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The second quarterly Bank of Scotland **First-Time Buyer (FTB) Affordability Review** tracks housing affordability in 297 local authorities (including 28 in Scotland) across the UK. **A local authority (LA) is classified as affordable if the average house price for an FTB is lower than the price someone on average earnings in the area can pay based on the historical average house price to earnings ratio of 4.0** (see Editors' Notes for details). The calculation is based on a single income and is, therefore, conservative. The review is based on data from the Bank of Scotland's own extensive housing statistics database and ONS data on average earnings.

Housing affordability for first-time buyers in Scotland has improved substantially since mid 2007

Home affordability for potential first-time buyers (FTBs) has improved substantially since mid 2007, according to the latest Bank of Scotland FTB Affordability Review. In the first quarter of 2009, the average price paid by an FTB was affordable for someone on average earnings in 64% of local authorities in Scotland; compared to 36% in 2007 Quarter three*. (See *Table 1*)

Affordability better now than past four years

The house price to earnings ratio in Scotland – a key affordability measure - **is lower now than it has been for more than four years**. Further, the house price to average earnings ratio has declined from a peak of 4.69 in 2007 quarter four to an estimated 3.73 in 2009 quarter one; a fall of 20%. The proportion of disposable earnings devoted to mortgage payments – another affordability measure that includes the impact of interest rate changes - has also fallen significantly due to the combination of the decline in house prices and the cut in interest rates to record lows (from a peak of 39% in 2007 to 26% in 2009 Quarter one).

Martin Ellis, housing economist at Bank of Scotland, commented:

"There has been a marked improvement in housing affordability for potential first-time buyers in Scotland over the past 18 months. The significant reductions in house prices, relative to average earnings, have resulted largely from the decline in house prices since early 2008. As a result, housing is at its most affordable, on this key measure, for more than four years."

Below the 25 year average

Mortgage payments, relative to earnings, in Scotland are now below the long-term average of 31% recorded over the past 25 years and stand at 26%.

The number of first-time buyers is at a very low level despite the improvement in affordability. The latest industry-wide figures show that the number of FTBs in Scotland in 2008 quarter 4 was 19% lower than in the previous quarter, at 4,300 (Source: CML). The significant tightening in lending criteria, over the period since the summer of 2007, has been reflected in a much reduced availability in mortgages at high loan to value ratios. This development has prevented many potential FTBs entering the market notwithstanding the significant improvement in affordability.

Martin Ellis concludes:

"Conditions in the housing market are likely to be tough during the remainder of 2009 despite the improvements in affordability. Increasing unemployment, low consumer confidence and the constraining effects of the continuing dislocation of the financial markets on the availability of mortgage finance are all likely to exert downward pressure on the market over the coming months. House prices are expected to decline again in 2009. Prospective first-time buyers should factor the likelihood of further house price falls into their calculations when deciding whether or not to buy."

- Ends -

Note:

** A local authority (LA) is classified as affordable if the average house price for a FTB in the area is lower than the price someone on average earnings in the area can pay based on the 20 year historical average house price to earnings ratio of 4.0. The calculation is based on a single income and is, therefore, conservative. (See Editors' Notes for details).*

ADDITIONAL KEY FINDINGS INCLUDE:**Scotland**

- **The affordability situation for FTBs has improved in eight of the 12 UK regions since 2007 Quarter 3.** The largest increases in the percentages of local authorities that have become affordable for FTBs between 2007 Q3 and 2009 Q1 are in Yorkshire and the Humber (from 0% to 59%) and Scotland (from 36% to 64% of Local authorities).
- **Similarly, housing is most affordable for FTBs in Scotland and Yorkshire and the Humber.** Property prices are affordable for someone on average earnings in nearly two out of three local authorities (64%) in Scotland and Yorkshire and the Humber (59%).
- The 14% decline in the average house price in Scotland from its peak in 2008 quarter one has been the key driver of the fall in house prices in relation to average earnings. The ratio, at 3.73, is at its lowest level for more than four years (Quarter 4 2004: 3.65). The long-term average is 3.52.

United Kingdom

- **The proportion of local authorities in the UK where housing is affordable for an FTB has more than trebled since 2007.** In the first quarter of 2009, the average price paid by an FTB was affordable for someone on average earnings in 21% of local authorities; compared to just 6% in 2007 Quarter three. (See Table 1)
- The number of local authorities across the UK where the average property is affordable for a potential FTB on average earnings has increased from 19 in 2007 Quarter 3 to 61 in 2009 Quarter 1 out of a total of 297 local authorities surveyed.
- **There have been no increases in the number of affordable local authorities in London, South West, East of England and Northern Ireland.** In these areas of the UK the average property bought by a FTB remains unaffordable for someone on average earnings in all the local authorities surveyed.

Table 1: First Time Buyers Affordability - Local Authorities

	2007 Quarter 3				2009 Quarter 1			
	Affordable		Unaffordable		Affordable		Unaffordable	
	Number	%	Number	%	Number	%	Number	%
Scotland	10	36%	18	64%	18	64%	10	36%
North East	2	13%	14	88%	6	38%	10	63%
Yorks & the Humber	0	0%	17	100%	10	59%	7	41%
North West	3	10%	28	90%	10	32%	21	68%
East Midlands	4	13%	27	87%	11	35%	20	65%
West Midlands	0	0%	21	100%	2	10%	19	90%
East of England	0	0%	37	100%	0	0%	37	100%
South West	0	0%	20	100%	0	0%	20	100%
South East	0	0%	45	100%	1	2%	44	98%
Greater London	0	0%	31	100%	0	0%	31	100%
Wales	0	0%	15	100%	3	20%	12	80%
Northern Ireland	0	0%	5	100%	0	0%	5	100%
U.K.	19	6%	278	94%	61	21%	236	79%

Source: Bank of Scotland

Table 2: Scottish Local Authorities that have become affordable for First-Time Buyers between 2007 Q3 and 2009 Q1

Scotland
Angus
Argyll and Bute
Dundee City
East Renfrewshire
Fife
Perth and Kinross
South Ayrshire
South Lanarkshire

EDITORS' NOTES:

THE AFFORDABILITY CALCULATION:

A local authority (LA) is classified as affordable if the average house price for a First-time Buyer (FTB) in the LA is **lower** than someone paid the average earnings in the area can pay. Gross average annual earnings for the LA are multiplied by 4.0 to calculate the amount that someone on average earnings could 'afford' to pay. For example, if average earnings in the LA are £30,000, someone on average earnings in the area could pay up to £120,000. The LA is deemed to be affordable if the average price paid by a FTB in the LA is less than £120,000 and unaffordable if it is higher.

The multiple of 4.0 is in line with the average house price to income ratio for a FTB over the past 20 years (1989-2008). (Source: Bank of Scotland). This is approximately equivalent to an average loan to income multiple of 3.25 plus a 19% deposit, or a 3.5 times multiple and a 12.5% deposit.

DATA SOURCES:

This research is based on data from the Bank of Scotland's own extensive housing statistics database and ONS data on average earnings.

House Prices

The prices used in this research 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 2009 Quarter 1 are for the 12 months to March 2009. Average prices for 2007 Quarter 3 are averages for the 12 months to September 2007.

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.

At local authority level, figures for the relevant local authority (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 period after April 2008 have been calculated based on the monthly national average earnings index published by the ONS.

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