



Housing Market Information:
Advice Note



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HOUSING MARKET INFORMATION: ADVICE NOTE

Introduction

1. This advice note sets out an approach that local planning authorities and regional planning bodies can use to develop their understanding of housing markets. This reflects the requirement in Planning Policy Statement 3¹ that local planning authorities and regional planning bodies should take into account market information when developing planning for housing policies. It sets out details of 3 core indicators, based upon existing published data sources, that can be used, at the local authority level, to understand and interpret housing market conditions.
2. The approach set out in this note should not be used by local planning authorities and regional planning bodies to avoid undertaking comprehensive assessments of housing market areas. Rather, it is intended to help develop an appreciation of housing markets ahead of the production of Strategic Housing Market Assessments².
3. The 3 core indicators focus upon the active market (eg prices) rather than drivers of demand (eg household growth). In terms of analysis, all 3 indicators should be considered over a period of at least 3 years with annual data being averaged in order to remove statistical "noise" and smooth cyclical fluctuation.

Core housing market indicators

4. The 3 core housing market indicators proposed by this note are set out in Table 1 below:

Table 1: Housing market core indicators

Indicator	Suggested measures, available at local authority level	Principle data sources
1. Affordability	Ratio of lower quartile house prices to lower quartile earnings	<ul style="list-style-type: none"> ● Land Registry house prices data ● Annual Survey of Hours and Earnings
2. Growth in house prices	Annual growth in median house prices	Land Registry house prices data
3. Low demand	15th percentile house prices	Land Registry house prices data

¹ Planning Policy Statement 3 (Communities and Local Government, November 2007). See <http://www.communities.gov.uk/index.asp?id=1504592>

² Strategic Housing Market Assessments: Practice Guidance (Communities and Local Government, March 2007). See <http://www.communities.gov.uk/index.asp?id=1509040>

These data sources may be accessed as follows:

- Land Registry quarterly median and lower quartile house prices data, by local authority area, are available on the Communities and Local Government website. See <http://www.communities.gov.uk/index.asp?id=1156110> (live tables 582 and 583)
- Annual lower quartile earnings are obtainable from the Annual Survey of Hours and Earnings. See <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=13101>
- 15th percentile house prices can be calculated from the Land Registry house prices data (bullet point 1 above)

Indicator 1: Affordability

5. Analysing affordability provides information about the accessibility of particular types and locations of housing to local people. Areas with poor affordability can experience unsustainable travel patterns together with high dependence on social housing or housing benefit. Health problems, poverty and homelessness may be experienced.
6. This note proposes that affordability can be considered by comparing lower quartile earnings to lower quartile house prices. The emphasis is on assessing affordability for those on lower incomes (ie the lowest 25 per cent of earnings), including young households and first-time buyers. This is already used as the Government's headline affordability indicator, particularly in monitoring delivery of the public service agreement target on improving the balance between housing supply and demand (Public Service Agreement 5)³.
7. The affordability indicator can be analysed in absolute terms or compared to various benchmarks as set out in Table 2 below.

Table 2: Possible comparative benchmarks

Benchmark	Analysis	Interpretation
1. Historic average	Has the affordability ratio worsened over time - is it significantly higher than the historic average?	If "yes", then this could suggest housing market imbalance (ie demand for housing is significantly higher than supply)
2. Regional average	Has the affordability ratio worsened over time, relative to regional averages?	If "yes", then this could suggest housing market imbalance
3. Ratio of median house prices to median earnings	How does the lower quartile affordability ratio compare with the median affordability ratio?	Comparatively high rises in the lower quartile affordability ratio compared to the median affordability ratio could signal affordability issues and problems for first-time buyers

³ See PSA5 Target 'Housing Supply and Demand' at <http://www.communities.gov.uk/index.asp?id=1122996>

Indicator 2: Growth in house prices

8. Understanding changes in house prices is vital to understanding housing markets. House prices are an expression of the relationship between housing supply and demand. Where demand is less than supply, house prices will (all things being equal) tend to fall. Conversely, where demand exceeds supply, prices will tend to rise.
9. The proposed house prices growth indicator uses median house prices. The median is the most appropriate measure of overall housing market activity because median prices are less volatile than average prices. The house prices growth indicator can also be analysed in absolute terms or compared to various benchmarks as set out in Table 3 below.

Table 3: Possible comparative benchmarks

Benchmark	Analysis	Interpretation
1.Historic average	Has the annual growth in median house prices increased significantly above the historic average?	If "yes", then there could be evidence of housing market imbalance
2.Regional average	Has the annual growth in median house prices increased significantly higher than the regional average?	If "yes", then there could be evidence of housing market imbalance
3.Lower quartile house prices growth	How does annual growth in median house prices compare with the annual growth in lower quartile house prices?	Significantly high rises in lower quartile prices (compared to median house prices) could signal affordability issues

Indicator 3: Low demand

10. Low demand occurs where housing is difficult to let or sell because there are not enough households in the area looking for a home (ie insufficient demand). This may be for a variety of reasons including poor perception or stigma, crime or antisocial behaviour.
11. The proposed low demand indicator, which also informs the monitoring of PSA5, uses the 15th percentile house price (ie the lowest 15% of house prices). An area is normally identified as experiencing low demand where the 15th percentile house price (local authority level) is no greater than 70% of the 15th percentile house prices for England as a whole.

Assessing housing markets

12. The 3 core indicators outlined above provide a wealth of information about housing markets. Each indicator says something different about the housing market, so no single indicator is more important than any other.
13. Local planning authorities and regional planning bodies will need to be careful in their interpretation of the information derived from these 3 indicators, in terms of whether an area is experiencing high or low demand. It is quite possible for housing markets to exhibit a range of characteristics. For example, evidence of high demand does not preclude the existence of low demand. And low demand may exist even where there is evidence of strongly rising prices. The 3 indicators may reflect different aspects of a housing market within a local authority area.
14. Such variations highlight the need for caution when using purely quantitative indicators. Local planning authorities and regional planning bodies should consider using additional contextual information that may reveal more about the particular housing market under consideration.
15. Whilst analysis of the 3 core indicators can be undertaken on the basis of the local planning authority area, there may be merit in working with adjoining authorities to consider whether the market conditions identified are being experienced across a wider spatial area. This is a feature of Planning Policy Statement 3, which suggests that local planning authorities and regional planning bodies should have regard to housing market areas in developing their spatial plans. An advice note⁴, setting out how local planning authorities and regional planning bodies can work together to identify sub-regional housing market areas, has been published.

⁴ See <http://www.communities.gov.uk/index.asp?id=1509042> – Identifying Sub-Regional Housing Market Areas: Advice Note, Communities and Local Government, March 2007

Glossary

<i>15th Percentile</i>	The value below which 15% of observations are recorded.
<i>Average</i>	The arithmetic average of a set of values $x_1, x_2 \dots x_n$ is their sum divided by the number of items, n . Also referred to as the mean.
<i>Benchmark</i>	A target against which to compare actual performance.
<i>Cyclical fluctuation</i>	Short-term variations, usually driven by fluctuations of economic activity, within a long term growth trend
<i>Indicator</i>	A statistical value that provides an indication of conditions for a certain system, in this case the housing market.
<i>Lower quartile</i>	The value below which 25 per cent of observations are recorded. Also referred to as the 1st quartile.
<i>Median</i>	The value of the variable which divides the total frequency into two halves. Also referred to as the 2nd quartile.
<i>Noise</i>	A term used to describe a series of random disturbances that may distort the information carried by a housing market indicator, therefore confusing interpretation of market conditions.
<i>Rate</i>	A measure of increase or decrease of a condition with some specification of time. For example, the annual growth rate of median house prices is a measure of the increase of house prices over a period of a year.
<i>Ratio</i>	<p>The proportional relationship of one thing to another, where two numbers are compared by division.</p> <p>The higher the value of the ratio, the higher the numerator (eg lower quartile prices) is relative to the denominator (eg lower quartile earnings).</p> <p>The lower the value of the ratio, the higher the denominator is relative to the numerator.</p>