Press Release

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The **Halifax Affordability Review** tracks housing affordability for **all homebuyers** in 382 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 therefore less affordable) it is to enter the market. 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 review is based on data from the Halifax's own extensive housing statistics database, ONS data on average earnings and Bank of England statistics on mortgage rates.

Home affordability hits 12 year high

The proportion of disposable earnings devoted to mortgage payments – a key affordability measure – is at its most favourable for 12 years, according to new Halifax research. Nationally, typical mortgage payments for a new borrower - both first-time buyers and homemovers – at the historic average loan to value ratio stood at 28% in the second quarter of 2011: the lowest level since 1999 and down by almost half from a peak of 48% of average disposable earnings in 2007 Quarter 3. There has also been a modest decline over the past year from 30% in 2010 Quarter 2, reducing mortgage payments relative to earnings further below the average of 37% recorded over the past 27 years.

Lower house prices and reduced mortgage rates – which have fallen since 2007 from an average of 5.84% to 3.85% – have been the main drivers behind the significant improvement in affordability. However, the average deposit[1] put down by buyers has increased over the same period from 20% of the property value in 2007 Quarter 3 to 25% in 2011 Quarter 2.

All 12 regions have experienced the improvement in affordability since mid 2007 with affordability better than the long-term average in all regions. The most substantial percentage falls in average mortgage payments as a proportion of average disposable earnings have been in Northern Ireland (-62%) and Wales (-45%).

Locally, the fall in house prices and mortgage rates have also led to improvements in affordability in all local authority districts since 2007. Sixteen areas have recorded an improvement of 50% or more. The overwhelming majority - 94% - have seen a fall in mortgage payments as a proportion of average earnings of at least 25%.

Eight of the ten local areas that have experienced the biggest improvement in affordability since mid 2007 are in Northern Ireland. Carrickfergus has seen the biggest percentage improvement in mortgage payments as a percentage of average earnings (-63%) followed by Castlereagh (-62%) and Craigavon (-61%). Corby and Forest Heath are the other two areas in the top ten. *(See Table 1)*

Martin Ellis, housing economist at Halifax, commented:
"Lower house prices and reduced mortgage rates have resulted in a substantial improvement in housing affordability since the peak of the housing market in 2007. Housing is now at its most affordable for 12 years, and mortgage payments for a typical new borrower, compared to average earnings, are now comfortably below the long-term average.

"The improvement in affordability has been an important factor supporting housing demand this year. With the prospect of continuing low rates for some time yet, affordability is likely to remain favourable. These affordability gains, together with a slowly improving economy, should help to support demand in the face of pressures from weak earnings growth, relatively high inflation and higher taxes."

Other Key Facts

- Mortgage payments account for the lowest proportion of disposable earnings in Scotland (22%), Yorkshire & the Humber (23%) and the North West (23%).

- Six of the ten most affordable local authority districts are in Scotland. East Ayshire is the most affordable local authority district in the UK with typical mortgage payments accounting for 17.7% of average local earnings. East Ayrshire is followed closely by North Ayrshire (17.8%) and North Lanarkshire (18.0%). *(See 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 75% of average local earnings. Mole Valley (54%) and South Buckinghamshire (51%) both in the South East are the next least affordable. *(See Table 3)*

Table 1: 10 Local Areas with the Biggest Improvements in Affordability, 2007 Q3-2011 Q2

Local Authority District	Region	Mortgage Payments as % of Disposable Earnings		
		2007 Q3	2011 Q2	Mortgage Payments as % of Disposable Earnings
Carrickfergus	Northern Ireland	74.5	27.5	-63.1%
Castlereagh	Northern Ireland	85.4	32.4	-62.1%
Craigavon	Northern Ireland	69.7	27.5	-60.6%
Belfast	Northern Ireland	62.4	25.7	-58.8%
Corby	East Midlands	52.3	22.1	-57.8%
Ards	Northern Ireland	97.0	42.2	-56.4%
Coleraine	Northern Ireland	75.0	33.4	-55.4%
Lisburn	Northern Ireland	75.0	33.6	-55.2%
Newtownabbey	Northern Ireland	63.1	28.7	-54.5%
Forest Heath	East	57.0	26.2	-54.0%

Sources: Halifax, ONS, Bank of England

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

Local Authority District	Region	Mortgage Payments as % of Disposable Earnings
East Ayrshire	Scotland	17.7
North Ayrshire	Scotland	17.8
North Lanarkshire	Scotland	18.0
West Dunbartonshire	Scotland	18.2
South Lanarkshire	Scotland	18.7
Copeland	North West	18.7
Barnsley	Yorkshire and The Humber	18.7
Clackmannanshire	Scotland	18.8
Pendle	North West	18.8
Barrow-in-Furness	North West	18.8

Sources: Halifax, ONS, Bank of England

Table 3: 10 Least Affordable Local Areas, 2011 Quarter 2

Local Authority District	Region	Mortgage Payments as % of Disposable Earnings
Kensington and Chelsea	London	74.5
Mole Valley	South East	54.1
South Buckinghamshire	South East	50.7
Chiltern	South East	50.4
Brent	London	50.0
Adur	South East	47.6
Oxford	South East	44.8
Tandridge	South East	44.3
Windsor and Maidenhead	South East	44.3
Cambridge	East	44.3

Sources: Halifax, ONS, Bank of England

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Table 4: Most and Least Affordable Local Areas by Region

LOCAL AUTHORITY DISTRICT			
	Most affordable	**Least Affordable**	**Biggest Improvement in Affordability**
	2011 Q2	**2011 Q2**	**2011 Q2 v 2007 Q3**
North East	County Durham	Newcastle upon Tyne	Northumberland
Yorkshire and The Humber	Barnsley	Harrogate	Ryedale
North West	Copeland	South Lakeland	Fylde
East Midlands	Lincoln	Derbyshire Dales	Corby
West Midlands	Stoke-on-Trent	Herefordshire, County of	Bromsgrove
East of England	Ipswich	Cambridge	Forest Heath
South West	Swindon	West Dorset	North Dorset
South East	Medway	Mole Valley	Chichester
Greater London	Greenwich	Kensington and Chelsea	Newham
Wales	Blaenau Gwent	Ceredigion	Wrexham
Scotland	East Ayrshire	Edinburgh, City of	Inverclyde
Northern Ireland	Belfast	Ards	Carrickfergus
United Kingdom	**East Ayrshire**	**Kensington and Chelsea**	**Carrickfergus**

Sources: Halifax, ONS, Bank of England

EDITORS' NOTES:

[1]CML, Regulated Mortgage Survey, Table ML4.

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).

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DATA SOURCES:

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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.
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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]

Ends

"This report is prepared from information that we believe is collated with care, however, it is only intended to highlight issues and it is not intended to be comprehensive. We reserve the right to vary our methodology and to edit or discontinue/withdraw this, or any other report. Any use of this report for an individual's own or third party commercial purposes is done entirely at the risk of the person making such use and solely the responsibility of the person or persons making such reliance." © Bank of Scotland plc all rights reserved 2011

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