

20/02/2017

Buying still financially better for first-time buyers – but mind the closing rental gap

- Annual savings of £651 for buying rather renting, down from £879 in 2015
- Buying cheaper versus renting across all regions

First-time buyers in the UK are on average £651 a year better off buying their own home compared to those who rent, according to research by Halifax.

The average monthly costs (including mortgage payments¹) associated with buying a three-bedroom house stood at £705² in December 2016; £54 (or 7%) lower than the typical monthly rent of £759³ paid on the same property type,

The latest Halifax Buying vs Renting Review found that the gap between the cost of buying and renting has narrowed by £19 per month over the past year.

At the end of 2016, the monthly cost associated with buying was £73 (10%) lower than renting (£671 vs. £744). Over the past year, buying costs have risen by 5%, whilst the average rent has risen by 2%. (See Table 1)

Buying a house is more affordable than renting in all 12 UK regions

Buying is most affordable compared to renting in London, with the typical first-time buyer paying £161 (10%) a month less than the average renter (£1,420 against £1,581) an annual saving of £1,927. However, in East Anglia there is only a £7 difference in the average monthly costs between buying and renting (£736 compared to £743).

Gap has reduced significantly since 2011

Since 2011, the financial gap in favour of buying compared to renting has fallen by a third (32%) from £962 a year to £651 in 2016. Over this period, the average rent has risen by £107 a month (16%) from £605, whilst average buying costs have increased by £133 a month (23%) from £576.

Although average mortgage rates for new house purchases are at an unprecedented low, a 45% increase in the price of a typical first-time buyer home has sparked an increase in buying costs during this period.

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Martin Ellis, housing economist at Halifax, said: “Although the average costs associated with buying costs have grown at a faster rate than average rents over the past few years, owning a home is still the more financially attractive option. However, the gap has narrowed since 2011 because of the rising prices of a typical first-time buyer house.

“The size of deposit that is often needed is often a major barrier to overcome before the potential financial advantages of home ownership become clearer. Whilst deposits can raise the upfront cost of buying, it is also an important and attractive form of longer-term savings for homeowners, and with rising house prices, it helps contribute towards higher housing wealth.

“While prices are at an elevated level, the number of first-time buyers getting on the housing ladder continues to rise and this group now accounts for half of all new home purchase financed by a mortgage. Improving economic conditions, lower rates and government schemes such as Help to Buy, have played a key part in helping first-time buyers.” alongside

Number of first-time buyers continues to rise

The number of first-time buyers reached 338,900⁴ in 2016, totalling over 300,000 for the third successive year, growing from 312,900 in 2015 (up 8%) – the highest level since the start of the financial crisis in 2007 (359,900).

Having reached an all-time low of 192,300 in 2008, the number of homebuyers getting on to the first rung of the property ladder has grown by 76% to its current level. Despite this, first-time buyer numbers still remain 16% below the immediate pre-crisis peak of 402,800 in 2006.

The number of first-time buyers accounted for almost half (48%) of all house mortgage financed home purchase activity in 2016. This share has grown from 36% at the start of the housing downturn in 2007.

Wide regional variation in deposits put down by buyers Nationally, the average deposit put down for a typical three-bedroom first-time buyer home is £30,770⁵. In London the highest average deposit of £110,927 is not only seven times higher than the lowest in Northern Ireland (£15,830), but also more than twice the amount in the South East (£51,082) the second highest.

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Table 1: UK first time buyer average monthly buying costs and rental payments

Year	Average monthly buying costs	Average monthly rental payment	% difference	£ difference	£ Annual Savings
December 2008	£872	£616	42%	£256	£3,068
December 2009	£578	£561	3%	£17	£204
December 2010	£576	£605	-5%	-£30	-£356
December 2011	£573	£653	-12%	-£80	-£962
December 2012	£588	£661	-11%	-£73	-£880
December 2013	£613	£692	-11%	-£78	-£937
December 2014	£659	£720	-9%	-£61	-£738
December 2015	£671	£744	-10%	-£73	-£879
December 2016	£705	£759	-7%	-£54	-£651

Sources: Halifax, BM Solutions and ONS. 12 months to December
Rental payments are a crude, or simple, average.

Table 2: First time buyer average monthly buying and rental costs by region, December 2016

Region	Average monthly buying costs	Average monthly rental costs	% difference	£ difference	£ Annual Savings
North	£463	£510	-9%	-£47	-£565
North West	£538	£574	-6%	-£35	-£426
Yorkshire & the Humber	£508	£525	-3%	-£17	-£204
West Midlands	£573	£638	-10%	-£65	-£779
East Midlands	£562	£608	-7%	-£46	-£547
East Anglia	£736	£743	-1%	-£7	-£84
South East	£1,032	£1,077	-4%	-£45	-£537
Greater London	£1,420	£1,581	-10%	-£161	-£1,927
South West	£748	£829	-10%	-£81	-£969
Scotland	£522	£593	-12%	-£72	-£860
Wales	£486	£544	-11%	-£58	-£701
Northern Ireland	£403	£432	-7%	-£28	-£340

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United Kingdom	£705	£759	-7%	-£54	-£651
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Sources: Halifax, BM Solutions and ONS. Period covered is 12 months to December 2016.

Editors notes:

The **Halifax Buying vs. Renting Review** tracks the costs of buying and renting a three bedroom property faced by a typical **first time buyer** (FTB) across the UK. **Average buying costs include mortgage payments, income lost by funding a deposit rather than saving, spending on household maintenance and repair and insurance costs.** They do not include one-off costs, such as stamp duty, valuation and legal fees. The review is based on data from the Halifax housing statistics database, BM Solutions, the Bank of England, and the Office for National Statistics (ONS).

¹ **Mortgage payments:**

Mortgage payments are the weighted average of repayment (capital and interest) and interest-only mortgage payments. They refer to the average first-time buyer with average advance data from the Council of Mortgage Lenders. Weights have been constructed using FCA regulated mortgage statistics on advances by mortgage type. Average mortgage payments (both repayment and interest-only) have been calculated using house price data from the Halifax housing statistics database and Bank of England series on the average of UK resident banks' sterling weighted average interest rate loans secured on dwellings to households for new borrowers only.

Mortgage payments refer to the average for a three-bedroom house over 12 months to December for each year. Halifax research shows that three bedroom homes are the most popular property types for first time buyers getting on the housing ladder.

² **Average buying costs:**

Average buying costs include mortgage payments (weighted average of repayment and interest-only mortgage payments), household maintenance, repair, minor alterations and insurance costs and income lost by funding a deposit rather than saving.

Mortgage payments has been calculated from average advances made to first time buyers for each region and year published by the Council of Mortgage Lenders. The estimated average advance for 2016 varies from 75% in London to 85% in the northern regions; the UK average is 83%. Figures relate to the first year of purchase.

³ **Rental payments:**

Average rental payments are from rental data from BM Solutions. Monthly rents (both regions and UK) are crude, or simple, averages based on the buy to let mortgage new transactions.

⁴ CML data Feb 2017

⁵ Estimated from Council of Mortgage Lenders data.

Income lost by funding a deposit rather than saving:

It is assumed that there is a cost involved in funding a deposit which for this analysis is the monthly interest income lost from paying a deposit instead of saving it in an interest bearing account. This has been calculated using house price data from the Halifax's housing statistics database and the interest gained from an average of Bank of England quoted savings rates on instant access, notice, ISA and fixed rate bond accounts. For example, the average deposit required to buy a three bed home (£31,101) in the UK would generate an average monthly income of just over £26. If used to fund a deposit, the income from the interest would be lost and is therefore included as a cost within the average monthly buying costs measure.

Household maintenance, repair, minor alterations and insurance costs:

Estimated maintenance repair, minor alterations and insurance costs associated with owning a home have been sourced from the ONS Family Spending Survey for 2014. Estimates for 2008 to 2013 and 2016/2015 have been calculated using the 2014 survey data and adjusted using the CPI series on regular maintenance and repair of dwellings.

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