

Highland Housing Market Analysis

HNDA 2020 - Supporting Paper 6 – Rental costs, house prices and affordability

1. Introduction

- 1.1. This paper has been written to accompany the Highland Housing Needs and Demand Assessment providing more current (at the date of writing) information on rents and rent affordability.
- 1.2. Private rental costs in the Highland Council area appear to continue to rise at a rate over and above the consumer price index (CPI) and are now significantly higher than those rental figures included in the HNDA Tool (v3.3).

2. HNDA Tool v3.3 Private Rental Costs Data

- 2.1. Costs for private rental of a 2-bedroom property are supplied by the CHMA within the HNDA Tool. V3.3 of the tool contains “Broad Market Rental Area” data for Highlands and islands – and allocates the same figures to each Housing Market Area and Local Authority Area included in this wide regional aggregation. The source referenced is “Private Rents by Bedroom Size” from the Scottish Government Rent Registration Service (RSS) (HNDA Tool Guide 2018). The date of this data is the Year to end of Sept 2016.
- 2.2. For the Highland Council area private rental costs for a 2-bedroom property per month show the median rental figure of £560.95 and the 25% (Lower Quartile) figure of £550.

3. HNDA Tool v4.0 Private Rental Costs Data

- 3.1. The updated v4.0 of the HNDA Tool from November 2020 contains the same data as for the year to the end of Sept 2018.
- 3.2. In the [Data] tab of the tool a Weekly Rent figure (Median) of £122 (giving a monthly cost of £529). This was queried with CHMA in October 2021 and appears to be calculated differently and is awaiting correction.
- 3.3. Checking against the source of this data <https://www.gov.scot/publications/private-sector-rent-statistics-2010-2019/pages/9/> included as Appendix A to this paper the median figures for private rent in the Highlands and Islands in the following document suggest the median figure for the year to Sept 2018 is £575 (Lower Quartile £510) and the Sept 2019 figures are £600 (Median) and £525 (Lower Quartile) – The source of this data is included as Appendix A to this paper.
- 3.4. Comparing against a 2010 baseline also available from the above source data in the CHMA supplied data – the mean figure for the private rental of a 2 bedroom property has risen by 19.4% by Sept 2019 (compared to a Cumulative CPU increase of 20.8% between Sept 2010 and Sept 2019) in the Highlands and Islands region. Comparable figures for Lothian are +46.3% and Greater Glasgow at +38.3% whilst Argyll and Bute shows a 10.8% increase.

4. Comparisons of available private rental costs data from different sources

4.1. Different available data on private rentals cover quite different geographical areas. These are best illustrated in the following maps. Figures incorporated into the HNDA tool are for the wider area with Highland Council Area as part of a wider regional area “Highlands and Islands” (which includes including Orkney, Shetland, Moray and Comhairle Nan Eilean Siar). In the HNDA tool, no figures are made available for Highland Council area or the Housing Market Areas (HMAs within that area).

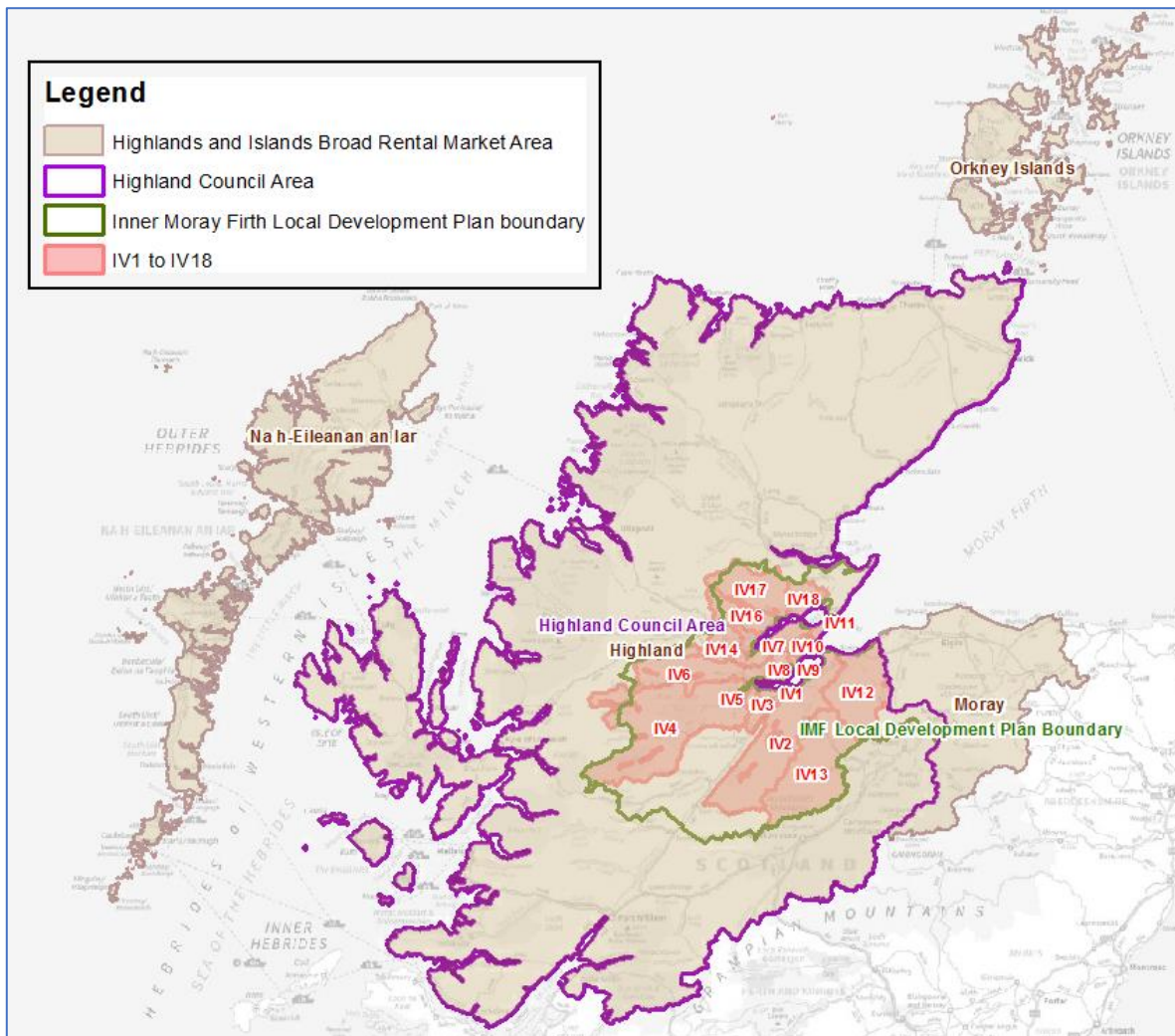


Figure 1. Areas of coverage for private rental data

4.2. The following table summarises the monthly private rental asking prices from different sources for the identified geographic areas. NOTE: These figures are new rental asking prices – not the figures necessarily paid by continuing tenants.

Source	Geography	2 Bed Private Rental	
		25th Percentile	Median
Private Sector Rent Statistics (PSRS) (year to end Sept 2010)	Highlands & Islands	£450	£500
PSRS year to end Sept 2011	H&I	£460	£500
PSRS year to end Sept 2012	H&I	£450	£500
PSRS year to end Sept 2013	H&I	£475	£525
PSRS year to end Sept 2014	H&I	£475	£525
PSRS year to end Sept 2015	H&I	£495	£500
PSRS year to end Sept 2016	H&I	£500	£550
PSRS year to end Sept 2017	H&I	£500	£550
PSRS year to end Sept 2018	H&I	£510	£575
PSRS year to end Sept 2019	H&I	£525	£600
Highland Council Data 2019	IV1 - IV18	£600	£650
HC Wide Sept 2021	Highland Council Area	£620	£695
Inverness HMA Sept 2021	Inverness HMA	£621	£698

Table 1. Private rental asking prices. Sources: PSRS data – Scottish Government, Highland Council Housing and Research data

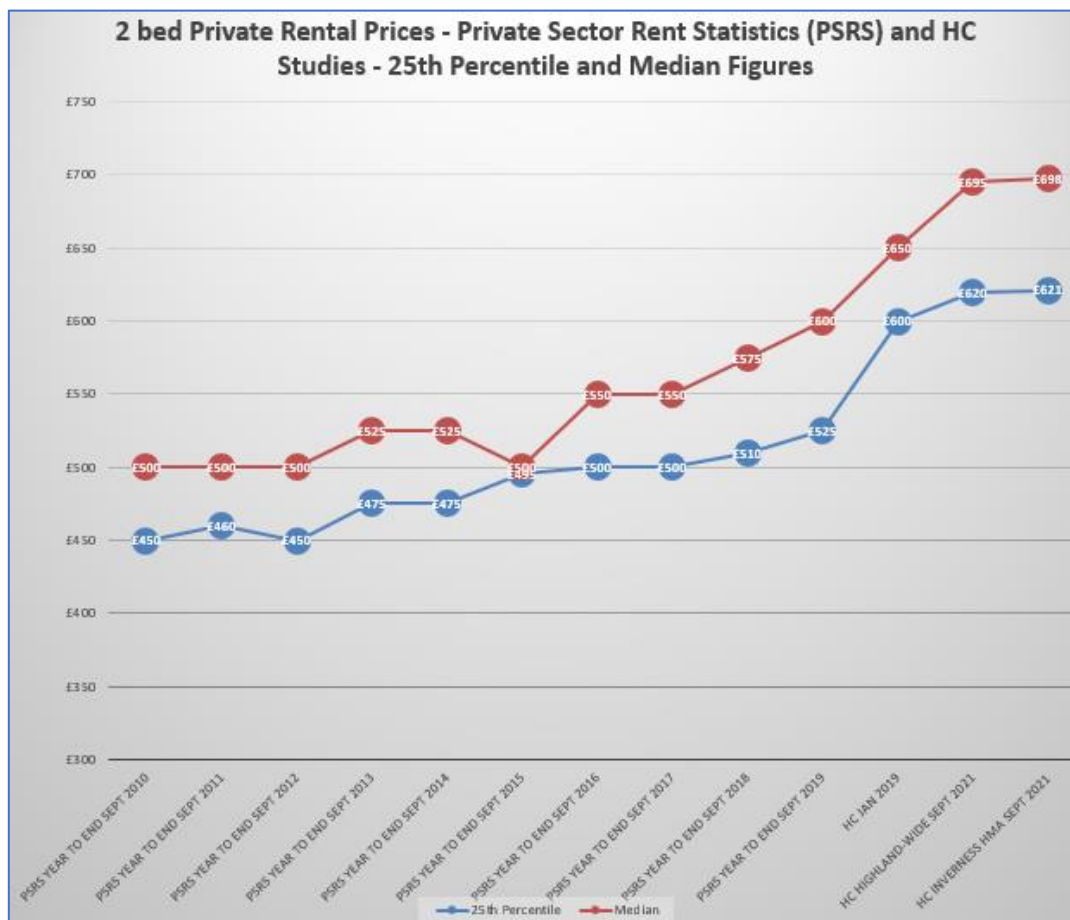


Figure 2. Private rental asking prices. Sources: PSRS data – Scottish Government, Highland Council Housing and Research data

- 4.3. The Highland Council collected data was sourced in January 2019 and September 2021 from desktop surveys of available private lets advertised for rent online. The 2019 survey (IV1 to IV18 only) shows higher figures (at £600 lower quartile and £650 median) than the PSRS data covering the whole Highlands and Islands. This difference in geographic area covered differs and the methodologies for inclusion of records may contribute to the difference between these two data sources.
- 4.4. The PSRS data to 2019 shows the median rental figure (for the Highlands and Islands) against the Sept 2010 figure shows an increase of 20% to Sept 2019 (compared to a Cumulative CPI increase of 20.8% in the same period) however taking the highland Council data figure this is a 30% increase at the median level.
- 4.5. The PSRS median figures in the year between Sept 2018 and Sept 2019 show an increase of 4.3% (against a UK wide CPI increase of 1.7%) from £575 to £600 per month.
- 4.6. The latest survey data collected locally by Highland Council in September 2021 identified 36 advertised two bed properties in the Highland Council area (28 in the Inverness HMA) and produced the following figures:
 - Highland Council area: £678 (Mean) - £620 (Lower Quartile) - £695 (Median)
 - Inverness HMA: £681 (Mean) - £621 (Lower Quartile) - £698 (Median)
- 4.7. Using the Highland Council sourced data, the Sept 2021 median rental figures shows a 29.7% increase over the Sept 2010 PSRS figure and as shown in the graph in Figure 2. It continues to rise at both the median and lower quartile figures. (Appendix A. shows the full data from the PSRS Highlands and Islands profile including upper quartile and mean figures)

5. Local Authority and RSL Rental Costs

- 5.1. Local Authority Rental Costs in the Highland Council area have risen from an average of £65.14 per week (2014/5) to £68.16 (2018/9) per week (£3387 to £3544 per annum).
- 5.2. There are 4 large registered Social Landlords operating in the Highland Council area, Cairn, Albyn, Lochaber and Pentland Housing Associations. Using their average weekly rates – we can calculate a 2014 weekly rent of £76.92 (£4000 per annum), £86.48 weekly in 2018 (£4497 per annum).

6. House Prices

6.1. The HNDA Tool contains data from Registers of Scotland on house sale and includes lower quartile and median sales prices.

Year	Lower Quartile	Median
2011	£105,000	£147,500
2012	£105,000	£143,000
2013	£107,175	£145,000
2014	£108,000	£148,000
2015	£112,000	£155,000
2016	£115,000	£155,962
2017	£115,200	£162,500
2018/9	£118,000	£165,500

Table 2 - House Price Time Series Data: Source – RoS

6.2. A peak in sales occurred in 2007 and numbers reduced significantly due to the impact of the credit crunch and this has not returned to the annual sales volumes (5000-6100) in the 2004 to 2007 period. The last 4 years from 2016-2019 have delivered around 4500 sales per year. Against a base price of £162,868 in 2014 the increase to the end of 2020 is 18.5% over 6 years with median prices increasing at more than 3% per year.

7. Incomes

- 7.1. The HNDA Tool v3.3 is supplied with Household income estimates based upon 2014 data and provided as a lower quartile and median figures for each Housing Market Area and for the Highland Council area. These figures are intended to estimate total household income from both benefits and job-related earnings and are potentially a more useful indicator of any household incomes than changing individual earnings.
- 7.2. The same data provided by CHMA with a 2018 base and included in the HNDA Tool v4.0 suggests that Highland Council area annual lower quartile household income has risen from £18,200 in 2014 to 18,720 in 2018. The median household income has remained unchanged in the 4 years from 2014 to 2018 at £30680 (£590 per week).
- 7.3. Both lower quartile and median HMA level household income figures vary in changes between 2014 with rises to 2018 in Badenoch and Strathspey, Lochaber, mid Ross, Skye and Lochalsh, Sutherland and Ross and Cromarty West and falls in Caithness, East Ross and Nairn. Inverness HMA which contains three times the number of residential properties compared to any other HMA in the area has shown no change in lower quartile or median household incomes.
- 7.4. When compared against changes across Scotland for the same periods – the Scottish median household figure also shows no change with the same figure of £28,600 per household in both 2014 and 2018. The biggest falls across this period are in Shetland (-17.2% over 4 years) and Eilean Sair (-12.5%). The adjoining Local Authority areas of Moray and Argyll and Bute both show a similar 0% or no change whereas Perth and Kinross shows a 10.3% rise. The largest increase is seen in East Renfrewshire with a 12.1% rise over the same period.

8. Affordability Ratios

9. The following table (Table 3) summarises the data on all tenures of rental, house prices and incomes described above specifically for snapshots from 2014 and 2018 where each of these datasets has been made available.

	Private Rent				Local Authority Rent		RSL Rent		Income		House Prices	
	Lower Quartile Rent		Median Rent		Average Rent		Average Rent		Lower Quartile	Median	Lower Quartile	Median
	Monthly	Per Annum	Monthly	Per Annum	Weekly	Per Annum	Weekly	Per Annum	Per Annum		Per Annum	
2014	£475	£5,700	£525	£6,300	£65.14	£3,387	£76.92	£4,000	£18,200	£30,680	£108,000	£148,000
2018	£510	£6,120	£575	£6,900	£68.16	£3,544	£86.48	£4,497	£18,720	£30,680	£118,000	£165,500

Table 3 – Rental costs, house prices and incomes

- 9.1. By comparing the lower quartile and median rental and house price data with lower quartile income data for 2014 and 2018 we can create ratios giving an indication of changes in affordability between these two periods. Table 4 shows the comparable ratios for 2014 data and 2018 data.

	Affordability Ratios							
	Lower Quartile	Median	Lower Quartile	Median	Lower Quartile	Median	Lower Quartile	Median
	Private Rent/Income	Private Rent/Income	LA Rent/Income	LA Rent/Income	RSL Rent/Income	RSL Rent/Income	House Price/Income	House Price/Income
2014	31.3%	20.5%	18.6%	11.0%	22.0%	13.0%	593.4%	482.4%
2018	32.7%	22.5%	18.9%	11.6%	24.0%	14.7%	630.3%	539.4%

Table 4 – Affordability Ratios 2014 and 2018

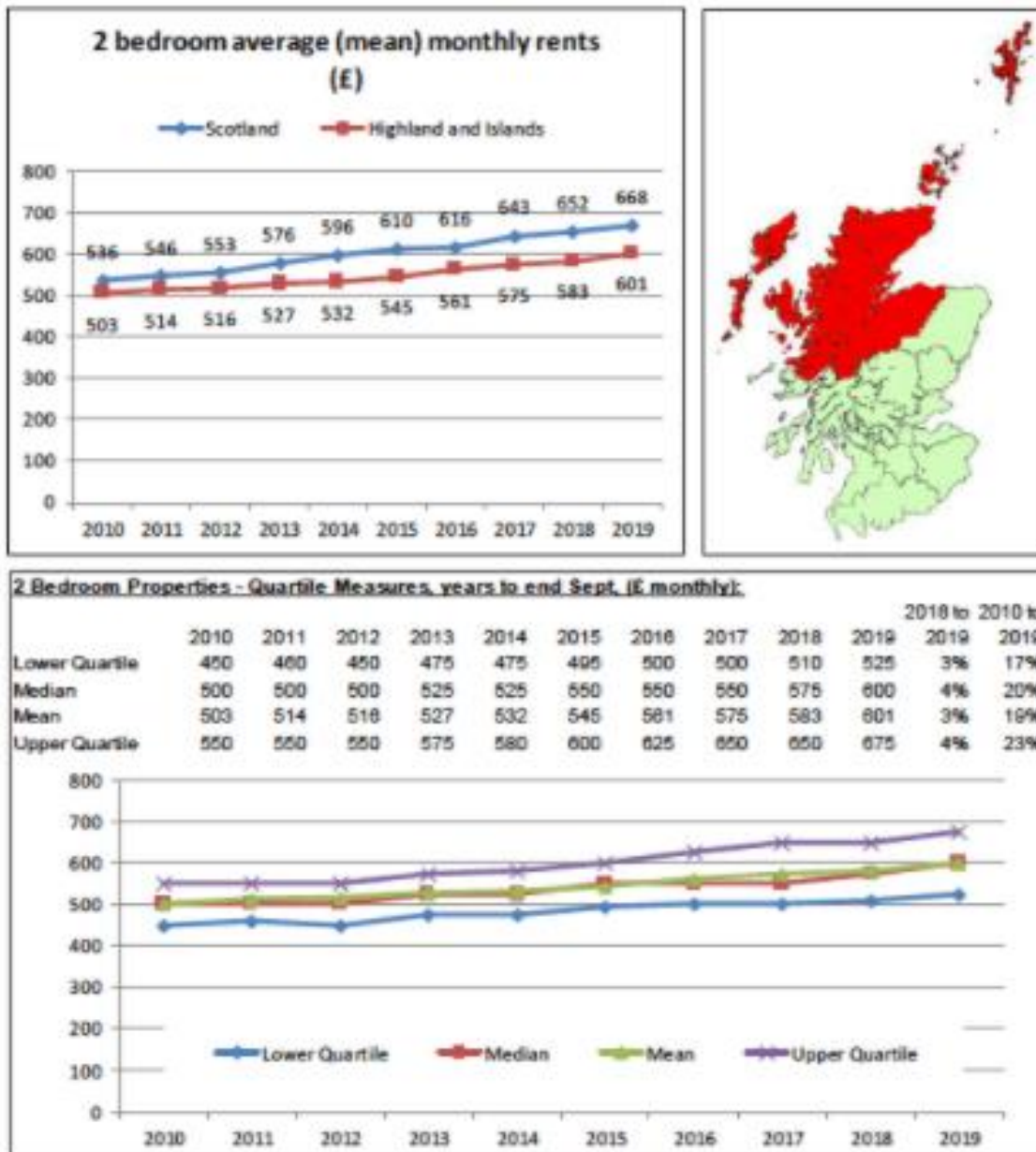
- 9.2. Local authority rent as a proportion of annual income has risen slightly between 2014 and 2018 from 18.6% to 18.9% (Lower Quartile) and 11.0% to 11.6% (median). A larger increase is visible in RSL rental costs as a proportion of income (Lower quartile from 22% to 24% and at the median level from 13% to 14.7%).
- 9.3. The highest costs in rental sectors are for private rental and rates are around double the costs of Local Authority rent. Between 2014 and 2018 in the Highland Council area lower quartile private rental costs have risen from 31.3% to 32.7% of lower quartile incomes. Comparing median private rents with median incomes shows a similarly increasing ratio from 20.5% to 22.5% of household gross income.
- 9.4. In the same period, for purchasers the ratio of income to house prices has also risen. In 2014 lower quartile house prices were 593.4% of lower quartile incomes and rose to 630.3% of lower quartile incomes. For median house prices these rose from 482.4% to 539.4% of median income.

10. Summary

- 10.1. Between 2014 and 2018 the proportion of incomes used for all tenures of housing have increased at both the lower quartile and median figures. Small increases appear in the Local Authority Rent affordability ratios however in the RSL and Private rental sectors, the increases are more significant.
- 10.2. Lower quartile private rents by 2018 account for 32.7% of lower quartile incomes and median rents are 22.5% of median income.
- 10.3. Private rental costs have been increasing at or above the rate of CPI across the period from 2010 to 2019.
- 10.4. House prices have increased against slight increases in household incomes at the lower quartile with house prices **of 5.93 times the lower quartile household income in 2014 rising to 6.3 times by 2018**. Median house prices against stationary median incomes show **a rise from 4.82 times in 2014 to 5.39 times annual household income by 2018**.
- 10.5. **The above increases in ratios over the four year period in all tenures, supplemented by continuing rising house prices and private rental costs in 2019 to 2021 (See Appendix A and B) all suggest increasing unaffordability in the housing market across all tenures.**

Appendix A. Private Sector Rent Statistics – Highland and Islands Broad Rental Market Area Profile

<https://www.gov.scot/publications/private-sector-rent-statistics-2010-2019/pages/9/>



Appendix B. Average House Sale Prices - Highland Council area

Year	Average Sale Price	Increase on 2014 base price
2014	£162,868	(Base)
2015	£167,716	2.98%
2016	£169,243	3.91%
2017	£174,374	7.06%
2018	£181,322	11.33%
2019	£184,986	13.58%
2020	£192,956	18.47%

Source: Registers Of Scotland – Highland Council Area Data
<https://www.ros.gov.uk/data-and-statistics/house-price-statistics>