

# Press Release

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The **Halifax Buying vs. Renting Review** tracks changes in the cost of buying and renting a three bedroom property across the UK over the last three years. **Average buying costs include mortgage payments, income lost by funding a deposit rather than saving, spending on household maintenance, and repair and insurance costs.** The review is based on data from the Halifax's own extensive housing statistics database, Birmingham Midlands, the Bank of England and the Office for National Statistics (ONS). UK figures are a weighted average of regional data using housing tenure figures.

## Buying is 14% more affordable than renting

*\*Renters pay nearly £100 a month more than mortgage holders\**

**The cost associated with buying a home in the UK is typically 14% lower than renting a property, according to new research by Halifax.** The average monthly costs associated with buying<sup>1</sup> a three bedroom house in the UK stood at £608 in March 2011; 14% (£98) lower than the average monthly rent paid<sup>2</sup> on the same property type of £706. Three years ago, the average cost of buying was 43% more than the typical rent paid.

The significant fall in the monthly cost associated with buying compared to renting has been driven by the decline in the average mortgage rate since 2008. The mortgage rate<sup>3</sup> for a new borrower has fallen to an average of 3.59% from 5.82% in March 2008, helping to reduce the average monthly mortgage payment by 39%.

Buying costs currently account for a smaller proportion of average UK disposable income<sup>4</sup> (27%) than rental payments (31%). In 2008, buying costs accounted for a greater proportion of average disposable income than rent (56% against 39%).

Despite the improvement in the affordability of buying relative to renting, the tightening in lending criteria since 2007 has meant that many potential buyers have not attempted to enter the market. Nonetheless, market data<sup>5</sup> shows that the average deposit paid as a percentage of the purchase price has been broadly stable since early in 2009 at around 27%, following a marked rise in 2008.

Transaction costs including stamp duty and the fees associated with home purchase also add to the overall costs of buying a property. The average stamp duty bill for a three bedroom house was £1,639 in March 2011 (although first-time buyers are exempt on purchases below £250,000); 18% (£358) lower than the average in March 2008.

### **Switching from buying to renting could release equity worth £55,000**

Despite the advantages of buying versus renting, existing mortgage holders looking to switch to renting could enjoy the financial benefits of releasing the remaining equity in their property. Selling up your

property and renting instead would provide an average equity of approximately £55,000. Investing this in a fixed rate bond would generate a monthly income of £114 to use to offset rental costs.

**Suren Thiru, housing economist at Halifax, commented:**

*"The typical monthly mortgage payment has declined by over a third since 2008 as a consequence of falling mortgage rates and lower house prices. As such, the fall in the cost of buying a property compared to the average rent paid by tenants has been significant. Such a marked decline in mortgage costs has improved affordability for those able to enter the market as well as helping to ease the pressure on existing homeowners' disposable income."*

*Although the current trade-off between buying and renting is expected to narrow when interest rates start to rise again, the long-term benefits associated with investing in bricks and mortar are likely to ensure that buying will continue to be viewed favourably by many."*

**OTHER KEY FINDINGS:**

**Buying is now cheaper than renting in most regions**

In March 2011, buying a house was more affordable than renting in ten of the twelve UK regions. In contrast, buying was more expensive than renting in all regions in March 2008.

Buying is currently most cost-effective compared to renting in London with the average borrower taking out a new mortgage to finance house purchase in the capital paying 12% less per month than the typical private tenant. Despite this, Londoners still pay monthly buying costs that are 68% above the UK average. Northern Ireland and Wales are the only regions where renting remains cheaper than buying.

**Table 1 – UK average monthly mortgage and rental payments\***

	<b>Average monthly buying costs</b>	<b>Average monthly rental costs</b>	<b>% difference</b>
<b>Mar-08</b>	<b>£1,060</b>	<b>£741</b>	<b>43%</b>
Mar-09	£741	£729	2%
Mar-10	£616	£663	-7%
<b>Mar-11</b>	<b>£608</b>	<b>£706</b>	<b>-14%</b>

Sources: Halifax, Birmingham Midshires and ONS

\*Weighted average of regional data using housing tenure figures.

nb. Base rate changes impacted difference: March 2008 base rate was 5.25, falling to 0.50 in March 2009

**Table 2 – Average monthly mortgage and rental payments by region, March 2011**

	Average monthly buying costs	Average monthly rental costs	% difference
North	£442	£462	-4%
Yorkshire and the Humber	£456	£475	-4%
North West	£484	£517	-7%
East Midlands	£475	£480	-1%
West Midlands	£526	£530	-1%
East Anglia	£576	£580	-1%
Wales	£470	£463	1%
South West	£681	£706	-4%
South East	£801	£835	-4%
Greater London	£1,024	£1,168	-12%
Northern Ireland	£425	£416	2%
Scotland	£514	£531	-3%

Sources: Halifax, Birmingham Midshires and ONS

### **Editors' Notes:**

#### **<sup>1</sup> 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. Mortgage payments refer to the average new borrower (including both first-time buyers and homemovers). Figures relate to the first year of purchase.

#### **<sup>2</sup> Rental payments:**

Average rental payments are based on rental data from the Birmingham Midshires mortgage book. UK figures are a weighted average of the regional rental data and are based on new loans only. Weights have been calculated using regional housing tenure data from the CLG. Rental payments refer to the average for a three bedroom house over 9 months to March

<sup>3</sup> 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.

<sup>4</sup> Calculated using earnings data from the ASHE survey and the average earnings index published by the ONS.

<sup>5</sup> CML, Regulated Mortgage Survey, Table ML4.

#### **Mortgage payments:**

Mortgage payments are the weighted average of repayment (capital and interest) and interest-only mortgage payments. They refer to the average for a new borrower – either first-time buyer or home mover. Weights have been constructed using FSA 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's own extensive 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. It is assumed that the average advance is 73% of the purchase price – in line with 2010 average and is based on CML data. UK mortgage payments figures are a weighted average of the regional data. Weights have been calculated using

regional housing tenure data from the CLG. Mortgage payments refer to the average for a three bedroom house over 12 months to March.

**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 own extensive 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 (£44,262) in the UK would generate an average monthly income of £38.70. 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 2009. Estimates for 2008, 2010 and 2011 have been calculated using the 2009 survey data and adjusted using the CPI series on regular maintenance and repair of dwellings.

**Fixed rate bond calculation:**

The interest gained from a fixed rate bond has been calculated using the Bank of England data series on monthly interest rate of UK monetary financial institutions (excl. Central Bank) sterling fixed rate bond deposits from households (in percent) for 2010, not seasonally adjusted. Figures are pre-tax.

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