

An Investigation of Housing Affordability in the UK

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The housing market has been extensively investigated in the literature, however there is a lack of understanding of the fundamentals affecting housing affordability across UK regions as measured by the price to income ratio. The aim of this paper is twofold; firstly we calculate the affordability index based on individuals' incomes. Second we set off to ask which socio-economic factors could affect the house price to income ratio. The analysis finds a strong influence coming from the mortgage rate and academic qualifications. We also report a positive and significant effect coming from foreign investment. Finally, we record a non-negligible degree of heterogeneity across the twelve regions.

Keywords: House market, affordability index, heterogeneity, panel data.

JEL classification: E31, E52.