

This is the regular Bank of Scotland review of the cost of owning and running a home. The review is compiled using a range of official statistics, including the ONS Family Spending Survey. Housing costs include mortgage payments (interest and capital repayments), council tax, spending on maintenance and repair, water supply, electricity, gas and other fuels, household appliances, tools and equipment, goods and services for routine household maintenance, telephone accounts, toiletries and household insurance. **All figures used in the research relate to all owner occupiers not just mortgage holders.**

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## Cost of housing falls by 4% over the past two years

**The cost of owning and running a home in Scotland has declined by 4% over the past two years, according to new research by Bank of Scotland.** Between April 2008 and April 2010, the average annual cost associated with owning and running a home fell by £388 from £8,949 to £8,562. In real terms (i.e. after allowing for retail price inflation), the cost of housing has fallen by 8%. Housing costs in Scotland are now equivalent to 28% of gross average full-time earnings, down from 32% in 2008.

**The fall in the cost of housing since 2008 has been driven by a 19% (£735) decline in annual mortgage payments** (interest and capital repayments). The average mortgage rate paid by existing borrowers fell by 2.13 percentage points between April 2008 and April 2010 from 5.80% to 3.67%.

**Average annual housing costs in Scotland (£8,562) in April 2010 were 5% (£458) lower than the UK average of £9,020.** London (£11,762) and the South East (£10,457) have the highest average annual costs of owning and running a home in the UK. Housing costs are lowest in Northern Ireland (£7,331).

**Home owning and running costs account for 28% of gross average full-time earnings in Scotland, just above the UK average (27%).** Across the UK, home owning and running costs as a percentage of gross average full-time earnings are lowest in London (24%) despite the capital having the highest absolute costs. Housing costs are highest in relation to earnings in the East of England (31%).

Over the past year, the average expenses associated with owning and running a home in Scotland have increased by 1.2% (£103). This is less than a quarter of the rise in retail prices (5.3%).

### **Suren Thiru, housing economist at Bank of Scotland, commented:**

"Over the last two years, the cost associated with owning and running a home in Scotland has fallen, entirely as a consequence of reduced mortgage payments. The drop in housing costs has helped to ease the strain on household's finances, providing some relief to homeowners during the economic downturn."

## **ADDITIONAL KEY FINDINGS**

Mortgage payments account for the largest proportion of total housing expenses (36%).

Electricity and gas charges and council tax charges and domestic rates account for the next highest shares after mortgage payments (both 17%).

Nine of the eleven housing costs categories analysed recorded above inflation increases between April 2008 and April 2010. The cost of home maintenance, electricity and gas charges and household appliances all rose by 10% over the two years.

Electricity and gas bills' proportion of housing costs increased from 15% to 17% as a result of the 10% rise in such costs over the period.

### **Editors' Notes:**

#### **Data Sources:**

**Mortgage payments:** the weighted average of repayment (capital and interest) and interest-only mortgage payments. Weights have been constructed using FSA regulated mortgage statistics on balances by mortgage type.

**Mortgage interest rates:** Monthly average of UK resident banks' sterling weighted average interest rate loans secured on dwellings to households for existing borrowers only (not seasonally adjusted). Data series published by the Bank of England (code: CFMHSDE). From January 2010, building society rates are included within the overall rate for UK MFIs.

Average earnings are based on ASHE survey and average earnings index published by the ONS.

### **Methodology:**

This housing cost research has been compiled using consumer spending data for households that are owner-occupiers. Owner occupied housing spending data has been extracted from the ONS Family Spending Survey for the period 2001/02 to 2004/05. This data has been used to construct base weights and levels of owner occupied home owning and running costs. Price rises from equivalent Consumer Price Index and Retail Price Index categories has then been applied to these base weights to calculate the change in and current level of owner occupied home owning and running costs. The price rise in the repayment mortgage component of mortgage payments (see above) is calculated using Bank of England series on outstanding mortgage balances and monthly average of UK resident banks' sterling weighted average interest rate loans secured on dwellings to households for existing borrowers only.

Council tax bills are based on spending patterns of owner occupiers in the Family Spending Survey and will not match up with official Band D or average council tax bills. Similarly, utility bills relate owner occupied households and may be larger than equivalent bills for all households because of the typically larger sizes of owner occupied properties.

**Table 1 – Cost of Owning and running a House by category**

	<b>Estimated costs £s April 2008</b>	<b>Estimated costs £s April 2010</b>	<b>2 year % change</b>
Maintenance and repair of dwelling	474	521	10%
Water supply and miscellaneous dwelling services	383	400	5%
Electricity, gas and other fuels	1,360	1,491	10%
Household appliances	285	313	10%
Tools and equipment for house and garden	138	145	5%
Goods and services for routine household maintenance	282	301	7%
Telephone account	310	331	7%
Toiletries, cleaning products, etc	154	163	6%
Household insurances	335	339	1%
Mortgage payments (capital and interest)	3,798	3,063	-19%
Council tax, domestic rates	1,430	1,495	5%
<b>Total Cost of Owning and running a home</b>	<b>8,949</b>	<b>8,562</b>	<b>-4%</b>

Source: Bank of Scotland, ONS

**Table 2 – Share of total housing costs by category**

	<b>% Share of total housing costs (Apr 08)</b>	<b>% Share of total housing costs (Apr 10)</b>
Maintenance and repair of dwelling	5%	6%
Water supply and miscellaneous dwelling services	4%	5%
Electricity, gas and other fuels	15%	17%
Household appliances	3%	4%
Tools and equipment for house and garden	2%	2%
Goods and services for routine household maintenance	3%	4%
Telephone account	3%	4%
Toiletries, cleaning products, etc	2%	2%
Household insurances	4%	4%
Mortgage payments (capital and interest)	42%	36%
Council tax, domestic rates	16%	17%
<b>Total Cost of Owning and running a home</b>	<b>100%</b>	<b>100%</b>

Source: Bank of Scotland, ONS

**Table 3 – Cost of Owning and Running a House by Region**

	Cost of Owning and running a home £s (Apr 10)	% of UK average
London	11,762	130%
South East	10,457	116%
East	9,760	108%
South West	8,842	98%
<b>Scotland</b>	<b>8,562</b>	<b>95%</b>
East Midlands	8,417	93%
North West	8,323	92%
West Midlands	8,114	90%
Yorkshire and The Humber	7,754	86%
Wales	7,391	82%
North East	7,355	82%
Northern Ireland	7,331	81%
<b>United Kingdom</b>	<b>9,020</b>	<b>100%</b>

Source: Bank of Scotland, ONS

**Table 4 – Cost of Owning and Running a House in Relation to Earnings by Region**

	Housing costs (Apr 10)	Average gross earnings for full time workers (Apr 10)*	Housing costs as a % of earnings
London	11,762	49,038	24%
North East	7,355	27,993	26%
Northern Ireland	7,331	27,864	26%
Yorkshire and The Humber	7,754	29,421	26%
Wales	7,391	27,463	27%
West Midlands	8,114	29,811	27%
North West	8,323	29,942	28%
<b>Scotland</b>	<b>8,562</b>	<b>30,750</b>	<b>28%</b>
East Midlands	8,417	30,077	28%
South West	8,842	30,087	29%
South East	10,457	35,308	30%
East	9,760	31,950	31%
<b>United Kingdom</b>	<b>9,020</b>	<b>33,416</b>	<b>27%</b>

Source: Bank of Scotland, ONS

\*Average earnings are based on ASHE survey and average earnings index published by the ONS.

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**For further information, contact:**

Zoe Redhead, Bank of Scotland Press Office

Tel: 0131 243 7005

Web: [www.lloydsbankinggroup.com/media.asp](http://www.lloydsbankinggroup.com/media.asp)