Press Release

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The **Halifax Affordability Review** tracks housing affordability for **all homebuyers** in 383 local authority districts (including 32 London boroughs) across the UK. **The affordability calculation used in this analysis measures the degree of difficulty faced by a *potential* new borrower in entering the local housing market dependent on current average house prices, mortgage rates and average earnings** (see Editors' Notes for details). The higher mortgage payments are for a potential new borrower in relation to average disposable earnings (i.e. after deduction of income tax and national insurance), the more difficult - and less affordable - it is to enter the market.

Home affordability at its best for 15 years

Mortgage payments for a new borrower are at their lowest as a proportion of disposable earnings for 15 years, according to new Halifax research. Typical mortgage payments for new borrowers - both first-time buyers and homemovers – at the long-term average loan to value ratio stood at 26% of disposable earnings in the second quarter of 2012.

There has been a continued fall in payments relative to earnings over the past year from 29% in Q2 2011, taking this measure further below the long-term average of 36%[1].

Overall, mortgage payments have nearly halved as a proportion of income over the past five years from a peak of 48% in Q3 2007.

Martin Ellis, housing economist at Halifax, commented:
"Lower house prices and reduced mortgage rates have led to a significant improvement in housing affordability for those able to fund the necessary deposit to enter the market over the past five years. As a result, mortgage payments for a typical new borrower currently account for the lowest proportion of earnings for 15 years.

"The relatively low level of mortgage payments in relation to income is providing support for house prices. The prospect of interest rates remaining at low levels for sometime yet is expected to continue to be a key factor supporting the demand for homes, helping to keep house prices around their current level during the remainder of 2012."

Affordability is better than the long-term average in all regions. Each of the 12 UK regions has seen a marked improvement in affordability since mid 2007. Average mortgage payments as a proportion of average disposable earnings for a new borrower have fallen most - by two-thirds - in Northern Ireland and have nearly halved in Wales, Yorkshire & the Humber and Scotland. *(Table 1)*

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There have been significant improvements in affordability in most local authority districts since 2007. 98% of local areas have seen a fall in mortgage payments as a proportion of average earnings of at 25% or more. 37 areas - nearly 10% of the total surveyed – have recorded an improvement of at least 50%.

Nonetheless, a clear north / south divide in affordability persists with affordability better in the north. Mortgage payments account for the lowest proportion of disposable earnings in Scotland and Northern Ireland both (20%) followed by Yorkshire & the Humber (21%). Payments are highest in relation to earnings in Greater London (35%), the South East (32%) and the South West (32%).

The ten most affordable local authority districts are all in Scotland. East Ayrshire is the most affordable local authority district in the UK with typical mortgage payments accounting for 15.0% of average local earnings. East Ayrshire is followed by West Dunbartonshire (16.1%) and North Ayrshire (16.2%). *(Table 2)*

The ten least affordable local areas are all in southern England. Kensington and Chelsea is the least affordable local authority district in the country with average mortgage payments on a new loan accounting for 77% of average local earnings. The London boroughs of Brent (52%) and Hammersmith & Fulham (51%) are the next least affordable. *(Table 3)*

Table 1: Regional Affordability, 2007 Q3-2012 Q2

Region	Mortgage Payments as % of Disposable Earnings		
	2007 Q3	2012 Q2	Long-term average (1983-2012)
North	44	24	30
Yorkshire & the Humber	40	21	29
North West	40	22	30
East Midlands	44	28	34
West Midlands	48	28	37
East Anglia	44	24	36
South West	55	32	43
South East	56	32	48

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London	56	35	44
Wales	47	25	33
Scotland	37	20	30
Northern Ireland	63	20	30
United Kingdom	**48**	**26**	**36**

Sources: Halifax, ONS, Bank of England

Table 2: 10 Most Affordable Local Areas, 2012 Quarter 2

Local Authority District	Region	Mortgage Payments as % of Disposable Earnings
East Ayrshire	Scotland	15.0
West Dunbartonshire	Scotland	16.1
Renfrewshire	Scotland	16.2
North Ayrshire	Scotland	16.2
North Lanarkshire	Scotland	16.3
South Ayrshire	Scotland	16.9
Falkirk	Scotland	17.0
Inverclyde	Scotland	17.0
Clackmannanshire	Scotland	17.1
Dundee City	Scotland	17.3

Sources: Halifax, ONS, Bank of England

Table 3: 10 Least Affordable Local Areas, 2012 Quarter 2

Local Authority District	Region	Mortgage Payments as % of Disposable Earnings
Kensington and Chelsea	London	76.6
Brent	London	51.8

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Hammersmith and Fulham	London	51.0
Oxford	South East	50.0
Guildford	South East	47.0
Tandridge	South East	46.6
Chichester	South East	46.3
Windsor and Maidenhead	South East	46.1
Camden	London	45.8
Epping Forest	East	45.5

Sources: Halifax, ONS, Bank of England

EDITORS' NOTES:
[1] recorded over the past 27 years.

THE AFFORDABILITY CALCULATION:
The affordability calculation used in this analysis measures the degree of difficulty faced by a *potential* new borrower in entering the local housing market dependent on current local average house prices, mortgage rates and local average earnings.

Average mortgage payments for a new borrower - including both first time buyers and homemovers - are calculated based on average house prices and mortgage rates applicable to the period of calculation. The national average loan to value over the period from 1983 to 2011 of 70% has been applied to the average house price to calculate the average new mortgage in all cases. Mortgage payments include both capital and interest payments.

Mortgage payments are then calculated as a percentage of average disposable earnings (i.e. after deduction of income tax and employee's national insurance contributions).

The higher mortgage payments are for a potential new borrower in relation to average disposable earnings, the more difficult (and therefore less affordable) it is to enter the market in the relevant geographic area (UK, region or local authority district).

DATA SOURCES:
This research is based on data from Halifax's own extensive housing statistics database, ONS data on average earnings and Bank of England statistics on average mortgage rates.

House Prices
At UK and regional levels, the prices used in this research are the *standardised* average prices, according to the Halifax House Price Index (seasonally adjusted).

At local authority district level, the prices used are simple arithmetic ('crude') averages. These prices are not standardised and therefore can be affected by changes in the sample from period to period. Average prices for each quarter refer to the average for the past 12 months to ensure statistical reliability. The crude averages have been adjusted to allow for the differences between the crude average and standardised average at regional level.

Mortgage Loan
The national average loan to value (LTV) over the period 1983-2011 has been used throughout (i.e. applied to all regions and local authorities). The long-term average LTV of 70% is based on Halifax lending over this period.

Average Earnings
Average earnings figures are from the ONS's "Annual Survey of Hours and Earnings" (ASHE) and refer to the means for full-time employees. **Northern Ireland** Average Earning figures are from DETINI – The Northern Ireland Annual Survey of Hours and Earnings (ASHE).

At local authority district level, figures for the relevant local authority district (residence based) are used in the majority of cases. Where this has not been possible due to data unavailability, the relevant *regional* average has been used.

Quarterly series have been produced by creating a smooth path between available annual figures based on the figures published by ONS for April of each year. Estimates for the quarters have been calculated based on the average weekly earnings (code KA17) published by the ONS.

Mortgage Rates
The average mortgage rate for new business undertaken by UK banks produced by the Bank of England has been used as the average rate for a new borrower. [Bankstats Table G1.4 code BJ95]

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