

P R E C *i* S

A summary series of recent research from Communities Scotland
No 90

Affordable housing and the labour market in Scotland: do high housing costs create labour shortages?

In February 2005, the Training and Employment Research Unit at Glasgow University and Newhaven Research were commissioned to undertake research assessing the extent to which housing affordability is a constraint on the effective labour supply in Scotland or whether it may emerge as such in the future. The key findings were:

Looking at local authority areas across Scotland as a whole, there is some correlation between areas with affordable housing shortages and indicators of labour market stress (in terms of recruitment and retention). However, this pattern is not consistent across the whole of the country.

The evidence collected as part of this study does not support the view that there has been a general affordability problem in the owner occupied sector across Scotland as a whole in recent years. Where affordability problems exist, they are localised. There have been affordability pressures for low-income, single earner households renting privately since around the late 1990s, but these have moderated more recently. Typically, households with two earners have not faced affordability problems.

It is not certain that, where affordability problems do exist, they are always entirely structural in nature. Much of the price inflation in owner occupied markets in Scotland between 2002 and 2004 may prove to be cyclical and so self-correcting in due course.

Housing affordability was not found to be one of the more significant factors generating recruitment problems experienced by employers. However surveys of employers in the four case studies selected for the study, suggest that housing affordability issues have become more important influences on labour recruitment and retention in more recent years.

Although the case study evidence generally suggests housing affordability has limited impacts on Scotland's labour supply, communities such as the Loch Lomond and Trossachs National Park face potentially significant economic challenges. This is due to constraints in the supply of labour for lower waged jobs resulting from high local house price inflation fuelled by in-migration of higher income commuters and retired households.

An international literature review indicates that concerns about the labour market impacts of a limited supply of affordable housing are widespread in other developed countries. To address this schemes have been introduced in several countries to provide, for example, support for housing 'key workers'. The evidence from this study does not support the case for this type of intervention in Scotland.

The broad conclusion, building on a range of evidence and some quantitative estimates, is that housing affordability is a contributory factor to recruitment problems but not a highly significant issue relative to skill shortages in a number of key sectors and the difficulties of filling lower paid jobs from Scotland's existing jobless population.

Introduction

Since the mid-1990s the UK and Scottish economies have experienced sustained economic and employment growth. Over this period concerns have grown that the dual dynamic of house price inflation and increasing recruitment difficulties and labour shortages are creating significant local mismatches. The purpose of this study was to assess the extent to which housing affordability is a constraint on the effective labour supply in Scotland. The study set out to assess the nature and extent of the problem in the Scottish context by trying to answer two key questions:

- Do significant housing affordability problems exist?
- If so, to what extent do they impede the operation of Scotland's labour markets?

Findings

Housing affordability in Scotland

At the level of Scotland as a whole, the evidence indicates the extent and severity of housing affordability problems is lower than is often perceived. This does not, however, necessarily mean that there are not significant and enduring affordability problems in specific local markets in different parts of Scotland.

Detailed analysis was undertaken in four case study areas (the Edinburgh Housing Market Area (HMA), the Aberdeen HMA, the Shetland Islands and the Loch Lomond and Trossachs National Park) using data covering a number of years to identify long term affordability trends. It was found that circumstances in the four areas differ

considerably and in some, but not all, of these areas, low income, single earner households have faced affordability problems in both the owner occupied and the private rented sectors.

Looking across the case study areas for common causes of affordability problems, a consistent issue raised was decreasing supply in the social rented sector as a result of the operation of right to buy, although there was little in the way of hard evidence (on resale patterns) to substantiate this concern. A further common issue, albeit with different manifestations in specific localities, was the issue of in-migration. In all four case studies, population movement is seen to be causing undue pressure on the housing stock that cannot adjust rapidly to changing circumstances. The possibility was also raised, in some of the case study areas, that a number of potential first time buyers may have unrealistic housing aspirations. This possibility merits further detailed investigation.

Is there a recruitment problem in Scotland?

Evidence exists to suggest that it is becoming increasingly difficult to recruit labour into particular occupations and sectors of the economy. Unfilled vacancies as a percentage of employment rose by 16 per cent over the period 2002-2004, while hard to fill vacancies as a percentage of employment rose by 21 per cent over the same period. However, this has to be tempered by the fact that the number of hard to fill vacancies was only 1.7 per cent of total employment in 2004.

The incidence of hard to fill vacancies is uneven across industries and occupations, and recently there has been a great deal of public debate regarding

the problems of recruiting 'key workers', usually related to the public services. The evidence (for hard to fill vacancies) from Futureskills Scotland's 2004 survey of employers can be summarised as follows:

- Although 17 per cent of hard to fill vacancies are in public administration, education and health, this is overshadowed by 26 per cent in distribution, hotels and restaurants and 33 per cent in banking, finance and insurance.
- Around 15 per cent of hard to fill vacancies are for professional, associate professional and technical occupations, but nearly 42 per cent are for sales and customer services, and elementary occupations.

Within specific localities, the same broad factors influence the level of hard to fill vacancies, but there is greater labour market stress in some labour market areas due to the more localised balance of labour demand and supply, and the supply will in turn be influenced by many things – just one of which is housing availability and affordability.

Contribution of housing affordability to labour supply problems

Occupations and sectors

To buy a house in Scotland at the bottom quartile of house prices (around £60,000) a single earner is assumed to need annual earnings of around £17,000 on the recommended affordability multiplier of 3.5 times earnings. Under these circumstances, housing affordability is a potential issue for lower paid (bottom quartile) workers in:

- A wide range of occupations – sales and customer services, elementary occupations (for example, bar staff and labourers) and personal services (for example, care assistants and administration/secretarial occupations).
- A number of sectors, particularly distribution, hotels and restaurants.

However the vast majority of these people are already housed and supplying their labour to local employers.

Housing affordability issues are exacerbated in jobs where part-time working is common. This is in excess of 30 per cent of jobs in public administration, education and health, other services and distribution, hotels and restaurants.

The lack of readily available data has made it difficult to conduct an analysis of housing affordability impacts on the labour market from the perspective of different equality groups. However some analysis of gender-related problems was possible and this raised specific issues given that female earnings are on average lower, for any given occupation or sector, and that part time working is much more common amongst female relative to male earners.

Overview of case study discussion

Edinburgh Housing Market Area

The employer survey found that for a single earner to afford a bottom quartile house they would have to be at the maximum of the earnings range for jobs that have been identified as hard to fill.

This may indicate that housing affordability is contributing to hard to fill vacancies.

Looking at the Edinburgh labour market area, data for 2004 suggest that there were in that locality approximately:

- 14,900 unfilled vacancies; and
- 8,400 hard to fill vacancies.

However, this is within a labour market where, in the same year, there were upwards of 66,000 working age jobless people on benefits.

The survey of employers suggested that, for nine per cent of hard to fill vacancies, housing affordability might be a contributory factor. This would suggest that approximately only 750 vacancies exist where housing affordability might be playing a role.

A high proportion of employers in the Edinburgh housing market area report that housing affordability is a worsening problem, which merits concern. However, the Futureskills Scotland's employer survey shows the problem is spread over a broad range of sectors and occupations. For example, the 750 hard to fill vacancies in the Edinburgh and Lothian area translate into roughly 150 hard to fill vacancies in the public administration, education and health sectors.

Aberdeen Housing Market Area

For households with a single full-time earner, affordability ratios for owning over the period 1998-2004 were always close to the affordability threshold in the Aberdeen HMA, and for 2004 the ratio was higher than the threshold. Over the same period, rents always

exceeded the affordability threshold for single earner households, although the trend was for this to fall over time. The labour market was found to be tight by Scottish standards, offering good job opportunities and higher than average wages, though this is obviously not felt equally across all sectors and professions.

Feedback from the employer survey found while just under half reported at least one hard to fill vacancy within the past year, employers attributed recruitment difficulties to a lack of appropriate skills, work experience and qualifications rather than as a result of housing related issues. This compares to the finding that the threshold wage for a single earner to afford a lower quartile second-hand house is below the earnings range reported by employers for hard-to-fill vacancies. This does not support the case that housing affordability issues are significantly affecting recruitment

However, concerns about this issue were raised in a number of quarters, including specific references to key workers and, perhaps more convincingly, around problems related to housing migrant workers. This raises a number of issues around the existence of different perceptions on the significance of this issue and how this links to the available evidence base.

The Shetland Islands

For obvious reasons relating to the island geography, the Shetland labour market is highly self-contained. The broader picture suggests a labour market which is tight relative to Scotland with high resident employment rates and relatively high earnings. Responses gathered suggests that there is a strong perception that

employees face difficulties in gaining access to affordable housing, particularly in Lerwick, the main population centre and economic hub. However, there is little consensus around whether or not housing affordability has a direct impact on recruitment, and similar to other case studies, other issues were flagged up as impacting more significantly on recruitment difficulties. In relative terms, there is little evidence of affordability issues in the data, even given the recent increases in pressure.

Loch Lomond and Trossachs National Park

The Loch Lomond and Trossachs case study highlighted the issues that can arise in accessible and attractive rural areas that are close enough to major employment nodes to make commuting feasible and cost effective on a significant scale. In the National Park area, more than half the employers interviewed indicated that the cost of buying or renting a house was becoming a relatively more important issue in relation to other recruitment problems over time. A quarter of employers thought the opportunity to rent social housing was also becoming a more important factor in recruitment difficulty.

The changing income characteristics of the households and settlements in more rural settings of this type clearly has the potential to impair the sustainability of the communities in their traditional form. Although the potential negative impact to the economy is limited because of the labour market, the economic consequences for the integrity of these communities are potentially significant.

The broad conclusion, building on a range of evidence is that housing affordability is a contributory factor to recruitment problems but not a major issue relative to skill shortages in a number of key sectors and the difficulties of filling lower paid jobs in hospitality, retail and other sectors from Scotland's existing substantial jobless population.

Main recommendations

Housing market perspective:

- Distinguish housing trends from short-term movements by collecting evidence covering a number of years.
- Base housing needs assessments on some measure of trend price rather than current price, to avoid situations where temporary unsustainable increases in house prices appear to signal major increases in housing need followed by major falls, without anything fundamental having changed.
- Investigate the underlying nature and causes of pressure in the housing market where it occurs to help distinguish between trend and cyclical issues, and to frame appropriate policy interventions.

These recommendations should be applied consistently across Scotland at a local level, in order to build up an overall Scottish picture.

Labour market perspective:

- Put in place a process to identify and understand serious recruitment problems within localities, focusing on isolating worsening or enduring recruitment problems for specific occupations and sectors.

- Generate and assess evidence on the effectiveness of different interventions for tackling the problem of hard to fill vacancies and tighter labour markets.

These recommendations need to be implemented at the Scottish level, backed up by local analysis in labour markets most at risk of labour shortage.

Sustainable economic development perspective:

- In assessing the solutions for high housing cost/high labour market stress localities, the full range of potential interventions needs to be appraised:
 - creating more affordable housing in stressed labour market areas;
 - adjusting the geographical pattern of labour demand;
 - upskilling or otherwise increasing the effectiveness of local labour supply;
 - extending the scope of labour supply through transport initiatives (for example, subsidy schemes).

These cannot be looked at in isolation.

- The environmental sustainability of different solutions needs to be assessed in relation to containing or reducing commuting distances.
- The ability to source a reasonably accessible labour supply should be a key planning criterion for major new employment developments.
- The Edinburgh/Glasgow axis should be the focus of a major exercise to appraise the most effective set of

housing, labour demand, labour supply and transportation interventions.

The way forward

The research has provided an extensive analysis of the relationship between housing affordability and the labour market. The housing market recommendations will be highlighted in revised online Local Housing Strategy guidance and integrated within the current Communities Scotland research and training programme to develop a local housing needs proforma. In addition Communities Scotland will discuss the tracking of housing market trends with the Scottish Executive.

The work Futureskills Scotland undertakes to identify serious recruitment problems through surveys of employers will enter its fourth phase this year. This, combined with evidence supplied through the Scottish Funding Council's Skills Committee will allow the identification of any enduring or persistent recruitment difficulties, whether in occupations, industries or regions of the country.

Scottish planning policy aims to ensure that development and changes in land use occur in suitable locations and are sustainable. Where there is a shortage of affordable housing within an area, this is a material consideration in the planning process. Scottish planning policy also supports the Executive's commitment to promoting a strong diverse and competitive economy. The planning systems role in this includes identifying suitable land to meet the need for economic development and new housing whilst minimising Greenfield development; and ensuring land for employment is well placed in relation to the transport network and the labour force.

The Edinburgh/Glasgow axis study will be considered in the context of the new framework for city region development plans and in developing the next National Planning Framework.

About the study

The study was carried out by Andrea Glass, Alan McGregor and Alex McTier of the Training and Employment Research Unit (TERU) at the University of Glasgow and by Tony O'Sullivan and Gillian Young of Newhaven Research.

Due to the complex range of issues being investigated a variety of research methods were used. These included:

- Reviews of the literature on housing affordability and the labour market in other countries.
- An analysis of the existing statistical data on housing affordability and measures of labour market stress.
- Detailed case study work in the Aberdeen Housing Market Area (HMA), the Edinburgh HMA, Loch Lomond and Trossachs National Park and the Shetland Islands. This involved more detailed analysis of housing affordability and local market statistics, interviews with key players in relation to both local housing and labour markets, and surveys of local employers.

Related Communities Scotland research

Local housing need and affordability model for Scotland, Update, Communities Scotland Report 34, June 2004.

Local Housing Systems Analysis Good Practice Guide, Communities Scotland, 2004.

Housing market areas in Scotland: definition and review, Communities Scotland Précis 31 and Report 26, December 2003.

Local housing need and affordability model for Scotland, Communities Scotland, Report 21, July 2003.

Shetland housing market study, Communities Scotland, Précis 17 and Report 9, August 2002.

Further information

Further information about this research can be obtained from Laura Wilkie, 0131 479 5010, laura.wilkie@communitiesscotland.gsi.gov.uk.

The research report is available on our website, www.communitiesscotland.gov.uk.

August 2006

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