

Affordability and Housing Supply in Jersey

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Purpose: To summarise the drivers for high housing costs in Jersey, define the housing affordability issue in Jersey and to examine the interplay of affordability and housing quality.

Recommended Actions for the Housing Policy Development Board

- Consider findings on acute affordability challenges (by tenure and household type), particularly for those in the rental sector, and first-time buyers
- Consider the value of researching solutions focussed on home ownership interventions for first time buyers and other groups
- Consider the value of researching solutions focussed on rental market interventions for residentially qualified tenants and other groups
- Consider the value of further data gathering to inform policy in the areas of:
 - Required deposits to purchase a home
 - The two-tier housing market (sources of data to be confirmed)
- Confirm the impact of the fiscal treatment of homeowners and tenants and its impact on affordability
- Consider the impact on affordability of the approach adopted by the Island regarding living conditions in rented properties

Summary

The issue of housing affordability has become the focus of public, political and policy concern in Jersey, with housing being relatively expensive, and this acting as a barrier to people accessing the accommodation of their choice.

The issue of affordability is an explicit concern of the Terms of Reference of the Housing Policy Development Board, which state that the Board will be responsible for a wide-ranging review of the housing market in Jersey and that the Board will examine the factors that affect the supply, affordability, access to, and the standard of housing in Jersey.

This paper considers how affordability can be defined, levels of housing affordability in Jersey for different groups and how Jersey compares internationally, concluding that overall housing in Jersey is relatively unaffordable.

Based on this finding we explore the implications of this low housing affordability, focusing on housing quality and access to rental and home ownership across the island. We address the possible causes of housing affordability, and also begin to explore approaches taken in other jurisdictions to tackle housing unaffordability. This lays a foundation for future work in the solutions phase of the Housing Policy Development Board (HPDB) timetable.

1 Background

- 1.1 The Government of Jersey (GoJ) acknowledges that housing is comparatively expensive in Jersey and that housing affordability is one of the main challenges facing the Island's housing market¹. House price growth at levels above the growth in earnings have meant that this is a problem that has become more acute since 2014.
- 1.2 For the purposes of this paper when considering house prices, we have used either mean or median price levels, but wherever the data is available, median values have been used as a representative average. This is because the median is not skewed by relatively expensive 'luxury' properties that are present in the Jersey property market. Owner occupied housing refers to accommodation for sale on the open market and rental housing refers to all types of rental housing (qualified and nonqualified market rental, and socially rental homes), although we distinguish prices between these rental categories wherever data is available.

2 Defining affordability

- 2.1 Statistics Jersey defines affordability by considering the proportion of income spent on either a mortgage or on rent. This section describes in more detail what is meant by 'affordability' to compare this current approach to calculating affordability against other approaches, and therefore determine whether it is fit for purpose for the future.
- 2.2 We have summarised the two most common approaches to defining affordability in the table below (house prices to earnings ratio and proportion of income spent on housing) as well as one less common but still accepted approach (surplus to live on).
- 2.3 While the proportion of income approach used by Statistics Jersey has its limitations (as identified in the table below), it is generally accepted that this approach is an appropriate tool for calculating market-wide housing affordability. This form of affordability calculation is used widely among other jurisdictions and is a reasonable method for identifying if there is financial stress caused by housing costs.
- 2.4 Throughout this paper we will therefore rely on the relevant Statistics Jersey definition of affordability (either 30% of gross income, or 40% net income).
- 2.5 Housing affordability is a metric designed to move beyond considering house prices, to what a household is able to afford. This is as high housing prices do not necessarily lead to low housing affordability, for example a housing market with higher housing prices than other jurisdictions could be more affordable if earnings are at a higher level and sufficiently cover the costs of housing and other expenses (see Section 3).
- 2.6 As a result, when designing and assessing housing affordability a metric of household income must be included. In much of the English-speaking developed world, widespread rules of thumb for assessing affordability according to housing cost to income ratios, include

¹ States of Jersey Strategic Housing Unit, Housing Strategy, 2016

“one week’s pay for one month’s rent” (a 25% ratio) used up until the early 1980s and more recently 30% or even a third of income being spent on housing costs.

- 2.7 Affordability calculations are generally most effective at measuring affordability when high earners are excluded from the analysis, since high earners may choose to spend a high proportion of their income on housing and still have a relatively large amount of income left over for other living costs.² Statistics Jersey accounts for this challenge in its adopted method of calculating rental stress by considering the rent to earnings ratio of households in the lowest 40% of the income distribution, thereby excluding higher earners.³

² “The Australian 30/40 rule assumes any household above the 40th decile that has put themselves in a position where their housing costs are in excess of 30 per cent of their income has done so out of choice” from *The Residual Income Approach to Housing Affordability: The Theory and the Practice* by Stone et al

³ *Housing Affordability in Jersey, 2015*, GOV.je

Table 1: Three Approaches for Defining Affordability

Approaches ⁴	Strengths	Limitations	Uses
<p>House prices to earnings ratio</p> <p><i>About: A basic measure of the price of housing, on average, against the average earnings level. If the ratio is above jurisdiction's average over time, it is thought that the ratio should come down.</i></p>	<ul style="list-style-type: none"> Relatively easy to calculate over time and across geographies Inexpensive to gather data needed for calculations Good as a macroeconomic representation of housing prices for international comparisons Helps predict market corrections when housing becomes more unaffordable 	<ul style="list-style-type: none"> Shows the price rather than the cost of housing Overlooks the impact of cost of finance (interest rates) on prices Data can be skewed based on overvaluation at a certain time, impacting the trend average Does not consider which groups face housing stress (lacks insight) 	<ul style="list-style-type: none"> UK ONS describes it as the median affordability ratio OECD and World Bank use this for international comparisons Statistics Jersey uses it for making comparisons between jurisdictions and for examining trends in affordability over time
<p>Proportion of income spent on housing</p> <p><i>About: Instead of general earnings to price calculation, this approach considers the actual costs as a comparison of relative household income, which can then be split into different income groups</i></p>	<ul style="list-style-type: none"> Compares housing costs to incomes and therefore seeks to overcome the shortcomings of the prices to earnings ratio Captures expenditure on housing and measures the number of households paying above a set proportion of their income on housing costs Focusing on certain income brackets may overcome the issue of higher earners paying large sums on housing costs being classed as in unaffordable housing Verified by the finding that there is a link between high rent to income ratios and financial stress 	<ul style="list-style-type: none"> Measure can suffer from hiding under-consumption of housing – households living in sub-standard housing Can mask affordability issues for those seeking to buy or who cannot afford to rent Generally, takes little account of the level of income and therefore underrepresents certain households in its measure of affordability 	<ul style="list-style-type: none"> Statistics Jersey uses this to calculate the Jersey Housing Affordability Index (affordability of mortgages at 30% of mean gross household income and 40% of net household income at prevailing interest rates with a 10% deposit) and rental stress, which looks at households in the bottom two quintiles spending more than 30% of their income on housing “A third” (of income spent on housing costs) rule used in the UK Australia, like Jersey, uses the 30:40 rule for calculating housing stress

⁴ Analysis from: Mean, G “How should housing affordability be measured?” (2018), Affordable Housing Commission’s “Defining and measuring housing affordability – an alternative approach” (2019) and Stone, M “The Residual Income Approach to Housing Affordability: The Theory and the Practice” (2011)

Approaches ⁴	Strengths	Limitations	Uses
			<ul style="list-style-type: none"> OECD: Households that spend more than 40% of disposable income on housing are considered overburdened
<p>Surplus to Live On <i>About: Calculates the amount left over after housing costs and whether there is a shortfall between the minimum basket of goods and household income after housing costs (residual income). If so, housing is deemed unaffordable.</i></p>	<ul style="list-style-type: none"> More precisely calculates the money a household is left with after housing costs and whether that is enough to secure a decent standard of living Can be household specific (i.e. dependents) Considers household expenses other than housing costs 	<ul style="list-style-type: none"> Requires those calculating to agree a set of household goods and services and the minimum socially acceptable income Ignores the ability of households to borrow, which could help smooth the household incomes in a particular year to cope with a temporary shock such as redundancy Does not distinguish between housing and wider financial stress (e.g. some households may require negative rents for their household income to be adequate to live on) 	<ul style="list-style-type: none"> Statistics Jersey expresses household earnings before and after housing costs, but this is not an approach used in housing affordability analysis Promoted in US Academic Literature since the 1970s, with little use in policy Australia is the leader in using this indicator for policymaking Some analysts in continental Europe and Asia use the approach
<p>Variations on these definitions include the addition of other calculations including:</p> <ul style="list-style-type: none"> Supply of homes (number of homes affordably available to households in each income group) The affordability of purchase (relating to finance and deposit costs) Factoring in benefits (housing or other) Difference in tenure Accounting for need (household size and disability) Accounting for space and quality standards 			

3 Affordability in Jersey

- 3.1 Within the housing market there is a division between owner occupiers and renters. Although households are able to move between the two tenures, and there are links between housing prices and rental prices, in terms of affordability the difference in housing costs in the two markets mean that we have considered each tenure separately.
- 3.2 Jersey has a comparatively low rate of owner occupation, and it is possible that demand for rental, and the relatively high rates of renters on the Island, is in part a result of the residential status rules in Jersey, which create disincentives or barriers to purchase for new arrivals. For example, some renters who would not be restricted by deposit or mortgage accessibility concerns when considering becoming owner occupiers may be:
- unable to purchase due to residency restrictions (e.g. those who are “Registered”)
 - hesitant to purchase due to employment-tied housing rights status (e.g. those who are “Licensed”)

Owner Occupiers

- 3.3 At the time of the last census in 2011, owner-occupied housing, or housing for sale, represented approximately 54% of the market with c. 22,574 owner-occupied dwellings in Jersey⁵.
- 3.4 When considering the affordability of home ownership, there are two groups of households to consider, those who already own a home, and those who may be seeking to become owner occupiers.
- 3.5 For those who are already owner occupiers increases in house prices will not create a significant affordability issue as they have already paid a deposit and the terms of their mortgage are mainly fixed. For this group the key driver of variance in their monthly housing costs is changes in interest rate. With interest rates remaining low this is not a key contributing factor to housing costs at present, but this could change in the future.
- 3.6 For those who do not yet own a home, price is not the only relevant factor in the owner-occupied market. Being able to purchase a home is dependent on a household having sufficient income to secure a mortgage for a home, with mortgage lending limits usually set as a multiplier of salary, and on the household having saved a sufficient deposit.
- 3.7 The Jersey Housing Affordability Index (JHAI) indicates whether a working household with average (mean) income is able to purchase a property affordably. Statistics Jersey reported that in 2018 affordability in Jersey declined compared to calendar year 2017. In addition, in

⁵ Households and dwellings statistics, GOV.je

the most recent 5-year period the overall housing affordability index has declined 10%, meaning overall housing affordability has worsened over that period.⁶

- 3.8 As expressed in real prices the cost of an average priced (mean) 2-bedroom flat for purchase in 2019 is £413,000 which according to JHAI calculations⁷ would result in a monthly payment of £2,024 pm, This represents 50% of the median gross household income level of £4,028 per month⁸ and compares poorly to the JHAI definition of affordability of no more than 40% of gross income being spent on mortgage costs.

Rental Housing

- 3.9 About 43% of people in Jersey rent their homes, across qualified market and social housing sectors⁹. Most of the rental market in Jersey is private; qualified and non-qualified rental, lodging and employment-tied accommodation makes up approximately 70% of the rental market, whereas States (Andium), housing trust or parish rent makes up 30% of rental housing.¹⁰
- 3.10 In terms of rental prices used in this analysis, as non-qualified rental represents a very small number of transactions, there is not a sufficient sample size to accurately track prices in this market. However anecdotal evidence suggests non-qualified rentals are more expensive and are of poorer quality compared to qualified rental accommodation. We understand that Officers will seek to collate relevant sources of data for this area to inform the Solutions phase of this project.
- 3.11 Social housing is priced at no more than 90% of the market equivalent for an individual property. The largest social housing provider, Andium, is imposing rents at 90% as tenants take on new leases. Ongoing Andium tenants are paying rents at a range of below market values. It is understood that at the time the 90% of market equivalent policy was put in place for social housing rents, the purpose was primarily to address cash flow objectives for social housing delivery, and not necessarily focussed on objectives relating to tenant affordability.
- 3.12 The cost of renting an average priced (mean) 2-bedroom flat in 2017 was £1,778 pm¹¹ This is lower than the cost of owner occupation but still represents 43% of the median gross household income level of £4,028 per month. This is above the 40% level of gross income considered affordable.
- 3.13 However, this analysis is limited, by a generalisation of costs (using market prices) and income (island-wide median gross household income). To address this, affordability for particular household groups is explored in more detail in the next section.

⁶ Housing Affordability in Jersey, 2015, GOV.je

⁷ 10% cash deposit, 90% mortgage at a Bank of England sterling standard variable mortgage rates for 25-year term

⁸ Median household earnings uplifted by inflation of 13.4% (December 2013 to March 2019)

⁹ Households and dwellings statistics, GOV.je

¹⁰ Households and dwellings statistics from 2011 Census, Statistics Jersey

¹¹ This figure is according to the Jersey Rental Price Index (Q2 2017) via "Written Question To The Minister For Housing by Deputy G.P. Southern Of St. Helier answer To Be Tabled On Tuesday 26th September 2017". Please note this is a value for housing price, not real cost and could be overinflated and is based on advertised rental costs not reported by Statistics Jersey.

4 Affordability of Actual Housing Costs

- 4.1 In this section, we have used data extracted from the 2014/2015 Survey of Household Earnings published by Statistics Jersey in 2015 (the latest data available as the survey is ran every 5 years), which reports on net household income before and after housing costs, to look at typical reported earnings and housing costs (including mortgage interest, rent and parish rates) of people in Jersey across tenures and household types, to identify acute affordability concerns that may affect particular groups. As costs have risen over the five years since the survey has taken place the rental figures are lower than those we have used elsewhere in this report.
- 4.2 Since 2014 housing costs have grown at a higher rate than earnings so it is likely that the position is now worse than when the survey was undertaken.
- 4.3 The survey data looks at the actual housing costs being paid by these groups at the time of the survey, rather than the estimated cost of a new mortgage or lease if a household were to move. The housing cost figures are therefore lower than those reported in previous sections which, as described at 3.8 have focussed on owner-occupied housing costs for a first-time buyer.
- 4.4 In representing households' actual housing costs these figures also do not consider the suitability of housing. For example, if a household is occupying a smaller property, and household members are overcrowded, as they cannot afford a property which meets their needs, this will not be captured by the data.

Affordability by tenure

- 4.5 The table below illustrates how housing costs affect different tenure groups:

Table 2: Median Housing Costs for Various Tenures, in £ and as a % of median net household income

Median Housing Costs for Various Tenures, in £ and as a % of median net household income (equivalised) ¹²	Net Household Income before housing costs (per month)	Housing Costs (per month)	Residual Income after Housing Costs (per month)	Proportion of net household income spent on housing (%)
Owner Occupied with Mortgage	£ 4,377	£ 520	£3,857	12%
Rental (Qualified)	£ 2,947	£ 910	£2,037	32%
Rental (Non-qualified)	£ 2,427	£ 607	£1,820	25%
Social Rental	£ 2,037	£ 823	£1,214	40%
All ¹³	£ 2,947	£520	£2,427	18%

¹² From Jersey Household Earnings Survey 2014/15. Housing costs calculated by subtracting Net income before housing costs (BHC) was defined as Gross Cash Income, minus income tax, rates (parish and Island-wide), social security payments, pension contributions, child maintenance payments made to other households. Net income after housing costs (AHC) was defined as Net Income BHC, minus: mortgage interest or rent payments on place of residence, service charge on place of residence, buildings insurance for place of residence. Please note, due to different equalisation factors among tenure groups, housing costs figures should be treated as estimates only.

¹³ Also includes Owner Occupied without Mortgage, who pay c. 1% of income on housing costs which primarily consist of service charged and other non-rent or mortgage costs

4.6 Table 2 shows that:

- Owner occupiers with a mortgage have the highest net household income before housing costs of the various groups and have the lowest housing costs.
- Average owner occupier costs (for existing owner occupiers) were at £520pm compared to an estimated £1,788pm for a first-time buyer purchasing at current prices
- Qualified renters have the second highest income but have the highest housing costs, with 32% of net income spend on housing costs.
- Social renters have the second highest housing costs but also the lowest net household incomes and pay 40% of their income on housing costs, which is at the level of unaffordability set by JHAI.

4.7 As mentioned above, social housing rents on the island are charged at up to 90% of the market equivalent for each property type. While the GoJ's Income Support policy is such that a tenant of a social housing landlord has the full value of their rent included within their income support calculation so long as the tenant is occupying an appropriate property for the size of their household¹⁴, Andium argue that the 90% of market equivalent creates affordability challenges for the 40% of their households not in receipt of Income Support. However, the design of Income Support (as set out in Appendix 1) means that those in Andium homes who do not receive Income Support should have sufficient income so as not to be facing affordability difficulties.

Affordability by household type

4.8 The table below looks at the income of different household types, against housing costs expressed as a proportion of net household income before housing costs. The data shows that single parents and working age adults living alone pay the highest proportion of their income on housing costs each month and pensioners pay the lowest. The housing costs and tenures of pensioners was previously explored with the HPDB in the June paper on Ageing Population.

Table 3: Median Housing Costs for Various Household Types, in £ and as a % of median net household income

Median Housing Costs for Various Household Types, in £ and as a % of median net household income (equivalised) ¹⁵	Net Household Income before housing costs (£ per month)	Housing Costs (£ per month)	Proportion of net household income spent on housing (%)
Pensioner	£2,340	£ 217	9%
One Parent with dependent	£2,297	£ 953	42%
Couple with dependent	£3,120	£ 520	17%
Couple no children	£3,683	£ 607	16%
Working age adults living alone	£2,773	£ 823	30%
Other	£3,467	£ 217	6%

¹⁴ Income Support rates, Gov.je

¹⁵ Please note, due to different equivalisation factors among household groups, housing costs figures should be treated as estimates only.

All	£2,947	£ 520	18%
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4.9 This table is supplemented by further work undertaken by Statistics Jersey as part of the Earnings Survey analysis which showed that when looking at individuals across Jersey, 29% of children were living in a household with a relatively low income after housing costs were taken into account (23% of all individuals).

5 Affordability Based on Current Prices

5.1 While the Earnings Survey helps identify where people are currently experiencing affordability difficulties, it fails to identify how this relates to property suitability, and aspirations to ownership, as it is based on where people are currently living not the housing costs experienced by first time buyers, and may not be based on a suitable property for the household.

5.2 To address this gap, we have considered typical gross earnings by occupation using recently advertised posts and mean housing costs (mortgage and rental prices only) using GoJ's Jersey House Price and Rental Price indices. This is therefore focussed on people who are transferring between homes, rather than on current housing costs paid.

5.3 The analysis shows that:

- A FTE retail assistant or sous chef cannot affordably service any 1-bedroom property, and a FTE retail assistant who is not receiving income support would pay over 70% of monthly income for a 1-bedroom social housing flat
- A newly qualified social worker cannot affordably rent or buy a 1-bedroom property, and currently would be unable able to rent a 1-bedroom social housing flat as social housing on the island is accessed through Housing Gateway which currently does not accept applicants with income of over £40k.
- In the examples shown in Tables 4 and 5 below only the Retail Assistant and Sous Chef would be eligible for social housing.

Table 4: Housing Affordability Calculations by Occupation

Housing Affordability Calculations (Single Earner) ¹⁶			1 Bedroom Flat (2019 Figures)		
			Purchase	Private Rent	Social Rent
Gross Annual Salary	Gross Monthly Salary	Occupations	£1,250	£1,108	£997
£16,500	£1,375	Retail Assistant	91%	81%	73%
£27,300	£2,275	Sous Chef	55%	49%	44%
Cut off for access to the Housing Gateway is currently at £40,000					
£40,951	£3,413	Social Worker (Newly Qualified)	37%	32%	29%
£44,101	£3,675	Radiographer (Mid-level)	34%	30%	27%

¹⁶ **Assumptions:** 10% deposit at 4.3% interest rate for 25 years at price of 2 bedroom flat from latest Jersey Housing Price Index Q1 2019, Rental Prices updated to Q1 2019 index with cash values quoted from "Written Question To The Minister For Housing by Deputy G.P. Southern Of St. Helier answer To Be Tabled On Tuesday 26th September 2017" (Q2 2017), Social Housing Costs estimates at 90% of market price listed

Key: Red indicates housing costs are more than 50% of earnings, amber indicates housing costs are more than 30% and less than or equal to 50% of earnings, green indicates housing costs are no more than 30% of earnings

£53,078	£4,423	Teacher (Highest Level)	28%	25%	23%
£58,257	£4,855	Investment Manager (GoJ)	26%	23%	21%
£66,374	£5,531	Doctor (Associate Specialist)	23%	20%	18%
£87,254	£7,271	Director (Civil Service)	17%	15%	14%

Table 5: Housing Affordability Calculations by Occupation

Housing Affordability Calculations (Single Earner) ¹⁷			2 bedroom Flat (2019 Figures)		
			Purchase	Private Rent	Social Rent
Gross Annual Salary	Gross Monthly Salary	Occupations	£ 2,024	£1,778	£ 1,600
£ 16,500	£ 1,375	Retail Assistant	147%	129%	116%
£ 27,300	£ 2,275	Sous Chef	89%	78%	70%
Cut off for access to the Housing Gateway is currently at £40,000					
£ 40,951	£ 3,413	Social Worker (Newly Qualified)	59%	52%	47%
£ 44,101	£ 3,675	Radiographer (Mid level)	55%	48%	44%
£ 53,078	£ 4,423	Teacher (Highest Level)	46%	40%	36%
£ 58,257	£ 4,855	Investment Manager (Government)	42%	37%	33%
£ 66,374	£ 5,531	Doctor (Associate Specialist)	37%	32%	29%
£ 87,254	£ 7,271	Director (Civil Service)	28%	24%	22%

5.4 For single earners with dependents, the affordability of two-bedroom properties is particularly strained. Further analysis shows:

- The average monthly social rent for a two-bedroom property (say for one adult and one dependent) would consume almost 70% of a FTE retail assistant's gross salary
- A newly qualified social worker would be unable to affordably service the monthly rent of an average priced private two-bedroom property on their own
- Single doctors working in Jersey may not be able to service the monthly rent of an average priced private two-bedroom property
- Of the cohort analysed, only civil service Directors earning over £85k per annum are able to affordably service monthly payments on both averagely priced rental and mortgaged two-bedroom properties in Jersey

6 Comparative Rental Affordability

¹⁷ **Assumptions:** 10% deposit at 4.3% interest rate for 25 years at price of 2 bedroom flat from latest Jersey Housing Price Index Q1 2019, Rental Prices updated to Q1 2019 index with cash values quoted from "Written Question To The Minister For Housing by Deputy G.P. Southern Of St. Helier answer To Be Tabled On Tuesday 26th September 2017" (Q2 2017), Social Housing Costs estimates at 90% of market price listed

Key: Red indicates housing costs are more than 50% of earnings, amber indicates housing costs are more than 30% and less than or equal to 50% of earnings, green indicates housing costs are no more than 30% of earnings

- 6.1 Having established the affordability challenges facing Jersey it is helpful to review how the experiences of housing affordability in Jersey compares to other jurisdictions. This puts the issues faced by Jersey into a wider context and may help in identifying markets to look to for solutions in the next phase of work. Data is unavailable to undertake this analysis for owner occupied homes, so we have focussed on the rental sector. However, this acts as a useful proxy for affordability in the housing market as a whole.
- 6.2 To undertake this analysis, we have considered 11 OECD comparator countries¹⁸, which have been selected because they are all advanced countries (with advanced economies) with similar housing market structures but at different proportions and with different social/affordable housing offers and costs. To calculate comparative affordability, we used the proportion of income approach outlined above, with local currency figures (for housing costs and incomes) equivalated using an index-linked purchasing power parity in US Dollars (USD). Income includes income from earnings, benefits and any other sources. For comparability the analysis in this section uses gross household income, however net household income will be used in the next section as it provides a more accurate picture of household spend
- 6.3 Overall, we found that rental housing affordability is relatively low for the rental housing sector in Jersey. With absolute rent levels at an average of \$1,116 Purchasing Power Parity (PPP)¹⁹²⁰ for market rent (Qualified and Non-qualified) and \$976 PPP for sub-market rent (social rent), which when taken together provide an overall average rental cost of \$1,089 PPP per month.
- 6.4 Jersey had the second highest proportion of rental housing cost to gross household income, at 24%, preceded by Spain at 25% and tied with the UK.²¹ Jersey's proportion of median gross household income spent on rental housing costs ranks it in the bottom quarter of an international peer group, and for this reason Jersey's rental housing can be understood as relatively unaffordable when compared internationally.
- 6.5 To calculate the proportion of housing cost to income percentage values, compared to a Jersey rental property estimated at \$1,207 PPP per month, the other jurisdictions saw rental figures ranging from \$586 PPP per month (Sweden) to \$1,023 PPP per month (Switzerland). Jersey had the second highest median household income of \$5,113 PPP per month²², second to Switzerland at \$5,897 PPP per month. The lowest median household income was

¹⁸ OECD Countries include: US, Canada, Austria, Belgium, France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland and UK using PPP data 2013 and 2013/14 EuroStat Survey Data via Joint Centre for Housing Studies, Harvard University. Jersey data is gathered from 2014/2015 Survey of Household Earnings (gov.je)

¹⁹ Total housing costs per household are reported in Jersey as part of the 2014/2015 Survey of Household Earnings, are different to housing prices

²⁰ Purchasing power parity (PPP) is a way of measuring economic variables in different countries so that irrelevant exchange rate variations do not distort comparisons

²¹ Carliner et al, "Rental Housing: An International Comparison" from The Harvard Joint Center for Housing Studies (2016)

²² Using a Purchasing power parity conversion from GBP to USD PPP via Stats.OECD.org for 2013 (£.695 = \$1 PPP). Housing cost values and median household incomes are derived from 2014/2015 Survey of Household Earnings and set against housing stock distribution figures from Households and dwellings statistics 2011 to calculate market and sub-market rental costs.

in Spain, at \$2,771 PPP per month. The table below summarises housing costs, incomes and the proportion of these variables among the 11 peers.

Table 6: Comparing affordability across jurisdictions using proportion of housing cost to income approach

Housing Costs and Income in Jersey and 11 OECD Countries	Jersey	US	Austria	Belgium	France	Germany	Italy	Netherlands	Spain	Sweden	Switzerland	UK
Rental Costs for Market and Below Market Rent (\$ PPP)	\$1,207	\$846	\$629	\$703	\$595	\$639	\$666	\$617	\$702	\$586	\$1,023	\$674
Monthly Median Gross Household Income (\$ PPP)	\$5,113	\$4,226	\$4,141	\$3,512	\$3,488	\$3,519	\$3,053	\$4,068	\$2,771	\$3,726	\$5,897	\$2,799
% of Income spent on Housing Costs	24%	20%	15%	20%	17%	18%	22%	15%	25%	16%	17%	24%

6.6 This shows that:

- Switzerland had the highest housing costs of the cohort but its earnings level being c. \$9k PPP higher than the next highest median earning jurisdiction (Jersey) meant it did not have the highest proportion of housing costs to earnings.
- While Spain had mid-level housing costs in the cohort (\$702 PPP per month), its low median earnings meant it had the highest proportion of housing costs to earnings.
- Despite Jersey's relatively high income in the cohort, this accompanied the highest housing costs of the cohort, and so it had a high proportion of housing costs to earnings. One reason for relatively high prices of housing in Jersey include high costs of sub-market (social housing), higher than the second highest jurisdiction by \$378 PPP per month.

7 Implications of Affordability Challenges: Home Ownership

- 7.1 The immediate implication of housing unaffordability is financial stress among households, perhaps leading to housing insecurity. However, some long-term implications of housing unaffordability, particularly in social and market rental sectors, include the inability for households to access the "housing ladder" through homeownership. This is because high proportions of rental housing costs to earnings may constrain savings towards deposits. In Jersey, even a low 10% deposit on a median-priced 2-bedroom flat is £41.3k, which would mean a median income household in the qualified rental sector in Jersey saving 20% of their income after housing costs every month would take about eight and a half years to save for a deposit.
- 7.2 There is anecdotal evidence that lenders are slowing becoming more willing to lend which is reflected in the range of products entering the market and that terms and conditions attached

to mortgages are changing including an increase in the amount the applicant can borrow. This follows a period of very restrained lending following the 2008 global financial crisis.

- 7.3 It is understood that some mortgage providers in Jersey are now creating products to help first time and second time buyers overcome the problem of funding a deposit by introducing 100% Loan to Value (LTV) next generation mortgages. For example, this could require a family member to provide a guarantee (in the form of a bond) which is equivalent to 15% of the value of a property.
- 7.4 Unless they have other ways of accessing funds for a deposit, many young households are unable to leave the rental sector for homeownership due to this barrier to entry. There are limited alternatives on the Island. Andium operates an affordable home ownership scheme which allows first time buyers to apply for a 25% deferred payment on a property sold by Andium. There is a qualifying criterion and since the scheme was created in 2017, 83 properties have been sold under the scheme. Andium recognises that selling much needed social existing stock presents policy challenges and is simply not enough to meet demand for the scheme, and so plans to develop new homes for sale of c. 1,800 affordable homes by 2030.²³
- 7.5 To estimate mortgage affordability throughout this report, we have expressed deposits as 10% of total house price. It should be noted that while this is anecdotally regarded as a common deposit size, Statistics Jersey reports on average Jersey loan-to-value data only, and there is not collated data on the average deposit size in Jersey across comparable data (i.e. incomes) although this data could be collected in the future. The implication of this is that the GoJ is unable to estimate the actual costs of accessing home ownership, and in turn, unable to form evidence-based proposals for reducing this barrier to home ownership. In other jurisdictions this data is collected through the bodies responsible for mortgage banks (e.g. financial regulators) on behalf of the central bank.

8 Impact of Affordability Challenges: Housing Quality

- 8.1 Lack of access to good quality affordable housing can have wide-ranging impacts. These can include financial stress as well as health and wellbeing issues. It needs to be clear that housing isn't considered affordable if it's not of a liveable condition. On this, the Affordable Housing Commission²⁴ says: *"It would be ridiculous to say that the affordability problem is overcome if the tenant moves into a slum that may be cheaper but is unfit for human habitation or is grossly overcrowded"*. However, in looking purely at the data on current housing costs, as in the analysis of the earning survey above, it is impossible to consider the quality of homes people are living in.
- 8.2 Minimum standards for rental homes was agreed in principle by the States of Jersey in December 2017 with the amendment to the Public Health and Safety (Rented Dwellings) Law. The Law was then approved in late 2018 to provide minimum standards. Minimal

²³ Presentation given to Housing Policy Development Board by Andium Homes on 20/05/2019

²⁴ "Defining and measuring housing affordability – an alternative approach", June 2019

standards for rental accommodation came into force on 1st December 2018. The Public Health and Safety Order lists the minimum requirements that landlords must meet in order to make sure that their properties do not pose a risk of harm to the health and safety of tenants.

- 8.3 Rent Safe, a voluntary scheme, is currently used to encourage landlords to meet the minimum standards. Landlords are able to register their properties, only those that meet an accredited rating are listed on the Rent Safe register. Over 2,000 dwellings have been approved so far. This will soon rise to 6,500 when Andium's properties are added to the register, bringing the total percentage of Rent Safe properties to about 37% of all of Jersey's rented housing stock²⁵.
- 8.4 Environmental Health has dealt with 825 reports of sub-standard accommodation in 2018, a 233% year on year rise²⁶. It is understood that this reflects tenants increasing confidence in reporting problems.
- 8.5 To continue the Island's drive to achieve a minimum standard for rental homes, tenants and landlords have recently been asked (consultation closed 28th June 2019) to give their opinions on how a new licensing system for rented accommodation should work. The proposed scheme would be mandatory for all rental properties and GoJ would know the location of all private rented dwellings on the island. Any future policy in relation to housing affordability will need to ensure housing quality standards are considered.

9 Causes of Housing Affordability Challenges

- 9.1 As described above, housing affordability is calculated as the ratio of two variables: housing cost and earnings. As such it is helpful to understand the current trends in Jersey in these two metrics.

10 Housing Costs

- 10.1 The data collected by Statistics Jersey, as well as anecdotal accounts suggest house prices are high in Jersey across all tenures; both owner-occupied homes and all forms of rental; social rent and both qualified and non-qualified market rent housing.

Owner-Occupied Housing

- 10.2 Overall, over 2009 to 2019, the price of market owner-occupied housing has increased by 79%²⁷. The period 2010 to 2014 saw house prices fall with -2% to -1% growth, but the market has now recovered and post-2014 median property prices across all property sizes and types have increased year-on-year.²⁸

²⁵ Total rented dwelling figure (17,747) from Households and dwellings statistics via 2011 census, including all States, housing trust or parish rent, qualified private rental, registered lodging house, lodger in private household and other non-qualified accommodation dwellings

²⁶ Report by ITV (10th May 2019)

²⁷ According to Q1 2009-2019 Jersey House Market Activity Index (Rolling four-quarter average excluding share transfer properties)

²⁸ House price statistics, GOV.je

10.3 Current (Q1 2019) mean house prices in Jersey are:

- £255,000 for a 1-bedroom flat
- £413,000 for a 2-bedroom flat
- £605,000 for a 3-bedroom house

10.4 The ownership and occupation of a home is taken into account by the Government in the way it raises taxes and other charges. The level of these costs can affect overall affordability. The parochial rate system collects an annual rate from property owners and occupiers based on the assessed value of the building. The level of parish rates is very low compared to property rates levied in other countries. Income taxpayers have historically benefited from allowances against mortgage interest payments. These allowances are being phased out over a number of years. There are no tax allowances in respect of rental costs. The government levies a fee, stamp duty or land transaction tax (LTT), on the purchase of property with discounted rates for first-time buyers.

Rental (Market and Social) Housing

10.5 Anecdotally rental prices are described as high in Jersey, and current mean rental prices in Jersey are outlined below²⁹:

- £1,109 for a 1-bedroom flat
- £1,778 for a 2-bedroom flat
- £2,210 for a 3-bedroom house

10.6 Over the last decade, the price of rental housing has increased by 42%³⁰.

10.7 Compared to owner occupation the rental sector is much easier for a household to access as there are no mortgage lender requirements, and deposits are generally set much lower, typically one month's rent. However, the ongoing cost of rental is similar, and may even be higher than that of owner occupation, as shown in the affordability analysis above.

10.8 As explored in section 6 compared against a sample of 11 other OECD countries, we found that Jersey has the highest rental costs³¹ to households in both market and sub-market rent.

11 Household Earnings

11.1 The latest household earnings report from 2014/15 shows that median weekly household income in Jersey were £680 per week (c. £35,360) before housing costs, which adjusted to

²⁹ Statistics Jersey does not publish mean rental prices or recommend using advertised rental prices but instead publishes a rental price index as part of the quarterly Housing Price Index. These figures are approximations of price, updated to Q1 2019 using the index from cash values quoted from "Written Question To The Minister For Housing by Deputy G.P. Southern Of St. Helier answer To Be Tabled On Tuesday 26th September 2017" (Q2 2017)

³⁰ According to Q1 2009-2019 Jersey Rental Index (Rolling four-quarter average)

³¹ Total housing costs per household are reported in Jersey as part of the 2014/2015 Survey of Household Earnings, are different to housing prices

today's figures, is about £737 (c. £38,337). This compares to mean household earnings in Jersey in 2014/15 at £860 per week (c. £38,338) or £932 per week (£48,486) adjusted to today's figures.³²

- 11.2 Using mean calculations of earnings, high earners may skew actual levels of earnings, so this analysis has focused on median earnings levels (those more likely to be target housing affordability policy beneficiaries). As noted above, the issue of housing affordability is mainly focussed on those on relatively low incomes, as for those with sufficient income to affordably access the market, income mainly determines the quality and quantity of housing (e.g. a high income earner may choose to buy a larger home, or a 'luxury' property.³³)
- 11.3 Change in earnings over time, particularly relating to changes to living costs (inflation) and housing costs over time, also help reveal affordability pressures in a jurisdiction. Since 2014, household earnings in Jersey have increased by less than house prices, and since 2017 household earnings have increased by less than inflation. These macroeconomic factors will continue to affect housing affordability going forward and should be considered in parallel with policy interventions which address acute housing affordability challenges.

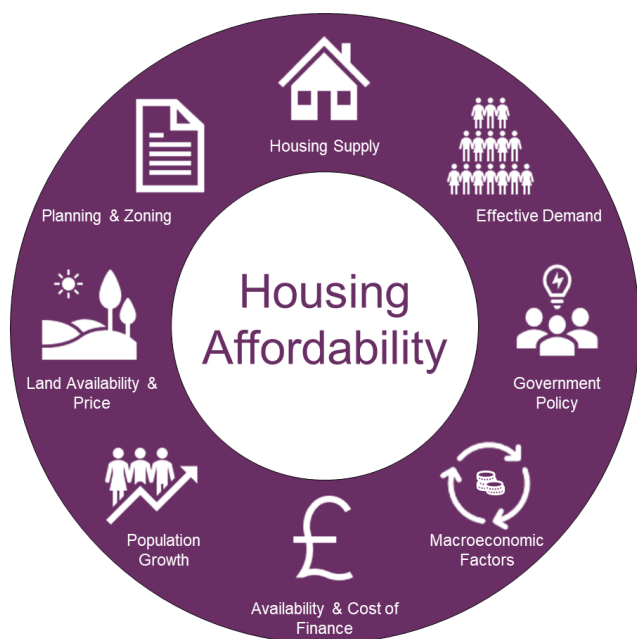
12 Other Factors Affecting Housing Affordability

- 12.1 While the variables of housing cost and earnings are useful when defining and calculating affordability, there are a range of elements which influence these two components of affordability that may be considered when developing an affordability policy tool. These are summarised below:

³² Earnings from Jersey Household Income Distribution adjusted to Jersey Index of Average Earnings

³³ UK Collaborative Centre for Housing Evidence (2018) Policy approaches for improving affordability

Figure 1: Factors Influencing Housing Affordability



- **Housing Supply:** shortfall in housing across a range of tenure
- **Effective demand:** real demand for housing
- **Government policy:** supply and affordability (new build, subsidy, financial instruments), income levels – salaries and tax
- **Macroeconomic factors:** earnings, interest rates, developer's confidence in the market
- **Availability & Cost of Finance:** interest rate levels, access to mortgage facilities, investment opportunities, homeownership products
- **Population growth:** future population policy unknown – future restrictions on net inward migration

13 Historic and Forecast Supply and Demand

13.1 Housing supply has historically been in shortage in Jersey in comparison to demand. This may be due to limited new development, but also somewhat due to under occupation in existing housing stock, as covered in previous briefing papers. As addressed in the previous paper on development challenges, housing supply can be driven by a number of factors including land supply, the economy, finance and funding, construction and labour markets, developers and other providers, planning policy and overall viability and cost.

13.2 The GoJ understands this pressure on supply and has historically and continues to promote policies (namely through planning) which promote supply in balance with new and existing demand. Based on the intentions of households³⁴ and current migration scenarios, and before applying affordability criteria, over the three-year period from 2019 to 2021:

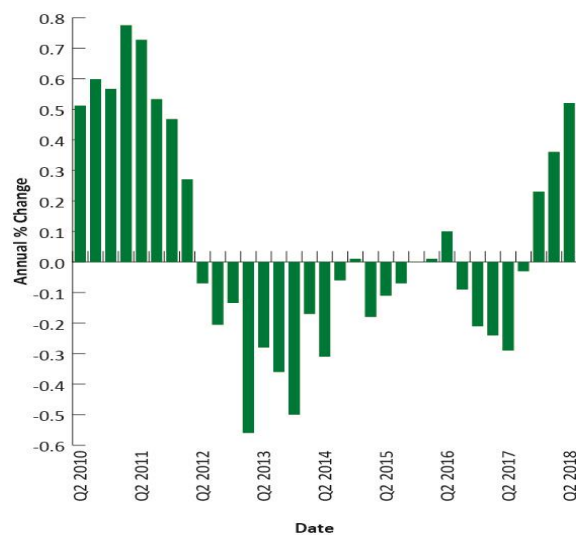
- before the supply of new dwellings, there is an overall anticipated shortfall of 2,750 dwelling units
- there is a potential shortfall of around 1,830 units in the owner-occupier sector; in particular, there is a large potential shortfall of 3-bedroom properties in this sector
- under current migration trends, there is a potential shortfall of around 600 units of registered accommodation; in particular, there is a potential shortfall of 2-bedroom properties in this sector.

³⁴ Latest Jersey's Future Housing Needs Survey

13.3 Planning estimates³⁵ indicate there are about 1,446 completions planned over 2019-2020, however data is unavailable on the status of these completions.

13.4 While the future Jersey population policy is unknown at present, we can assume one possibility is restricted population growth via further restrictions on net inward migration. As can be evidenced by population policies in Guernsey, reducing population growth by restricting net inward migration may in conjunction with other economic changes, drive down prices. This phenomenon is illustrated in Figures 2 and 3 below.

Figure 2: Population change in Guernsey



³⁵ Data provided by Planning Department in GoJ (“Completions 1986-2020 (est)”)

Figure 3: Average Property Prices in Guernsey and Jersey



13.5 However, even in a restricted inward migration population scenario new household formation (e.g. adult children moving out of family homes, or relationship breakdown leading to the creation of new households) will still mean that demand increases.

14 Housing Supply in Other Jurisdictions

14.1 As part of our research we have considered the approach taken by Tokyo to meet housing supply and affordability needs over recent years and considered the actions currently being taken by Berlin to deal with their lack of affordable housing. Tokyo is often seen as an example of best practice, as while facing very similar land constraints to Jersey, it has maintained a relatively affordable housing market. On the other hand Germany is relevant as a study in how forms of government intervention that can be taken in the housing market, as the German market matures post-reunification. Our findings are summarised below:

Cases	Tokyo	Germany
Background	Tokyo has prevented a housing shortage by building more and building up, it is reported that this was instigated by the Government revising regulation to allow more density.	Increase in house prices and rents and housing supply hasn't kept pace with increase in demand in some parts of the country and a lack of affordable housing emerged.
Actions	<ul style="list-style-type: none"> ▪ 12 Zones – commercial, industrial and residential land of various types ▪ No legal restraint on demolishing a home - traditionally Japanese homes are rebuilt every 20 - 30 years (opportunity to implement improved earthquake technology) ▪ Rebuild often allows for an increase in density ▪ Building 100,000 new dwellings a year ▪ Dwelling size has increased by 28% between 1988 and 2013 ▪ Supply responds to demand by building lots of smaller one bed flats for singles and young people to enable them to live independently ▪ The Japanese relationship to a house is very different to other parts of the world, there is often reference to their relationship being, at least in economic terms, not that different to their relationship to a fridge 	<ul style="list-style-type: none"> ▪ 2015 – Introduced rental price breaks ▪ 2017 – Reformed urban planning law which lifted barriers to densification and mixed land uses ▪ 2017 – Plans announced that the Government plans to build 1.5 million dwellings over the 2018-2022 period ▪ 2018 – At the 'Housing Summit' the Government announced aims to build 1.5 million homes by 2021, set aside 5 billion euros for social housing and plans to build over 100,000 new social flats by 2021³⁶ ▪ 2018 – Government approved a bill to strengthen curbs on rent increases in big cities and backed new tax incentives to encourage private developers to build new rental flats ▪ 2018 – Reported that the Government is to give own land to municipalities at subsidized rate so that affordable housing can be built ▪ 2019 - Measures approved by the Government to freeze residential rates in Berlin for 5 years (not social housing rents)
Reported outcomes	Tokyo's rents have been in line with price inflation for approximately two decades and has added roughly 100,000 homes a year since 2003, leading to a housing surplus. ³⁷	"Rental price breaks" introduced in 2015 – reported to have taken a sharp edge off rental increases, however in 2017 it was reported this only applied to 313 of 11,000 municipalities ³⁸ .

14.2 The approaches used by other jurisdictions will be considered in more detail as we move to the solutions phase of the project.

³⁶ Reuters September 2018

³⁷ The National March 2018

³⁸ OECD Germany Policy Briefing June 2018

Appendix 1: Income Support

For Andium tenants the income support system uses a set of standard components which reflect the composition and needs of the household. These are balanced against the income of the household with the calculation disregarding some elements of income to provide incentives for the household to gain their own income through employment et cetera.

As an example, consider a couple with one child renting an Andium property at £250 per week. If the household has no income of its own at all, the household will receive £572.84 a week (the total of all the components they are entitled to) to cover rent and living costs.

As the household starts to gain its own income, the value of the income support award reduces gradually, but overall household income increases. In effect, the family is better off by 25p in the £ for every £ it earns.

- With one earner on minimum wage, bringing home £320 per week, the family will receive £332.84 p of income support.
- With an income of £600 per week, the family will receive £122.84 p income support
- With an income of £700 per week, the family will receive £47.84 p income support
- With an income of £765 per week, the family will no longer qualify for income support.

In this example, affordability / housing cost for the family just above Income Support thresholds would be £250 of rent against an income of £765.

$$250/765 = 33\%.$$

£765 would be the lowest income for a family of that size to not need income support so 33% is the maximum proportion of costs paid on housing for the non-income support tenants in this example.