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The Key Worker Affordability Review 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. All measures are up to Q1 2014.

Mortgage affordability improves across the UK

- Mortgage affordability¹ improves across the UK except in London and the South East
- Today's average mortgage payment takes up 28 per cent of a new borrower's income, 3 per cent less than five years ago and 20 per cent down from the market peak in 2007
- In London a new mortgage will cost an extra £2,000 per year compared to five years ago, while across the UK payments have fallen by an average of £100
- Biggest falls in payment outgoings are in Northern Ireland [£2,880], Scotland [£912] and the North [£780]
- Public sectors workers are more recent winners for mortgage affordability as they achieve parity with the private sector

Mortgages have become more affordable everywhere except for London and the South East over the last five years, according to new figures from Halifax.

While taking out a new mortgage in London means spending an extra two thousand pounds [£1,992] per year compared to five years ago, the average payment has actually fallen in the UK by £96, according to new figures from Halifax [Table 1].

The figures reveal the combined impact of lower mortgage rates, increased average earnings and house price changes over the last five years, which have created some of the most favourable market conditions for mortgages in years.

The greatest mortgage reductions are found in Northern Ireland, where new payments are £2,880 per year less than they were five years ago. New Scottish mortgage holders are paying £980 less than they were five years ago, while those in the North are paying £780 less.

The South East is the only other area outside of London where new mortgage payments are more expensive than they were five years ago, and now cost an extra £612 on average.

For further information please contact:

Halifax Press Team:

Clare Mortimer: 0207 574 8648 / 7768541555 claremortimer@halifax.co.uk

Shella Ali: 0207 356 2017 / 07795 611154 shella.ali@lloydsbanking.com

Lauren Jones: 0207 4404 579 / 07825 584900 lauren.jones@halifax.co.uk

Ben Marquand: 020 7356 1838 / 07881311199 ben.marquand@halifax.co.uk

Michael O'Toole: 0207 574 8659 / 07867814168 michael.o'toole@lloydsbanking.com

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As a result of the lower payments, new mortgage payments account for 28% of income, down almost 3 percentage points (2.7%) from 2009. This is also massively down from the high point of the market in 2007, when 48% of income was spent on mortgages.

Craig McKinlay, Mortgage Director, Halifax said:

“In the majority of regions, mortgages are substantially more affordable today than they have been in years. In fact, new mortgage borrowers are spending far less on their mortgages than the highpoint of the market in 2007, when people were spending close to half [48%] of their income on their mortgage.

“The reality is mortgage affordability outside of London and the South East is close to its best level for twelve years. In London however, affordability is worse than it was in 2009, as the capital has shown exceptional house price growth.”

Public and private sector mortgage affordability

The last five years has also seen sweeping changes in affordability for the private and public sector.

In 2009 mortgage payments accounted for 31.2% of a public sector workers income, but by 2014 this had fallen to 27.9% (Table 3).

For those working in the private sector mortgage payments have fallen from 29.7% to 27.5%.

Craig McKinlay adds:

“Public sector workers in particular have benefited from higher wages over the last five years, with double digit earnings growth in some areas of the UK contributing to substantially improved figures for mortgage affordability. With only £500 separating the average salaries of both sets of workers, the public sector has achieved what would have seemed unlikely five years ago – parity with the private sector.

“Scotland is the clear winner for mortgage affordability for both public and private sector workers, with a mortgage there only taking up an average of 18% of a new public sector salary, which is substantially less than the UK average.”

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Table 1 –UK Mortgage affordability showing net mortgage payments

Region	Net mortgage payments (in £,annual)		
	2009 Q1	2014 Q1	Difference
North	£5,928	£5,148	£780
Yorkshire and the Humberside	£5,412	£5,112	£300
North West	£5,592	£5,304	£288
East Midlands	£6,096	£5,868	£228
West Midlands	£6,792	£6,492	£300
East Anglia	£7,104	£6,960	£144
South West	£8,064	£7,800	£264
South East	£9,312	£9,924	-£612
London	£10,800	£12,792	-£1,992
Wales	£5,832	£5,700	£132
Scotland	£5,544	£4,632	£912
Northern Ireland	£7,224	£4,344	£2,880
UK	£7,200	£7,104	£96

Sources: Halifax, ONS, Bank of England

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Table 2 – The percentage of full time earnings paid on the mortgage

Region	Affordability 2009 All Full Time Earnings %	Affordability 2014 All Full Time Earnings %
North	29.5	23.0
Yorkshire and the Humber	25.4	22.3
North West	26.0	22.8
East Midlands	27.6	24.8
West Midlands	32.1	27.6
East Anglia	28.3	25.9
South West	37.0	32.8
South East	34.6	34.1
London	33.9	39.2
Wales	28.8	25.8
Scotland	25.2	18.9
UK	30.4	27.7

Table 3 Mortgage Payments as % of Disposable Earnings for Public and Private Sector Workers 2009/14

Region	Affordability 2009		Affordability 2014	
	Public Sector	Private Sector	Public Sector	Private Sector
North	28.1	30.4	21.5	24.2
Yorkshire and the Humber	24.9	25.9	21.5	23.0
North West	25.5	26.1	21.7	23.6
East Midlands	27.6	28.3	24.1	26.0
West Midlands	31.4	31.9	26.7	27.9
East Anglia	31.5	30.9	28.2	28.8
South West	36.0	37.6	31.6	33.8
South East	41.0	35.9	39.8	37.0
London	38.0	29.7	41.6	34.0
Wales	27.0	31.3	24.1	28.1
Scotland	24.2	25.5	18.5	19.2
UK	31.2	29.7	27.9	27.5

Sources: Halifax, ONS, Bank of England

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Table 4 - Annual Average Earnings Private Sector Workers 2009/14

Region	Public sector 2009	Private sector 2009	Public sector 2014	Private sector 2014	Public Sector % change since 2009	Private Sector % change since 2009
North	28,023	25,685	30,998	27,149	11%	6%
Yorkshire and the Humber	28,927	27,745	30,923	28,585	7%	3%
North West	29,112	28,432	31,883	28,911	10%	2%
East Midlands	29,366	28,558	31,669	29,007	8%	2%
West Midlands	28,752	28,220	31,560	30,086	10%	7%
East Anglia	30,131	30,720	32,171	31,368	7%	2%
Wales	28,702	24,387	30,658	25,653	7%	5%
South West	29,877	28,507	32,151	29,772	8%	4%
South East	30,260	34,995	32,511	35,333	7%	1%
Greater London	38,556	51,608	41,127	52,938	7%	3%
Scotland	30,605	28,898	32,721	31,288	7%	8%
UK	30,806	32,574	33,344	33,834	8%	4%

Sources: Halifax, ONS, Bank of England

EDITORS NOTES:

The Mortgage Affordability Calculation:

¹ 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 2012 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).

² Calculated by looking at the 2009 and 2014 affordability rate against 2014 earnings in pound figures.

Data Sources:

This research is based on data from the Halifax House Price Index Database, ONS data on average earnings and Bank of England statistics on average mortgage rates.

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House Prices

The prices used in this research are the standardised average prices, according to the Halifax House Price Index (seasonally adjusted).

Mortgage Loan

The national average loan to value (LTV) over the period 1983-2012 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 all full-time employees for public and private sector (tables 25.7a and 7.7a). Estimates for 2014 have been calculated based on the average weekly earnings (code KA17) published by the ONS.

Mortgage Rates

The average mortgage rate of UK banks sterling weighted average interest rate, loans secured on dwellings, new advances to households not seasonally adjusted produced by the Bank of England has been used as the average rate for a new borrower. [code CFMBJ95]

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