

# Housing Affordability in Liverpool

## 1. Introduction

- 1.1 Avison Young were appointed by Torus Developments (“Torus”) to produce an evidence-based assessment of housing affordability across Liverpool to develop a deeper understanding of delivery challenges and development opportunities across the city. Torus is the North West’s largest affordable housing provider, including over 15,000 properties in Liverpool. The report was based on a baseline analysis of the local drivers that impact on housing affordability. This summary sets out the key findings of Avison Young’s report.
- 1.2 Housing affordability is a significant challenge nationally and locally, exacerbated by several factors including the significant rise in house prices across the last decade – in part due to deficits in housing supply – and more recently increases in other housing costs such as energy.
- 1.3 Guidance suggests that housing costs should comprise no more than one-third of net household income. It is however important to note this reflects an average position and may mask specific challenges faced by different socio-economic groups: principally, it is less *affordable* for a lower-income household to spend one-third of their net income on housing costs because it leaves less to spend on essentials.<sup>1</sup>

## 2. Liverpool’s Housing Market

- 2.1 The research has found that housing in Liverpool is more affordable than England on a median basis in both the rental and homeownership markets, but that acute challenges do exist at the lower end of incomes across the city.
- 2.2 Using median house price averages, Liverpool’s house prices (2023) were **4.64x** incomes, whereas in the wider North West and England they were **6.05x** and **8.26x**. The rate of increase of the ratio has also been lower in Liverpool, with the house price to income ratio increasing **86%** since 1997, compared to **101%** and **133%** in the North West and England, respectively. When compared to median household incomes, rent in Liverpool amounts to **23%** of total income whereas in England is accounts for **30%**. However, whilst rental affordability was improving from 2018-2022, it has been worsening since the pandemic, caused partly by Liverpool’s recent above-average rental growth.
- 2.3 In comparison to the trends seen regionally and nationally, the degree of Liverpool’s lower quartile affordability relative to the median has worsened in recent years. In addition, due to lower than average incomes, households in Liverpool will spend a greater portion of this income on other essentials, and therefore have less remaining income for housing costs.

## 3. Affordability Across Liverpool

- 3.1 For the purpose of the analysis, Liverpool was divided in to **six sub-market areas**: North West, North East, Central West, Central East, South West and South East. The submarkets are aligned with Liverpool’s new Neighbourhood model<sup>2</sup> which divided the city into 13 neighbourhoods. This model

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<sup>1</sup> Affordable Housing Commission, 2019, *Defining and measuring housing affordability – and alternative approach*.

<sup>2</sup> <https://liverpool.gov.uk/council/key-statistics-and-data/ward-information/neighbourhood-profiles/>

refers to 'natural neighbourhoods' which have been combined based on similarities in socio-demographic profiles.

**Figure 1: Actual and demonstrated average private rental affordability**

	Mean asking rent	Median net household income	Avg rent income ratio	Max rent income ratio	Affordable (25-29%)	Mostly affordable (30-34%)	Almost affordable (35-39%)	Unaffordable (40%+)
North West	£775	£31,622	29%	31%	£659	£791	£922	£1,054
North East	£816	£33,837	29%	32%	£705	£846	£987	£1,128
Central West	£998	£31,993	38%	42%	£667	£800	£933	£1,066
Central East	£887	£35,803	31%	42%	£746	£895	£1,044	£1,193
South West	£1,004	£40,109	30%	38%	£836	£1,003	£1,170	£1,337
South East	£783	£32,110	29%	31%	£669	£803	£937	£1,070

- 3.2 The analysis considered average and maximum rent-to-income ratio across each sub-area. The process tested varying levels of affordability across a range of rent-to-income ratios, from rent which accounts for 25% of income to over 40%. Columns and rows are colour-coordinated accordingly (Figure 1).
- 3.3 **Central West** Liverpool was found to be the least affordable submarket, with most of the other areas around a similar level of 29-30%. On the basis of the *maximum* rent to income ratio in each submarket, **Central East** and the **South West** also perform poorly. This is because there are pockets of the submarkets with low income within both areas.
- 3.4 Two 'on the ground' examples include Toxteth Park and Kirkdale. Toxteth Park has an average rent which equates to **42%** of income, making it the second-least affordable area of the city. Kirkdale has an average rent which equates to **37%** of income. These levels are significantly above the recommended one-third of income. In these areas, the main driver is the low levels of net household income.
- 3.5 The analysis also considered affordability in a more holistic sense, including other pressures such as demographics (population growth, net household income, IMD ranking), housing market trends (average house price to income ratio, house price growth), and the existing supply of affordable housing stock.

## 4. Development Opportunity Across Liverpool

- 4.1 In addition to the analysis of pressure on affordable housing, the report considered the **delivery potential** of each submarket to align with Torus' objective to increase delivery of rental products. Rental yield (to support the delivery of PRS and Affordable Rent products) and house prices (to assess the deliverability of Social Rent where prices are fixed regardless of submarket) were considered to inform a **pressure** score<sup>3</sup> and a **priority** score<sup>4</sup> at sub-market scale (Figure 2).

<sup>3</sup> Combined impact of demographic and housing market pressure. Shaded green to red, red indicates highest pressure.

<sup>4</sup> Where affordable housing pressures and high and potential returns are high. Shaded red – green, with green indicating highest pressure.

**Figure 2: Relative affordable housing pressure and priority across Liverpool, ranked 1-100**

*Higher values indicate greater affordable housing pressure and greater potential for delivery. i.e. higher scores indicate priority areas of intervention.*

	Population growth	Income	Deprivation	AH supply	Rent v. income	House price v. income	House price growth	Pressure	House price	Rental yield	Priority
North West	55	71	79	39	43	20	60	52	81	86	68
North East	37	52	50	44	14	45	41	45	53	43	46
Central West	56	68	54	59	86	52	60	58	55	71	61
Central East	89	49	50	38	57	38	53	53	59	57	55
South West	33	23	23	70	71	80	44	45	20	14	31
South East	63	63	66	27	29	63	49	55	45	29	46

- 4.2 The areas of Liverpool with highest pressure on affordable housing are those in the **Central West**, **South East** and **North West**. The most significant areas of housing pressure run from just south of Bootle in the far north west of the city through Everton, Edge Hill and Toxteth in the centre of the authority. There are also pockets in the South West and South East of the city.
- 4.3 When considering the areas with the most **pressure** on housing affordability and with potential for **focused delivery**, the **North West**, **North East** and **Central West** submarkets were identified as areas of focus for Torus.
- 4.4 Torus' existing affordable housing stock should be viewed as an asset which can be used to alleviate the housing challenges Liverpool faces but it does own stock in the submarkets in most need. An initial review of land ownership in these areas found that each of them have their challenges, although some larger sites and other smaller pockets do exist in the Central West and Central East areas of the city.
- 4.5 Torus could look to maximise grant to support delivery across the target areas, including through the preparation of necessary supporting business case evidence base to enable maximum grant to be leveraged.
- 4.6 Torus provided an indicative assessment of grant funding required to support future development across Liverpool. This calculates the grant level likely required for the development of a general needs 3-bedroom house which would achieve a rate of return of 5.5% and a positive Net Present Value at the end of a 40 year appraisal period.
- 4.7 Grant required for rental income that accounts for 25 – 30% of household income requires a grant of between c. **£94,000 - £150,000** per unit dependent on the submarket. Rental income in line with Local Housing Allowance will require a grant of between c. **£140,000 - £215,000** dependent on the submarket.