

## Briefing:

# How affordable is housing for people in lower-income occupations?

This briefing explores housing affordability for lower-income occupations in the context of rising housing costs, both in the private rented and the owner-occupied sector.

### Key findings:

- Despite a moderate increase in earnings in 2016, housing costs are an increasing burden for many individuals and households. This is particularly true for workers in lower-paid occupations.
- The average annual full-time earnings of people working in the three lowest-paid occupations range from £17,665 (the care, leisure and other service occupations) to £18,462 in the elementary occupations. The average worker in the sales and customer services occupations earns £18,262. This is about £10,000 less than the national full-time median of £28,213.
- While average earnings are higher in areas of higher housing costs such as London, this is largely due to a higher proportion of people working in higher paid occupations. Crucially, even in London more than 1 in 5 (21%) jobs are in lower-paid occupations and it is 27% across the UK.
- Housing affordability is therefore one of the key issues faced by people in low-paid occupations in areas of higher housing costs, both in terms of private renting and access to home-ownership.
- Earnings have not kept up with increases in house prices – while earnings have increased by 38% between 2002 and 2016, house prices have risen by 120% over the same period.
- Lower-paid occupations are particularly affected by the affordability crisis, having seen housing costs drifting away from their earnings more than any other occupational group.

## 1. Introduction

In April 2016, the median gross annual earnings for all full-time employees in the UK were £28,213. This represents a 2.2% increase on the previous year. This is the highest growth in earnings since the financial crisis of 2008 and can mainly be explained by the introduction of the National Living Wage. However, adjusting earnings for inflation we see that today's earnings are at about the level they were in 2003. Crucially, earnings are distributed unequally along a variety of social dimensions, including gender, occupation or industry, and changes in earnings have not kept up with housing costs. There is also a strong geographical dimension to differences in earnings. However, while average earnings are significantly higher in southern regions than in many northern parts of England, it is important to understand that some occupational groups have low earnings across all regions and people working in these occupations are disproportionately affected by high housing costs. In fact, even a city like London, which has the highest concentration of well-paid jobs, is dependent on a broad range of service workers in low-paid occupations. This briefing therefore explores the implications of recent increases in housing costs on workers in lower-paid occupations.

## 2. Earnings inequalities and housing costs

As noted earlier, earnings are distributed unequally across a range of dimensions, including gender, age and occupations. For example, despite a very slow convergence, the gender pay gap in the UK still stands at 18.1% (9.6% for full-time employees). There is also a strong geographical dimension to earnings. The median full-time earnings of an employee living in Blackpool (£21,461) is about half of what an average employee living in Westminster (£41,141) earns. One of the reasons for this is, of course, the types of jobs that are available and hence the occupational structure<sup>1</sup> of an area. The difference is particularly stark in the service industry, with a big gap between professional occupations on the one hand and low-paid occupations in care and personal services but also sales and customer services on the other hand. These inequalities in earnings have important implications for the affordability of housing, especially at times when house prices and private rents have been increasing rapidly.

The gap between average earnings in different occupations is stark. With a median full-time salary of £42,109, the highest-paid occupations are paid more than twice as

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<sup>1</sup> For an overview of the occupation groups and examples of jobs, please see endnotes on page 12

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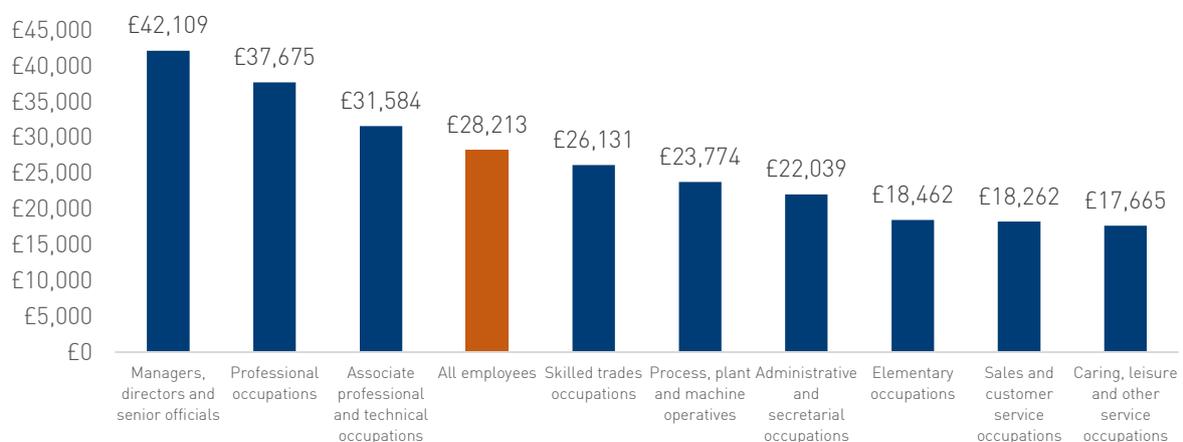
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much as the average employee working in the lowest-paid occupations. The three lowest-paid occupations are the ‘care, leisure and other services occupations’ (£17,665), the ‘sales and customer services occupations’ (£18,262) and the ‘elementary occupations’ (£18,462), which include, for example, cleaning workers and assistants in food preparation. The median full-time earnings of all three occupational groups lie around £10,000 below the national median full-time earnings (£28,213). This gap continues to exist despite a stronger increase (+3% to 3.4%) in earnings among those groups over the last year than among higher-paid occupations (+1.3% to 1.7%). This growth is mainly a result of the introduction of the National Living Wage in April 2016, which has had a bigger impact on earnings at the lower end of the income scale.

Importantly, there is a much higher proportion of female workers affected by low pay than men. For instance, of the 2m workers in the ‘caring, leisure and other service occupations’, around 82% are female workers and 18% are male.

**Figure 1. Annual gross median pay for full-time employees by occupational group<sup>i</sup>**

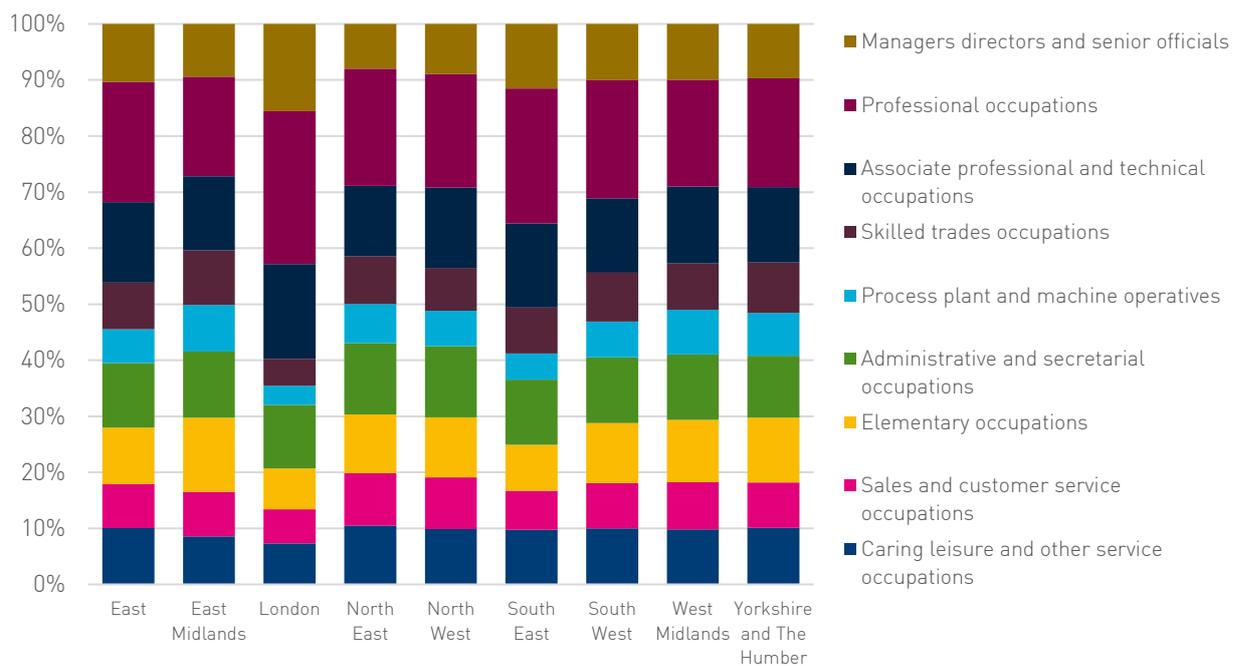


Source: Annual Survey of Hours and Earnings, ASHE 2016

It is well known that house prices and private sector rents vary greatly between different regions and local authorities, with London clearly standing out compared to the rest of the UK. Crucially, despite higher average earnings in London, which are about £7,000 higher than the national average, housing affordability is a particularly pressing issue in London and many areas in the south east. Moreover, the above average earnings in London are predominantly a result of a higher proportion of people working in well-paid professional or managerial occupations. There is little

regional variation in earnings among lower-paid occupations, meaning that, for example, a care worker in London does not earn considerably more than a care worker in the North West. This is important as the proportion of people working in low-paid occupations is high across all regions. Even in London, more than 1 in 5 workers (21%) are employed in the three lowest paid occupations, which compares to 27% in the whole of the UK. In fact, many of the high-paid industries, such as the financial services industry, are dependent on a broad range of lower-paid occupations such as cleaning workers, security staff or people working in catering, who not only earn considerably less but are often also faced with more precarious forms of employment.

**Figure 2: Occupational structure by region**



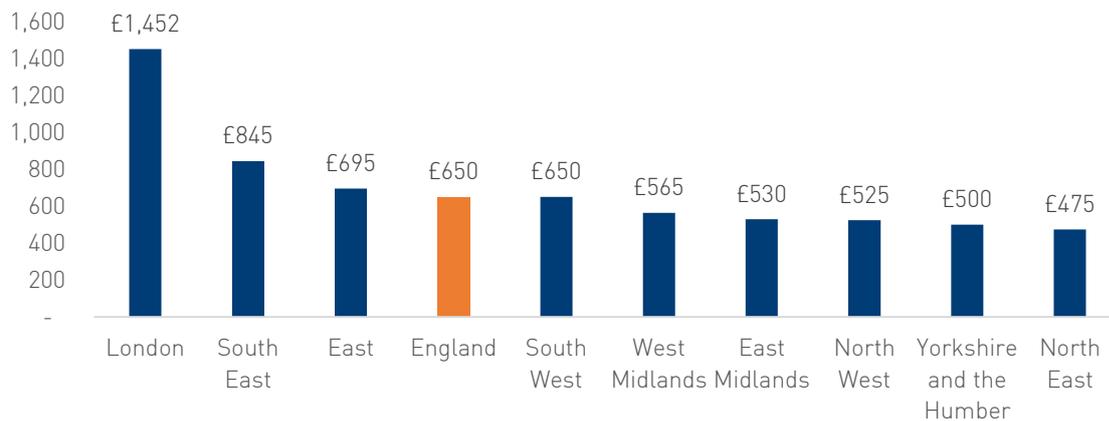
Source: Annual Survey of Hours and Earnings, ASHE 2016

The argument that geographical variations in housing costs are matched by geographical variations in earnings does not add up when it comes to how affordable a particular location is.

### 3. Affordability of private rents

The median private sector rent in England is £650 per month. In London the median rent stands at £1,452, which is more than double the national average. Rents are also above the national average in the South East (£845) and the East of England (£695). The region with the lowest median rent is the North East (£475), where the rent is about a third of the median rent in London. However, in order to understand affordability, rent levels need to be set in relation to earnings. As shown previously, earnings vary significantly not only geographically but, crucially, by different occupational groups, which impacts on affordability levels.

**Figure 3. Median monthly private sector rents by region**

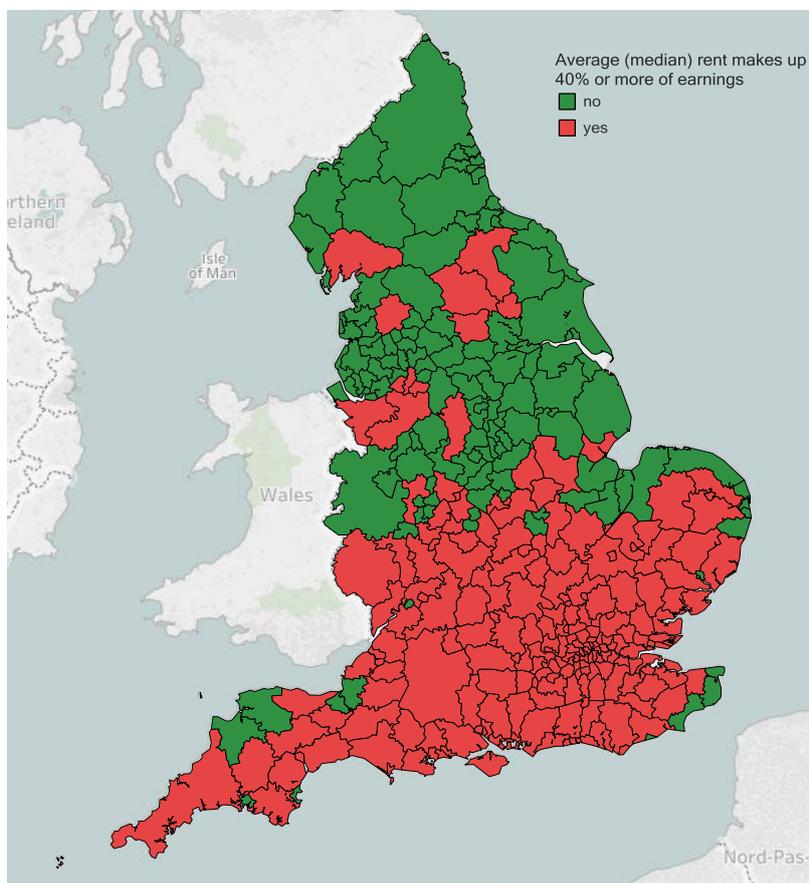


source: Valuation Office Agency, Private sector rents, VOA 2016

As figure 3 shows, regional variations in private rents are large and variations at local authority level can be even bigger. This however does not mean that individuals or households in regions with below average rent levels do not struggle with housing costs. Setting rent levels in relation to median incomes in different occupational groups shows that there are some groups whose rent levels make up large proportions of their earnings, regardless of where they live. Specifically, the three occupational groups with the lowest median earnings (caring and leisure, sales and service, elementary occupations) are required to spend high proportions of their earnings on rent payments across all nine English regions. With a median full-time salary of around £18,500 or below (see also figure 1) the typical (median) rent of a worker in all three occupational groups takes up 40% or more of their earnings in the majority of local authorities in London and the South East, but this is also true for

parts of the East of England, the South West, the Midlands and Yorkshire as well as the Manchester area. These workers are at serious risk of being overburdened by rent payments<sup>2</sup>. Of course, it is important to keep in mind that these calculations are based on individual full-time earnings, not household earnings, so single earning households or those on part-time or zero-hours contracts will be impacted more severely than households with multiple earnings. Nonetheless the ratio provides a good indication of how earnings have kept up with rent levels.

Figure 4. Local authorities where the median rent takes up 40% or more of the earnings of workers in the care, leisure and other service occupations



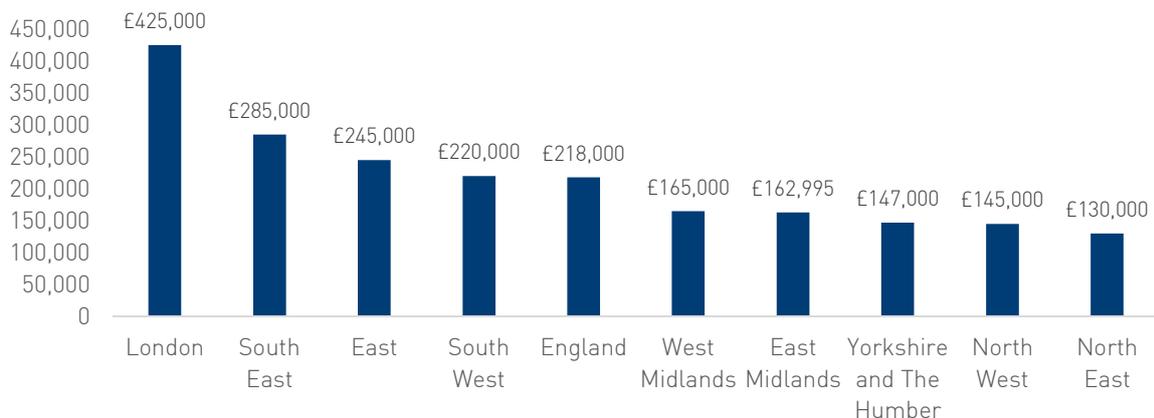
Source: ASHE 2016 and VOA 2016. Based on median full-time regional earnings and median private sector rents by local authority. To explore the affordability of private rents for different occupational groups, please click [here](#).

## 4. Affordability of house prices

<sup>2</sup> A household is considered to be overburdened by rent payments if they are required to spend 40% or more of their disposable income on rent. Source: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Housing\\_cost\\_overburden\\_rate](http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Housing_cost_overburden_rate)

Similar to private rents, house prices vary greatly between the different regions in England, ranging £425,000 in London to less than a third of this in the North East, where an average house costs £130,000. Again, in order to better understand house prices, they need to be set in relation to earnings and how earnings have changed over recent years.

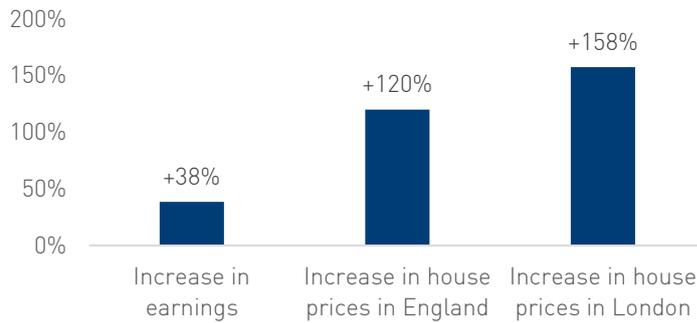
**Figure 5. Median house prices by region (Q2 2016)**



source: Office for National Statistics/Land Registry 2016

Between 2002 and 2016 house prices in England have more than doubled (+120%). With an increase of 158% in London, the increase has been even starker in the capital. Over the same period, average earnings have increased by 38%, showing that changes in (nominal) earnings have by far not kept up with house prices. In fact, average house prices in England have increased more than three times (3.2x) as much as average earnings over this time period.

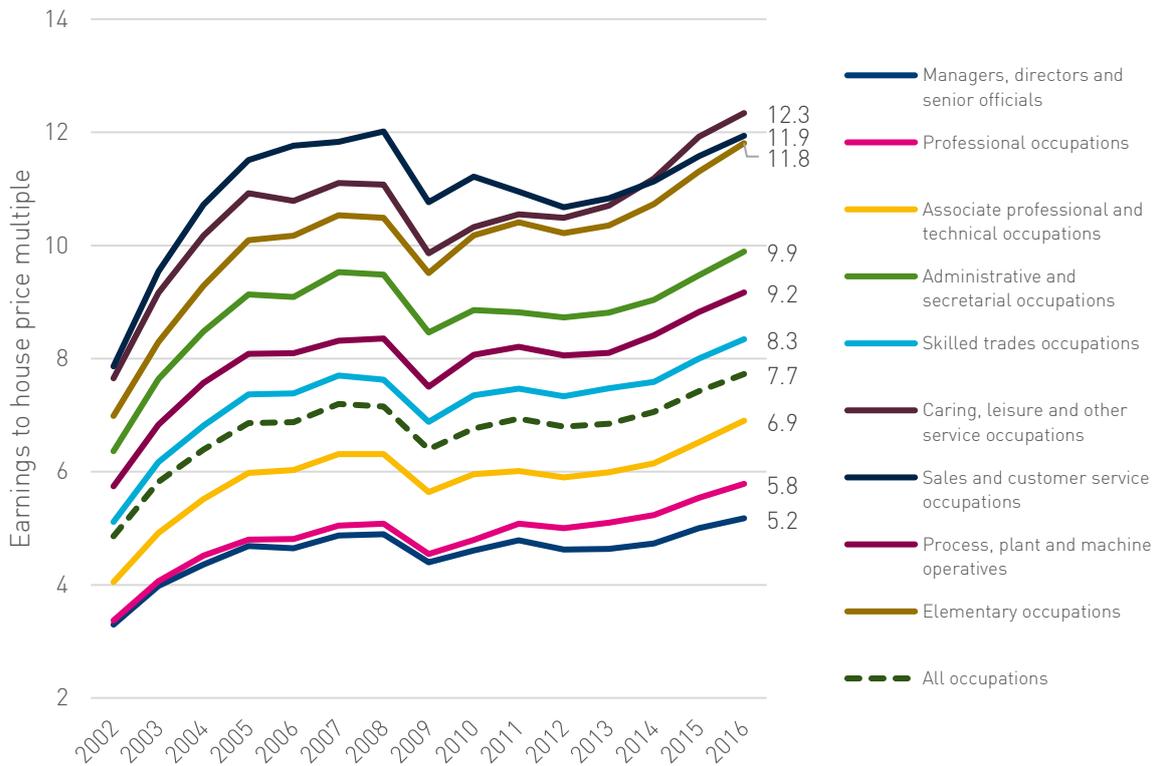
**Figure 6. Increase in median full-time earnings and median house prices (nominal) between 2002 and 2016**



source: ASHE and ONS/Land Registry 2016

The impact of this increasing gap between house prices and earnings has been felt in particular by people working in lower-income occupations. While all occupational groups have seen their earning-to-house prices multiples increase from a factor of 4.9 in 2002 to a factor of 7.7 in 2016, the ratios of the three lowest occupational groups have drifted away significantly if compared to other occupational groups. The average house in England now costs 12.3 times the median annual earnings of a worker of the 'caring, leisure and other service occupations' and the ratio is almost equally high for 'sales and customer service occupations' (11.9) and for 'elementary occupations' (11.8). This is more than four additional annual full-time salaries compared to the national average, which stands at a ratio of 7.7.

**Figure 7. Earnings to house price ratios by occupational group, England**



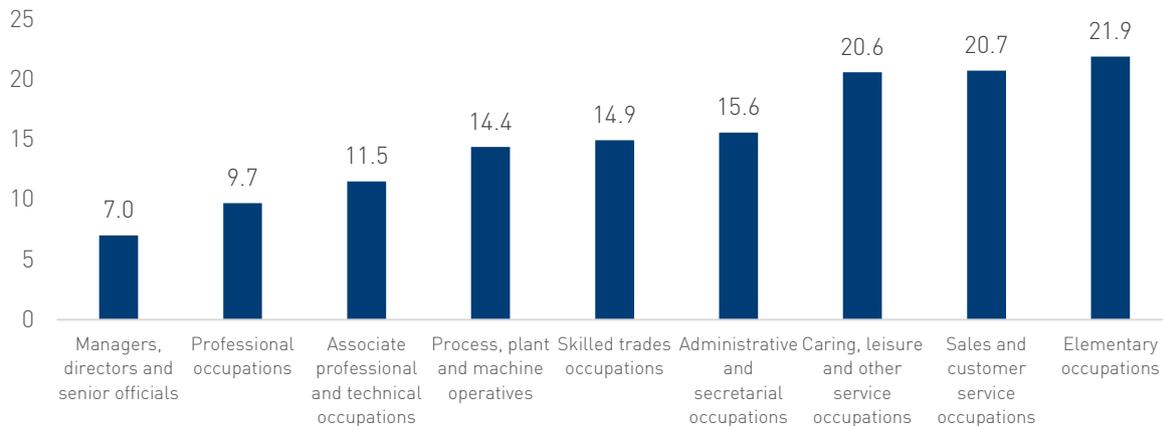
source: ASHE 2016 and ONS/Land Registry 2016

House prices of about double the national average in London are reflected in the affordability ratios too. While affordability is an issue across all occupational groups in London, the three lowest paid groups stand out again. It would require almost 21 median annual salaries of someone working in the 'sales and customer service occupations' or 22 times in the 'elementary occupations' in order to buy an average home in London. This compares to a ratio of 9.7 in the professional occupations and 7 for 'managers, directors and senior officials'.

**Figure 8. Earnings to house price ratios by occupational group, London**

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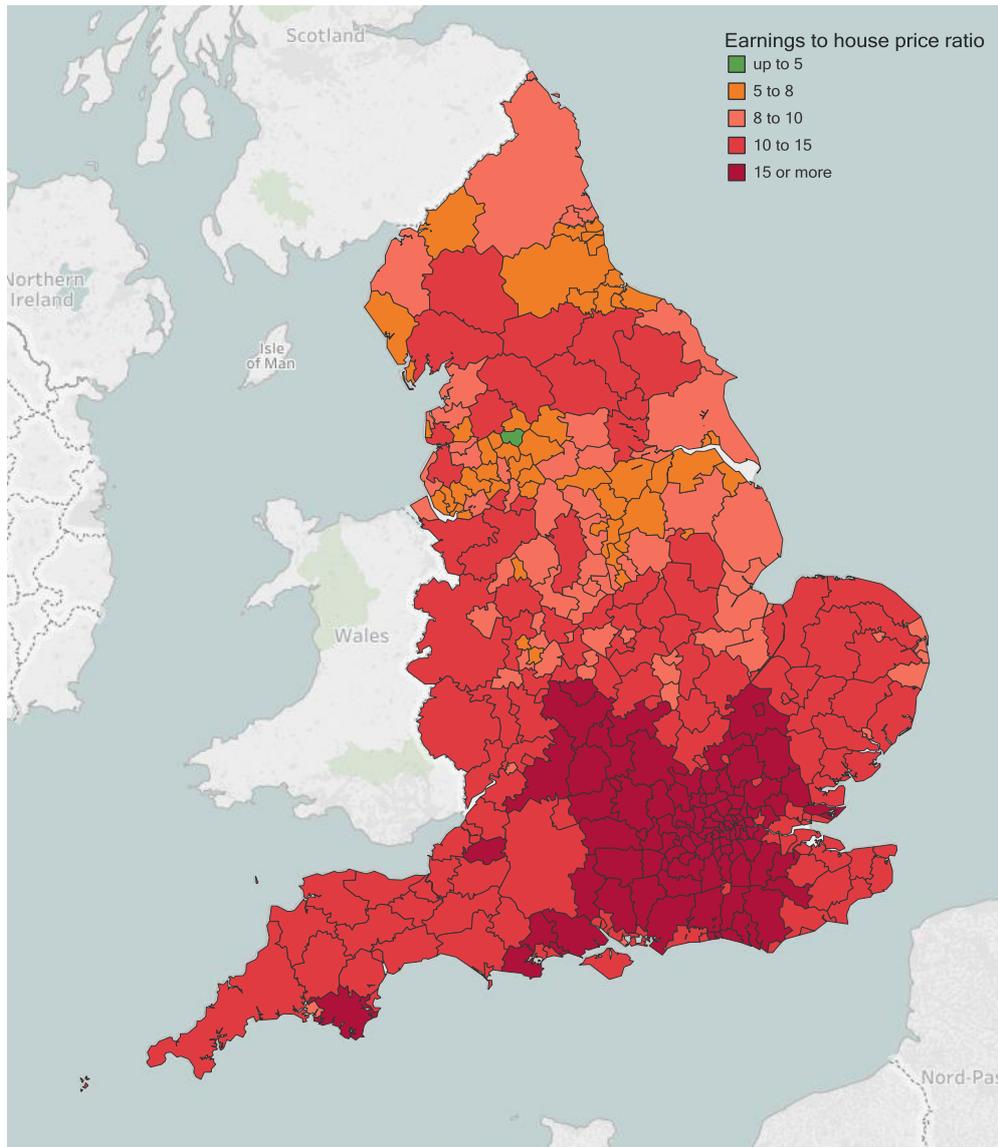
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source: ASHE 2016 and ONS/Land Registry 2016

Importantly, for those working in lower-paid occupations having difficulties in accessing home-ownership is not an issue restricted to London but applies to many other regions and local authorities across England too. For example, a typical worker in the 'caring, leisure and other service sector occupations' would be required to spend more than 10 times their annual full-time earnings to buy a home in the majority of local authorities in England. In most parts of the South East and London the ratio rises to 15 or more. Given that average earnings of workers in many other lower-paid occupations, including in 'sales and customer services' or the 'elementary occupations', are not significantly higher, these workers will struggle or find it impossible to afford to buy a market sale home, not to speak of saving enough for a deposit that are usually necessary to pay upfront. This also means that access to home-ownership is increasingly dependent on access to family or inherited wealth, thereby increasing the gap between those able and those unable to draw on such resources.

**Figure 9. Earnings to house price ratios for workers in the caring, leisure and other service occupations**



source: ASHE 2016 and ONS/Land Registry 2016 (based on regional full-time earnings and median house prices by local authority).

## 5. Summary statistics on affordability ratios by region

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**Figure 10. Earnings to private sector rent ratios**

Occupation	London	South East	East	South West	West Midlands	East Midlands	Yorkshire and The Humber	North West	North East
Managers, directors and senior officials	0.29	0.24	0.21	0.22	0.18	0.17	0.16	0.17	0.16
Professional occupations	0.40	0.26	0.22	0.21	0.19	0.18	0.17	0.18	0.16
Associate professional and technical occupations	0.47	0.31	0.27	0.26	0.22	0.22	0.20	0.20	0.20
Skilled trades occupations	0.61	0.37	0.31	0.31	0.27	0.25	0.23	0.25	0.22
Process, plant and machine operatives	0.59	0.40	0.34	0.34	0.28	0.28	0.26	0.27	0.23
Administrative and secretarial occupations	0.64	0.45	0.38	0.36	0.33	0.32	0.30	0.30	0.28
Elementary occupations	0.90	0.53	0.44	0.43	0.37	0.35	0.33	0.35	0.30
Sales and customer service occupations	0.85	0.55	0.45	0.44	0.39	0.36	0.33	0.35	0.31
Caring, leisure and other service occupations	0.84	0.57	0.47	0.44	0.40	0.37	0.36	0.38	0.34

Source: ASHE 2016 and VOA 2016 data (based on regional full-time earnings and median private sector rents)

	Up to 0.2 (20%)
	0.2 to 0.33 (20% to 33%)
	0.33 to 0.5 (33% to 50%)
	More than 0.5 (50%+)

**Figure 11. Earnings to house price ratios**

	London	South East	East	South West	West Midlands	East Midlands	Yorkshire and The Humber	North West	North East
Managers, directors and senior officials	7.0	6.6	6.0	6.2	4.3	4.3	4.0	3.9	3.7
Professional occupations	9.7	7.4	6.5	6.1	4.6	4.6	4.2	4.0	3.7
Associate professional and technical occupations	11.5	8.7	7.9	7.4	5.4	5.5	4.9	4.7	4.6
Skilled trades occupations	14.9	10.4	9.1	8.7	6.5	6.4	5.7	5.8	5.0
Process, plant and machine operatives	14.4	11.3	10.1	9.6	6.9	7.2	6.4	6.3	5.3
Administrative and secretarial occupations	15.6	12.6	11.2	10.3	7.9	8.1	7.3	6.9	6.4
Elementary occupations	21.9	14.8	12.9	12.1	9.1	8.9	8.0	8.1	6.9
Sales and customer service occupations	20.7	15.6	13.3	12.4	9.4	9.1	8.1	8.0	7.0
Caring, leisure and other service occupations	20.6	16.1	13.8	12.5	9.9	9.6	8.7	8.7	7.6

Source: ASHE 2016 and ONS/Land Registry data 2016 (based on regional median full-time earnings and median house prices)

	Up to 5
	5 to 8
	8 to 10
	More than 10

## 6. Conclusion

Understanding the links between a changing labour market and housing costs is crucial, especially in terms of the social and economic consequences of unaffordable housing. A recent [report](#) by the Social Mobility Commission has highlighted that we are increasingly faced with a polarised labour market with, on the one hand, jobs that still offer decent career prospects and stability, and on the other hand, a growing number of workers in low-paid jobs with little opportunity for experiencing any sort of upward mobility or substantial increase in earnings over the course of their working lives. With housing usually being the largest item of expenditure in a household's budget, the decoupling of housing costs from earnings has had the most far-reaching consequences for those at the bottom of the earnings curve. In fact, expensive, insecure or bad-quality housing can be an inhibitor to social mobility as high housing costs eat away disposable income, leaving less resources to actively engage in one's future. High housing costs can also create a disincentive for people

from moving to areas with better job opportunities, creating or exacerbating regional economic imbalances and inequalities.

Crucially, given the importance of the service-sector industries for the regional and local economies of all parts of England it is important that people working in lower-paid occupations have access to affordable and secure housing, both in terms of their own futures but also in terms of creating sustainable communities. Social housing providers such as housing associations play a vital role in this context and are able to contribute much needed solutions to the affordability crisis we are facing. As the briefing has shown, affordable housing options are of particular importance in a context of increasingly polarised labour markets, with a growing number of people facing low-paid and insecure jobs. The security of an affordable social home can provide a vital anchor of stability to these people's lives. As such, housing associations are key to the economy too. Without the affordable homes provided by housing associations, be they for rent or ownership, economies like London but also many other areas with high housing costs would struggle to maintain or attract the workers that keep cities, towns and villages up and running.

## **7. How can housing associations help?**

The following three case studies provide examples of how access to affordable and secure housing has made a real difference to the lives of people working in some of the lower-income occupations described in this briefing. Case study 1 shows how her new affordable home has enabled single mum and part-time cleaner Dulcie to stay in an area where she has access to a family support network and keep her son in the nursery where he has already found friends. Case study 2 illustrates how the significantly lower housing association rent has helped part-time retail worker Kelvyn, Tina and their two children to stay in an area where they have access to jobs, in an area where they wouldn't be able to live if they had to rent privately. Case study 3 tells the story of administrator Fiona, printer Jim and their three children who previously had no housing options and had to live separately but have now found a shared-ownership home, which has enabled them to reunite as a family.

## Case study 1 from Together Housing



### **Struggling single mum Dulcie moved into a brand-new affordable home in Hull:**

Young mum and part-time cleaner Dulcie lacked choice in the housing market and was struggling to raise the funds for her own place to bring up her son.

“As a single parent, I wanted my mum nearby and my little boy to stay at his nursery but when I looked at moving out the costs of deposits and fees made it impossible on a part-time cleaning wage.

“Together Housing gave me advice on what support I could get and enabled us move into this house. My boy has really settled in – all of his friends from nursery are nearby and my mum can help with babysitting. I never thought that I would be able to afford to move into a brand new house – I feel really lucky.”

Dulcie’s brand-new house was part of a wider development in Hessle, Hull, near the Humber. Together Housing delivered a total of 36 new homes at the scheme, all of which were affordable for local people who needed them most.

## Case study 2 from Unity Housing



### **Kelvyn and Tina live with their two children in an affordable rented home in Leeds:**

Kelvyn lives with his wife, Tina, and their two children in an affordable rented flat in Leeds.

“I work at TK Maxx on the shop floor, on the till, customer service – all sorts. I started off doing 16 hours a week and now I work 30. The more hours I can do, the better.

“My wife works too and we find it hard sometimes, but we manage. With private renting, the cost is sky high so if we didn’t live here it’d be harder for us to get by.”

### Case study 3 from Orbit



**Fiona, Jim and their three children were reunited thanks to a shared ownership family home in Lower Quinton, Warwickshire:**

Fiona is an administrator and her partner Jim works as a printer. Living in separate homes, they were regularly making expensive journeys to see each other and were desperate to bring the family of five together under one roof.

Fiona was living in a privately rented home with son and daughter Ellie and Daniel, while Jim lived in a council house with the couple's third child, Roman.

"We thought it was going to be incredibly difficult for us to buy somewhere and hadn't dared to imagine that we might be able to buy a house in the area we wanted.

"Orbit housing association was building affordable shared ownership homes in the perfect location for us, so we registered our interest.

"The house brought us all together as a family and Jim and I got married shortly after moving in – it really was the icing on the cake."

Fiona and Jim's new family home is part of Orbit's Beaufort Mead development in rural Warwickshire. The scheme offered affordable homes to buy and rent to people living or working in the area.

Their new three-bedroom house, complete with private garden, has reunited the family and given them an affordable place of their own to raise their young children.

**i Overview of the occupation groups and examples of jobs**

<b>Occupation Group</b>	<b>Example jobs</b>
Managers, directors and senior officials	Marketing and sales director, production manager, property, housing and estate manager, senior police officer,
Professional occupations	Public relations professional, journalist, IT manager, economist, statistician, midwife, higher education teaching professional
Associate professional and technical occupations	Career adviser, sports coach, health and safety officer, conference organiser, pharmaceutical technician, financial and accounting technician
Skilled trades occupations	Florist, floorer and wall tiler, furniture maker, plumber, electrician,
Process, plant and machine operatives	Sewing machinist, van driver, bus and coach driver, food and drink operatives,
Administrative and secretarial occupations	Receptionist, school/company/medical secretary, personal assistant,
Elementary occupations	Postal worker, farm worker, hospital porter, waiter/waitress, cleaner
Sales and customer service occupations	Retail cashier, call centre worker, telephonist, salesperson, roundsperson
Caring, leisure and other service occupations	Care workers, hairdresser, barber, sports and leisure centre assistant, nursery nurse, air travel assistant

Source: <http://www.neighbourhood.statistics.gov.uk/HTMLDocs/dvc205/>