle class, working class and lower class residence in all cities and towns³⁹. This has been mirrored at a sub-regional level, with some sub-region's prices outperforming others. These are now the “hotspot” areas, where high earners – typically those linked to financial and other management services - have congregated in certain

³⁵ Mintel International Group Limited “Targeting the Mass Affluent Market” March 2002

³⁶ Business Strategies Ltd Economic Trends for the South East 2001

³⁷ p89 Champion, Fotheringham, Ress, Boyle and Stillwell: The Determinants of Migration Flows in England July 1998 University of Newcastle. For DETR. July 1998

³⁸ P69 Champion, Fotheringham, Ress, Boyle and Stillwell: The Determinants of Migration Flows in England July 1998 University of Newcastle. For DETR. July 1998

³⁹ P80 ibid

areas with good transport links to labour markets and a pleasant residential environment. The number of managers and administrators in the South East will increase faster than for the UK as a whole between 2000 and 2010, growing by 0.9% on average, compared to 0.3%. Particular problems arise when state workers on nationally determined pay scales are expected to live in these “hotspot” areas.

- **Low interest rates:** FDPSavills argues that higher prices are a result of a one-off move to a long term low-interest rate global environment⁴⁰.
- **Under performance of equity markets:** one respondent to our survey stated that the underperformance of equity markets meant that individuals were more willing to invest in housing, so driving up prices. FDPSavills research has similar findings⁴¹. Similar circumstances are driving the growing buy to let market, which is driving up house prices (though may be serving to moderate rental costs).
- **In-migration** – academic research suggests that expanding housing supply will attract large numbers of in-migrants both nationally and internationally. Please see the Labour Migration section for more research on this subject.

⁴⁰ FDPSavills July 2002 Market Comment: House Prices - Boom, Bust or Something More Mundane?

⁴¹ FDPSavills, February 2002 Market Comment: Don't Overgear in a Weakening Market

APPENDIX 4

SURVEY PHASE 2 – DETAILED METHODOLOGY

Survey Methodology

The Private Sector

We interviewed 200 private sector business units across the South East.

We worked to arrive at a representative sample that properly examined the effects of housing costs on businesses within each of the housing price bands identified by our study. Price bands were as follows:

Table 4 Affordability Bands by Income Multiples

Income Multiple	Affordability Band
6 to 7.5	Band 1
4.6 to 6	Band 2
3.5 to 4.6	Band 3
2.5 to 3.5	Band 4

These bands were populated by the following counties and Unitary Authorities. NOMIS data was used to calculate the total number of jobs in each of the price bands and its relative economic “weight” in the South East economy.

Table 5 UAs and Counties with Jobs and Affordability Bands

	jobs	% total jobs (South East)	Affordability band
Windsor and Maidenhead	74784	2%	1
Brighton and Hove	113899	3%	2
Buckinghamshire	216062	6%	2
Oxfordshire	314651	9%	2
Surrey	555930	15%	2
Bracknell Forest	62618	2%	3
East Sussex	163954	5%	3
Hampshire	530554	15%	3
Reading	100351	3%	3
Slough	78986	2%	3
West Berkshire	76090	2%	3
West Sussex	325650	9%	3
Wokingham	62031	2%	3
Isle of Wight	48054	1%	4
Kent	492751	14%	4
Medway	80069	2%	4
Milton Keynes	124772	3%	4
Portsmouth	99079	3%	4
Southampton	111589	3%	4
Total	3631869	100%	

The employment profile of each band was calculated using NOMIS data, giving an accurate cross section of the commercial base of each of the price bands.

Table 6 Employment by House Price Band

Sector	Band 1	Band 2	Band 3	Band 4	Total
Agriculture and fishing	397	9548	-	14107	24052
Energy and water	309	4922	4442	5068	14741
Manufacturing	5852	119923	186072	124906	436753
Construction	2514	48218	65081	40093	155906
Distribution, hotels and restaurants	18889	293407	367060	256307	935663
Transport and communications	4423	83562	91242	59888	239115
Banking, finance and insurance, etc	24264	338334	298705	171628	832931
Public administration, education & health	n/a	n/a	n/a	n/a	n/a
Other services	4857	60990	67418	44570	177835
Total	61505	958904	1080020	716567	2816996
EXCLUDED: Public administration, education & health	13279	241637	316779	239742	811437

This information in table 2 and 3 was used in ratio to determine the baseline number of business unit respondents required in each industry and price band. This was as follows:

Table 7 Target Number of Business Units Questioned by Affordability Band and Industry

	Band 1 No. questions	Band 2 No. questions	Band 3 No. questions	Band 4 No. questions	total No. interviews
Agriculture and fishing	0	1	0	1	2
Energy and water	0	0	0	0	1
Manufacturing	0	9	13	9	31
Construction	0	3	5	3	11
Distribution, hotels and restaurants	1	21	26	18	66
Transport and communications	0	6	6	4	17
Banking, finance and insurance, etc	2	24	21	12	59
Public administration, education & health	0	0	0	0	0
Other services	0	4	5	3	13
TOTAL	4	68	77	51	200

Whilst this current target list of interviews gave us a very accurate cross section of the economy, we worked on the assumption that around 50 business unit interviews were needed to provide reasonably robust results for any industry sub group. We therefore dropped the agriculture and energy interviews entirely and dropped banking and finance to 50 - giving the saved interviews to manufacturing. We did not take interviews away from distribution and hotels because this covers a very diverse range of employment types. By doing this we ensured a reasonably robust sample for the manufacturing sector.

These changes mean that whilst our approach will no longer precisely match the distribution of the economy in each of our price bands, it should result in more reliable results in key sectors.

The target number of final interviews undertaken was as follows:

Table 8 Revised Target Number of Business Units Interviewed by Industry Type and Location

	Band 1 locations	Band 2 locations	Band 3 locations	Band 4 locations	total interviews
Agriculture and fishing	0	0	0	0	0
Energy and water	0	0	0	0	0
Manufacturing	0	15	20	15	50
Construction	0	3	5	3	11
Distribution, hotels and restaurants	0	16	20	14	50
Transport and communications	0	6	6	4	17
Banking, finance and insurance, etc	2	24	21	12	59
Public administration, education & health	0	0	0	0	0
Other services	0	4	5	3	13
TOTAL	3	69	77	51	200

A small variance was experienced when the interviews were undertaken.

Private Sector Survey Health Warning

A number of biases may be present. These are as follows:

1. The sample was drawn from Yellow Pages data where respondents had quoted turnover and number of employees. In this sense the sample is not generated randomly.
2. The business units contacted were drawn from a list by interviewers. There may therefore be some interviewer bias present in the selection process.
3. Given our concern to ensure that we had a representative sample of manufacturing businesses, we over-sampled manufacturing. This means that manufacturing responses are proportionately overweight.
4. Our overweighting of manufacturing led to an underweighting of business services, energy and agriculture.
5. The sample from Yellow Pages was available by business unit rather than the number of people employed. This will tend to mean that smaller business units are numerically over-represented in the survey in comparison to the number of people they employ as a proportion of the total workforce. We have therefore intentionally concentrated on contacting the larger business units found in the Yellow Pages data. This means that business units employing 1-4 people are underweight in the survey, although such business units represent 13% of total UK employment.
6. Interviewees were asked directly about housing costs rather than being asked open-ended questions. There may therefore be some interview bias in results.

The Public Sector

We were asked to interview 10 public sector organisations in phase 2. The results of this work were added to the 17 public sector organisations interviewed in phase 1 of the research. In phase 1 we also had further information giving the opinions of 10 other agencies collected in other meetings and conversations (including the Affordable Housing Unit, Thames Valley Police, Surrey County Council, Pavilion Housing Association, Sevenoaks District Council, NASUWT, TGWU and the NHS Estates Directorate). These opinions have been included in the final report.

In the phase 2 work, we wished to get a representative geographical spread of organisations located across the price band areas identified in our study.

We identified the number of authorities in each of the bands as a proportion of the total. We allocated the 10 available interviews in proportion to the number of authorities in each band as per table 5.

Private sector organisations such as hospitals, Local Education Authorities, and councils were interviewed in each of these areas.

Table 9 Target Local Authorities to be interviewed

	No. authorities	% total	No. interviews
Number of authorities in band 1	1	0.5	1
Number of authorities in band 2	4	21	2
Number of authorities in band 3	8	42	4
Number of authorities in band 4	6	31	3
	total		10

Public Sector Survey Health Warning

1. Interviewees were asked directly about housing costs rather than being asked open-ended questions. There may therefore be some interview bias in results.
2. The results of surveys undertaken in summer 2002 and winter 2002/3 have been combined to generate the statistics quoted in this report. In this sense the survey results do not represent a snapshot of opinion at one point in time.

APPENDIX 5

SURVEY PHASE 1 FINDINGS

Phase 1 Research Introduction

In this appendix we relate the findings of the first phase of research on this topic carried out for SEEDA in summer 2002.

The first brief required us to examine the economic impacts of the current level of affordable housing in the South East with a small survey sample of businesses supplied by Local Economic Partnerships. The public sector interviews were undertaken across a spread of local authorities.

Some results have seen significant change between phase 1 and phase 2 of research. The most significant change has been the fall in proportion of businesses reporting recruitment difficulties, and the number of businesses stating that they believed recruitment difficulties were related to high housing costs.

We believe that this change can be accounted for in a number of ways. Firstly, the sample is different. In phase 2, we interviewed companies at random, rather than interviewing companies which tended to be active in Local Economic Partnerships (LEPs). Companies may become active in LEPs because they have greater difficulties, or understand the relationship between business and wider social and economic issues more acutely. Secondly, the responses we received seemed to indicate that companies are no longer as active in the labour market as they were over the summer when phase 1 interviews were carried out. Because they are not recruiting, companies do not perceive that their ability to attract staff is significantly affected by housing costs. Thirdly, there are now a number of stories in the press predicting the house prices are about to crash. There seems to have been a shift in sentiment about just how significant house prices are as an issue facing the UK economy. Fourthly, the interview techniques used for the private sector interviews varied. Phase 1 interviews were semi-structured in nature, whereas phase 2 interviews were fully structured.

Phase 1 Research Methodology

The brief requires us to examine the economic impacts of the current level of affordable housing in the South East. The following interviews were undertaken.

- **Private sector:** 33 semi-structured interviews were undertaken from a series of contacts supplied by Local Economic Partnerships.
- **Public sector:** 17 semi-structured interviews were undertaken.

The findings of the first survey should be treated with a certain amount of caution for the following reasons:

- **Geographical bias.** Coverage of the private sector element of the survey was not statistically controlled and we were dependent on the co-operation of LEPs, some of whom were more able to help than others. As a result, the sample is not representative of region as a whole - for example, we have contacted six companies around Oxford but only one in the Southampton/Portsmouth 'conurbation'. This may lead to bias in the results.
- **Sector bias.** Some industries may be over-represented, such as those with well developed support networks who were able to provide contacts. Companies in these sectors were focused upon, which may consequently give rise to some bias in results.
- **Selection bias.** RTP interviewed companies that the LEPs believed may be experiencing problems.
- **Interview bias.** Interviewees were asked specifically about the impact of housing costs.

Private Sector Recruitment difficulties

- 71% of private sector employers surveyed were experiencing difficulties in recruiting the staff that they required.
- 61% of private sector employers surveyed ascribed these difficulties to housing costs.

Relating Private Sector Recruitment Difficulties to Housing Costs

- Whilst our survey did appear to show a positive correlation between recruitment problems and high housing cost areas, companies in lower priced areas of the South East with plentiful supplies of affordable housing also reported difficulty in recruiting the staff that they required.

Relating Income Levels of Hard-to-Recruit Private Sector Staff to Housing Costs

The survey showed that in the private sector, difficulties were being predominantly experienced in recruiting workers at the lower end of the pay scale.

Private Sector Recruitment Difficulties by Income Level

Wage levels of hard-to-recruit workers	% companies reporting difficulties
Lower	50
New graduate	10
Mid	5
Senior	10
All levels	20

NB Percentages may not total 100 due to multiple responses

Private Sector Retention Difficulties

Retention appeared to be a smaller problem than recruitment for private sector employers in the South East.

- 30% of employers reported experiencing retention problems as a result of high housing costs.
- retention problems were almost uniformly experienced by companies employing workers at the lower end of the income scale. Companies mentioning retention difficulties had problems with shop workers, bus drivers, cleaners, production line workers and hotel workers. Such workers tended to leave seeking higher wages, because the work was considered unattractive or because they were working to finance further onward travel (for example, Australian hotel workers).

Private Sector Companies' Strategies for Coping with Recruitment and Retention Problems in High Cost Areas

From our survey, we can identify a number of broad strategies companies are adopting to overcome the recruitment difficulties they face.

- 36% of companies in our survey reported that they had increased pay in response to local housing prices.

Public Sector Recruitment Difficulties

Our survey showed that the public sector's recruitment difficulties are more intense than those experienced by the private sector. Public sector managers are also more likely to believe that their recruitment problems are caused by high housing costs.

Table 1 Public sector recruitment difficulties across the South East

Sector status	Experiencing difficulties in recruiting the staff (%)	Believe that housing costs are an obstacle to recruitment (%)
Public	94	88

Relating Income Levels of Hard-to-Recruit Public Sector Staff to Housing Costs

The survey showed that in the public sector, difficulties were being experienced in recruiting workers at all levels.

Table 2 Public Sector Recruitment Difficulties by Income Level

Wage levels of hard-to-recruit workers	% employers reporting difficulties
Lower (only)	6
New graduate (only)	6
Mid (only)	26
Senior (only)	13
All levels	46

Public Sector Retention Difficulties

Housing costs appear to be less of a problem for retention within the public sector.

- 41% of public sector survey respondents reported that housing costs were causing retention problems.

Inflation

- 36% of private sector employers had raised wages as a result of increased housing costs, which could in part contribute to inflation in future. Public sector employers have less freedom to alter wages, although as we noted that there may be more flexibility in public sector pay structure than might be thought.

There are a wide number of reasons for current low levels of inflation. However, from our research, we can begin to speculate on why housing price changes seem not to be having an inflationary impact.

- 85% of private sector respondents to our survey said that they could not pass their cost pressures through onto the consumer of the company. In the majority of instances, any additional costs are therefore being absorbed by companies and are non-inflationary.

Commuting

Our survey asked companies whether they thought that high local housing costs were contributing to a rise in extended commuting. Extended commuting was classed as over one hour duration.

- The results are mixed and differ by employer location and by employee income level.
- 36% of private sector employers and 31% of public sector employers report that commuting journeys are extended due to high local housing costs.
- Though no very firm trend exists, longer commuting patterns tended to be concentrated in areas of high housing cost.

Efficiency

- 25% of private sector respondents affected by housing costs reported investing in capital goods in order to reduce their demand for people – suggesting a link to rising efficiency. There were instances of this taking place even within people-intensive service industries where it is commonly thought to be difficult to substitute labour for capital.

Business Migration

- 16% of private sector companies surveyed had looked into the possibilities of relocation outside the South East due to high housing cost. There was no evidence from this survey that this group were translating these studies into concrete plans to relocate (although it should be pointed out that businesses were unlikely to admit this if there were such plans).

Business Expansion Decisions

Concerns have been expressed that high housing costs will reduce companies' ability and willingness to grow.

- This survey found that 20% of private sector businesses stated that they were deferring or cancelling investment in their companies due to rising costs or a lack of competitiveness.

Public Service Delivery

Public sector interviewees were asked whether their organisations were deferring, reducing or cancelling services in the South East due to problems obtaining or retaining suitable staff.

- 41% of respondents believe that the quality of public services they are able to provide have been affected, whereas 59% believed that they had not.