Press Release

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HALIFAX

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The **Halifax Affordability Review** tracks housing affordability for **all homebuyers** in 386 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 since 1997

Mortgage payments for a new borrower in the second half of 2011 were at their lowest as a proportion of disposable earnings for 14 years, according to new Halifax research. Typical mortgage payments for a new borrower - both first-time buyers and homemovers – at the long-term average loan to value ratio stood at 27% of disposable earnings in the fourth quarter of 2011. This is well below the average of 37% recorded over the past 27 years.

Overall, there was a modest fall in payments relative to earnings over the past year from 29% in 2010 Quarter 4.

Mortgage payments have nearly halved as a proportion of income in recent years from a peak of 48% in 2007 Quarter 3. Lower house prices and reduced mortgage rates have been the main drivers behind the significant improvement in affordability.

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

Locally, lower house prices and mortgage rates have resulted in significant improvements in affordability in most local authority districts since 2007. 95% of local areas have seen a fall in mortgage payments as a proportion of average earnings of at least 25%. Eighteen areas have recorded an improvement of 50% or more.

A clear north / south divide in affordability exists notwithstanding the improvements experienced in all regions since 2007. Mortgage payments account for the lowest proportion of disposable earnings in Scotland (20%), Yorkshire & the Humber and Northern Ireland (both 21%). Payments are highest in relation to earnings in Greater London (35%) and the South East (33%). The ten most affordable local areas are all in northern Britain whilst the ten least affordable areas are all in the south. *(Tables 2 and 3)*

Martin Ellis, housing economist at Halifax, commented:
"The falls in house prices and cuts in mortgage rates in the last few years have resulted in a significant improvement in housing affordability for those able to raise the necessary deposit to enter the market.

Mortgage payments for a typical new borrower are now at their lowest in proportion to earnings since 1997.

"The marked improvement in affordability was a key factor supporting housing demand in 2011. The prospect of an exceptionally low Bank of England Bank Rate over the foreseeable future should maintain affordability at favourable levels in 2012. This should support the market over the coming 12 months, helping to offset the impact of the downward pressures on demand from the ongoing difficulties faced by households regarding their finances and uncertainty about economic prospects."

Other Key Facts

- The fall in payments relative to earnings from 2011 to 2010 came despite a slight increase between the final two quarters of 2011, moving from 26% in 2011 Quarter 3 to 27% in Quarter 4.

- Seven of the ten most affordable local authority districts are in Scotland. East Ayrshire is the most affordable local authority district in the UK with typical mortgage payments accounting for 15.7% of average local earnings. East Ayrshire is followed closely by West Dunbartonshire and North Ayrshire (both 16.2%). *(Table 2)*

- Kensington and Chelsea is the least affordable local authority district in the country with average mortgage payments on a new loan accounting for 78% of average local earnings. Brent (54%) and Hammersmith & Fulham (50%) both in Greater London are the next least affordable. *(Table 3)*

Table 1: Regional Affordability, 2007 Q3-2011 Q4

Region	Mortgage Payments as % of Disposable Earnings		
	2007 Q3	2011 Q4	Long-term average (1983-2011)
North	44	25	30
Yorkshire & the Humberside	40	21	29
North West	40	23	30
East Midlands	44	26	34
West Midlands	48	28	37
East Anglia	44	26	36
South West	55	32	43
South East	56	33	48
London	56	35	44
Wales	47	27	33
Scotland	37	20	30
Northern Ireland	63	21	30
United Kingdom	**48**	**27**	**37**

Sources: Halifax, ONS, Bank of England

Table 2: 10 Most Affordable Local Areas, 2011 Quarter 4

Local Authority District	Region	Mortgage Payments as % of Disposable Earnings
East Ayrshire	Scotland	15.7
West Dunbartonshire	Scotland	16.2
North Ayrshire	Scotland	16.2
Pendle	North West	17.0
Renfrewshire	Scotland	17.0
Inverclyde	Scotland	17.1
North Lanarkshire	Scotland	17.2
Clackmannanshire	Scotland	17.7
North Lincolnshire	Yorkshire and The Humber	17.8
Barnsley	Yorkshire and The Humber	17.9

Sources: Halifax, ONS, Bank of England

Table 3: 10 Least Affordable Local Areas, 2011 Quarter 4

Local Authority District	Region	Mortgage Payments as % of Disposable Earnings
Kensington and Chelsea	London	78.0
Brent	London	53.5
Hammersmith and Fulham	London	50.2
Epping Forest	East	48.2
Windsor and Maidenhead	South East	47.3
Oxford	South East	46.9
Mole Valley	South East	46.0
Chichester	South East	45.7
Chiltern	South East	45.6
Tandridge	South East	45.4

Sources: Halifax, ONS, Bank of England

EDITORS' NOTES:

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. The 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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For the latest housing research, previous releases, and for information on the Halifax House Price Index, please follow this link:
http://www.lloydsbankinggroup.com/media1/economic_insight/halifax_house_price_index_page.asp