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The **Halifax Affordability Review** tracks mortgage affordability for **all homebuyers** in nearly 384 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).

## Mortgage affordability improved significantly over past decade

- **Affordability has improved significantly in almost all local authority districts since the pre-crisis peak**
- **Mortgage payments account for 32% of first-time buyers' disposable income compared to 50% in 2007**
- **Haringey least affordable place, while Scotland, Northern Ireland, northern England and Yorkshire among most affordable**

Mortgage affordability levels have remained significantly below the peak of 2007 almost a decade on, new Halifax research has revealed.

Mortgage affordability – the proportion of disposable earnings devoted to mortgage payments – has improved by 18 percentage points since reaching its peak in 2007. Typical mortgage payments for new borrowers (both first-time buyers and homemovers) at the historic average loan to value ratio<sup>1</sup> stood at 30% in Q4 2016 compared to the peak of 48% in Q3 2007.

Historically low mortgage rates have been the main driver behind the significant improvement in affordability since 2007. (See Table 1)

Despite average house prices growing by 7% in the past year, mortgage affordability in Q4 2016 was unchanged from 2015 at 30%. This is comfortably below the long-term average of 35%<sup>2</sup>. This proportion has stayed low due to further dip in mortgage rates during 2016, from an average of 2.49%<sup>1</sup> in Q1 to 2.17%<sup>1</sup> in Q4.

### **Significant improvements in mortgage affordability in nearly all areas since Q3 2007**

There have been significant improvements in affordability in almost all local authority districts since 2007, with mortgage payments falling by at least 40% as a proportion of average earnings in 10 areas. Almost two thirds (60%) of all districts have seen an improvement of at least 15 percentage points over the period.

The greatest improvements were mostly in Northern Ireland, where housing affordability has improved due to a significant fall in house prices, now 40% lower than in 2007.

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In North Down and Ards mortgage payments as a proportion of disposable earnings have fallen by more than half (from 73% to 21% in Q4 2016), followed by Lisburn and Castlereagh (69% to 19%) and Causeway Coast and Glens (68% to 20%).

In England, the most significant improvement has been in South Bucks where the proportion of average disposable earnings devoted to mortgage payments has plummeted from 96% to 51%, a reduction of 45 percentage points since 2007.

However, there are seven areas where affordability on this measure has deteriorated since Q3 2007, including Mole Valley in Surrey (from 57% to 65%), and the London boroughs of Waltham Forest (52% up to 56%) and Harrow (from 58% to 63%). These areas have seen significant house price growth in the range of 46% to 88% since 2007.

## **Clear north / south mortgage divide**

Mortgage payments are at their lowest as a proportion of disposable earnings in Scotland (19%), Northern Ireland (20%), North (23%) and Yorkshire and the Humber (23%) and the North West (24%).

Payments are highest in relation to earnings in Greater London (49%), the South East (41%) and the South West (34%). London is the only region where the current rate is above its long-term average.

Eight out of the 10 most affordable local areas are in northern Britain, whilst the 10 least affordable areas are all in the South.

Seven of the 10 most affordable local authority districts are in Scotland, with West Dunbartonshire, North Lanarkshire and East Ayrshire among the most affordable local authority districts in the UK. There, typical mortgage payments account for 16% of average local earnings in all areas.

The remaining most affordable areas in the top 10 are Copeland in Lancashire (16%), Merthyr Tydfil (17%) and Blaenau Gwent (17%), both in Wales. (See Table 2)

Unsurprisingly, the 10 least affordable areas are predominantly in London. Haringey is the least affordable local authority district in the country, with average mortgage payments on a new loan accounting for 68% of average local disposable earnings, followed by Brent (66%), Mole Valley (65%) and Camden (65%). (Table 3)

## **Low rates continue to keep affordability under control for first-time buyers and homemovers**

The proportion of disposable earnings devoted to mortgage payments by a first-time buyer stood at 32%<sup>3</sup> in Q3 2016 – in line with the long-term average<sup>2</sup> of 34%. This is a substantial improvement since 2007, when this figure reached a peak of 50%.

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Record low mortgage rates have helped reduce this cost as a proportion of homemovers' overall outgoings. In Q4 2016, mortgage payments accounted for 38%<sup>3</sup> of homemovers' disposable earnings – close to the long-term average<sup>2</sup> figure of 40%. This is a substantial improvement since the peak in 2007, when average mortgage outgoings accounted for 57% of homemovers' disposable income.

**Martin Ellis, housing economist at Halifax, said:**

*“Looking back almost a decade, there has been a considerable improvement in housing affordability across the country, which has been maintained over the past year as further falls in mortgage rates have offset the effects of higher house prices.*

*“The significant reduction in mortgage payments by a typical borrower has resulted mostly from record low rates that have provided monthly savings of, on average, around £220 in 2016 compared to a peak monthly payment of £888 in 2007.”*

**Table 1: Regional Affordability, 2007 Q3-2016 Q4**

Region	Mortgage Payments as % of Disposable Earnings			
	2007 Q3	2015 Q4	2016 Q4	Long-term average (1983-2013)
North	43.8	23.6	22.8	29.1
Yorkshire and the Humber	40.1	23.3	22.8	28.3
North West	40.3	23.4	23.9	29.3
East Midlands	44.1	26.2	23.2	32.7
West Midlands	47.8	27.8	28.4	35.9
East Anglia	44.0	29.1	28.1	35.1
South West	55.2	34.1	34.3	41.6
South East	55.8	40.0	41.3	46.8
London	55.8	48.3	48.6	43.5
Wales	46.6	25.0	22.3	31.7
Scotland	37.3	19.4	19.8	28.5
Northern Ireland	63.5	19.2	20.2	28.7
UK	47.7	29.7	29.7	35.4

Sources: Halifax, ONS, Bank of England

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**Table 2: 10 Most Affordable Local Areas, 2016 Quarter 4**

Local Authority District	Region	Mortgage Payments as % of Disposable Earnings Q3 2007	Mortgage Payments as % of Disposable Earnings Q4 2015	Mortgage Payments as % of Disposable Earnings Q4 2016
West Dunbartonshire	Scotland	29.0	14.3	15.4
North Lanarkshire	Scotland	31.6	15.4	15.6
Copeland	North West	28.9	16.4	15.9
East Ayrshire	Scotland	30.3	14.6	16.1
Blaenau Gwent	Wales	35.4	17.4	16.5
Renfrewshire	Scotland	31.3	16.3	16.6
Inverclyde	Scotland	36.9	14.6	16.8
Merthyr Tydfil	Wales	39.2	17.4	17.0
Stirling	Scotland	31.5	16.2	17.0
Falkirk	Scotland	34.5	17.2	17.2

Sources: Halifax, ONS, Bank of England

**Table 3: 10 Least Affordable Local Areas, 2016 Quarter 4**

Local Authority District	Region	Mortgage Payments as % of Disposable Earnings Q3 2007	Mortgage Payments as % of Disposable Earnings Q4 2015	Mortgage Payments as % of Disposable Earnings Q4 2016
Haringey	London	72.4	61.0	68.0
Brent	London	74.4	63.7	66.1
Mole Valley	South East	57.1	56.8	65.3
Camden	London	67.0	61.6	65.0
Harrow	London	58.2	58.8	62.9
Ealing	London	62.7	60.1	62.0
Lambeth	London	64.3	57.6	60.7
Hackney	London	70.0	59.2	59.0
Hammersmith and Fulham	London	59.8	63.7	58.0
Barnet	London	64.1	52.7	57.6

Sources: Halifax, ONS, Bank of England

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## **EDITORS' NOTES:**

In Quarter 4 2016, the average monthly take-home wage in the UK was £2,234 and the average monthly mortgage payment was £664.

### **The Mortgage Affordability Calculation:**

The mortgage 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.

<sup>1</sup> 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 2016 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. Average mortgage rate for a new borrower has been sourced from the Bank of England (code CFMBJ95).

<sup>2</sup> Since 1983

<sup>3</sup> Based on average loan taken out by a new first-time buyer/homemover

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 1983-2016 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.

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## **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 (UK £34,414 in April 2016 - table 8.7a). Northern Ireland Average Earning figures are from DETINI – The Northern Ireland Annual Survey of Hours and Earnings (ASHE). Average earnings figures as at April 2016 have been inflated by the change in the AWE index to calculate figures for 2016 Quarter 4.

**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 [CFMBJ95].

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