

# Press Release

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This latest **Halifax Buying vs. Renting Review** tracks changes in the cost of buying and renting a typical two bedroom flat for a First-Time Buyer across the UK over the last three years. **Average buying costs include mortgage payments, income lost by funding a deposit rather than saving and spending on household maintenance and repair and insurance costs.** Figures relate to the first year of purchase. The review is based on data from the Halifax's own extensive housing statistics database, Birmingham Midshires, the Bank of England and the Office for National Statistics (ONS). UK figures are a weighted average based on regional housing tenure figures.

## **Over £100 a month cheaper to buy than rent for first-time buyers**

**The cost of buying a home for first-time buyers is more than £100 a month lower than renting, according to new research by Halifax.** The average monthly costs associated with buying<sup>1</sup> a two bedroom flat in the UK for a first-time buyer (FTB) totalled £567 in July 2011, 16% (£110) lower than the typical rent paid<sup>2</sup> on the same property type (£677 a month). This is in contrast to 2008 when the average cost of buying was in fact 29% (£212) more than the average rent paid.

Since 2008, the cost associated with getting onto the property ladder has fallen by 40% (£383), five times the 8% (£62) decline in the average rent paid by private tenants. The cost of buying for a FTB has fallen by 2% over the past year whilst average rental costs have risen by 6%.

### **Lower mortgage rates and house prices drive down buying costs**

The decline in buying costs for a FTB has been driven by the fall in mortgage rates and house prices since 2008. The average mortgage rate<sup>3</sup> for a new borrower stands at 3.84%: a fall of 207 basis points from an average of 5.91% in mid 2008. The average FTB house price has fallen by 14% to £124,378 over the same period.

### **Average deposits stabilise...**

FTBs put down an average deposit of £27,127 in July 2011, equivalent to 20% of the average property price. This is nonetheless 6% lower than the average of £28,751 in July 2008, revealing a small improvement over the period.

Moreover, although the transaction costs associated with home purchase including stamp duty and legal fees can also add to the overall cost of buying a property, Halifax estimates that 95% of FTBs are currently exempt from paying stamp duty. This is as a consequence of the temporary increase in the threshold for FTBs from £125,000 to £250,000.

### **...but number of FTBs has fallen by almost a quarter since 2008**

Despite the improvement in the affordability of buying relative to renting, figures from the Council of Mortgage Lenders<sup>4</sup> show that there were 84,000 first-time buyers in the first half of 2011: 23% lower than in the same period in 2008. This partly reflects the economic turbulence over the period and the size of the average deposit still required to get onto the property ladder.

### **The current trade-off between buying and renting will narrow when interest rates rise**

Halifax estimates that the cost of buying would be broadly in line with the cost of renting if the current level of Bank Rate rose by 1.5 percentage points<sup>5</sup>. In this scenario, monthly buying costs for a UK FTB would stand at £681: that would be 1% (£4) higher than the average rent paid. However, given the uncertain economic outlook, interest rates are likely to remain very low for sometime yet.

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

*"The recent decline in the cost of buying a property for first-time buyers compared to renting has been substantial and reflects the drop in both mortgage rates and house prices since 2008 as well as a marked increase in the average rent paid over the past year."*

*"However, while these affordability gains are welcome, conditions in the housing market for those looking to get onto the property ladder remain challenging. Difficulties in raising a deposit and the current economic uncertainty are likely to mean that number of prospective first-time buyers entering the market will remain relatively subdued in the near term."*

### **Halifax acts to help first-time buyers**

In an effort to further support first-time buyers, Halifax recently announced a new partnership with Experian to launch Halifax Credit Expert. Through the launch of the new service, delivered through the Halifax First Time Buyer Pledge, applicants who do not get approved for a mortgage because of their credit score will have access to a bespoke CreditExpert membership. While Halifax accepts 8 out of 10 applications from first-time buyers, the new service will concentrate on helping those few who are unsuccessful in their first attempt to get on the ladder.

The service will provide Halifax customers with:

- unlimited access to their Experian credit report and Experian Credit Score
- expert support and advice on what's impacting their score
- personalised advice on steps to improve their credit profile.

### **OTHER FINDINGS:**

#### **Buying costs account for a quarter of disposable income**

FTB buying costs currently account for 25% of average disposable income. In 2008, buying costs accounted for 48% of average UK disposable income.<sup>6</sup>

#### **Buying is now more affordable than renting in all UK regions**

Buying a property for someone looking to take their first step on to the property ladder was more affordable than renting in all twelve UK regions. Conversely, in July 2008, buying was in fact more expensive than renting in all regions.

Buying is currently most cost-effective compared to renting in Northern Ireland with the average FTB paying 29% a month less than the typical private tenant. In contrast, the cost of buying is just 1% (£9) lower than the cost of renting in the South East.

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

	Average monthly buying costs	Average monthly rental costs	% difference
<b>Jul-08</b>	<b>£950</b>	<b>£738</b>	<b>29%</b>
Jul-09	£601	£679	-11%
Jul-10	£580	£637	-9%
<b>Jul-11</b>	<b>£567</b>	<b>£677</b>	<b>-16%</b>

Sources: Halifax, Birmingham Midshires and ONS

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

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

	Average monthly buying costs	Average monthly rental costs	% difference
North	£383	£456	-16%
Yorkshire and the Humber	£448	£507	-12%
North West	£472	£542	-13%
East Midlands	£411	£475	-13%
West Midlands	£484	£493	-2%
East Anglia	£520	£622	-16%
Wales	£466	£497	-6%
South West	£591	£624	-5%
South East	£701	£710	-1%
Greater London	£1,070	£1,119	-4%
Northern Ireland	£395	£555	-29%
Scotland	£474	£483	-2%
<b>UK*</b>	<b>£567</b>	<b>£677</b>	<b>-16%</b>

Sources: Halifax, Birmingham Midshires and ONS

### **Editors' Notes:**

#### **<sup>1</sup> Average buying costs:**

Average buying costs include (i) mortgage payments, (ii) income lost by funding a deposit and (iii) household maintenance, repair, minor alterations and insurance costs (see below for further details). Mortgage payments refer to the average first-time buyers. Figures relate to the first year of purchase. The prices used in the calculation are simple arithmetic ('crude') averages. These prices are not standardised and therefore can be affected by changes in the sample from period to period. Data refers to the 12 months to July.

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

Average rental payments are based on rental data from the Birmingham Midlands 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 two bedroom flat over 12 months to the July.

<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>CML, Regulated Mortgage Survey, Table ML2.

<sup>5</sup>This assumes that the other costs of buying (e.g. maintenance) and rental payments remain constant and that the rate rises are passed in full to both savers and borrowers. Note that the 1.5 percentage points' rise in the bank rate is a 300% increase from the current level, though the subsequent percentage increase in the average loan rates secured on dwellings will be smaller.

<sup>6</sup>Calculated using earnings data from the ASHE survey and the average earnings index published by the ONS.

#### **Mortgage payments:**

Mortgage payments refer to average of repayment mortgages only (capital and interest). Average mortgage payments 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. Average advances are based on CML data. UK mortgage payments figures are a weighted average of the regional house price data. Weights have been calculated using regional housing tenure data from the CLG. Mortgage payments refer to the average for a two bedroom flat over 12 months to July.

#### **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 two bedroom flat for a FTB in the UK (£23,954) would generate an average monthly income of £22.79. 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.

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