

**NOT FOR BROADCAST OR PUBLICATION BEFORE 00:01 MONDAY 20 FEBRUARY 2017**

## **FIRST TIME BUYERS ARE £860 A YEAR BETTER OFF THAN RENTERS**

First-time buyers in Scotland are on average £860 a year better off with their own home compared to those who rent, according to Bank of Scotland's Buying versus Renting Review. The average monthly costs (including mortgage payments<sup>1</sup>) associated with buying a three-bedroom house stood at £522<sup>2</sup> in December 2016 - £72 lower than the typical monthly rent of £593<sup>3</sup> paid on the same property type. This 12% difference is the largest across the country compared to the UK average saving of 7%. (See table 1)

Over the past year the gap between the costs of buying and renting in Scotland has narrowed by £49 per month. At the end of 2015, the monthly cost associated with buying was £121 lower than renting (19%, £524 versus £645). This is in contrast to average UK buying costs which, over the last year, have risen by 5%. (See table 2)

### **Eighth year of buying being cheaper than renting**

The costs associated with a first time buyer purchasing a home in Scotland have been cheaper than renting since 2009, when average buying costs dropped from £756 per month in 2008 to £505. The average monthly rental payments have increased by only £30 since December 2008, however buying a property has changed from being £184 more expensive each month, to £38 cheaper.

By December 2015 the buying versus renting gap peaked with a 19% difference - average renting costs jumped to £645 (from a previous high of £599 in December 2014), while average monthly buying costs dropped to £524 (£536 in December 2014). For the UK as a whole, first time buyers were still better off buying a property than renting in December 2015, however there was only a 10% difference (£671 buying v £744 renting) compared to Scotland's 19%.

### **Buying a house is more affordable than renting in all 12 UK regions**

Buying a house is more affordable than renting in all 12 UK regions, with the difference being most significant in Scotland (12% cheaper). Buying is most affordable compared to renting in London with the typical first-time buyer paying £161 (10%) a month less than the average renter (£1,420 against £1,581); an annual saving of £1,927. In East Anglia there is little difference, with average monthly buying costs just £7 lower than average monthly rental costs (£736 against £743).

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## **Number of first-time buyers continues to rise**

The number of first-time buyers in Scotland reached 23,000<sup>4</sup> in 2016 (January-September), totalling over 20,000 for the third successive year, growing from 22,000 in 2015 (up 4.5%) – the highest level since the start of the financial crisis in 2007 (27,000).

Having reached a low of 12,300 in 2009, the number of homebuyers getting on to the first rung of the property ladder has grown by 87% to its current level. However, first-time buyer numbers still remain 21% below the immediate pre-crisis peak of 29,200 in 2006.

The number of first-time buyers accounted for 49%<sup>5</sup> of all house purchases made with a mortgage in 2016. This share has grown from 35% at the start of the housing downturn in 2007.

## **Wide regional variation in deposits put down by buyers**

The average deposit put down for a typical three-bedroom first-time buyer home in Scotland is £21,297<sup>6</sup>. In London the average deposit of £110,927 – the highest – is not only seven times higher than the lowest in Northern Ireland (£15,830) but also more than twice the amount in the South East (£51,082), the next highest.

## **Graham Blair, Mortgage Director at Bank of Scotland, commented:**

“This is the eighth year in a row that first time buyers in Scotland are better off buying a property rather than renting. Over this period of time, buying costs haven’t fluctuated much, resulting in the annual saving increasing from £458 to £860. While it’s also the more financially attractive option across the UK to buy rather than rent, it’s more affordable in Scotland. Buying here is 12% cheaper than renting, compared to the UK’s 7% cheaper.

“The size of deposit that is often required can represent a substantial hurdle to overcome before realising the potential financial advantages of home-ownership. Whilst deposits can raise the upfront cost of buying, it is also an important form of long-term savings for homeowners, and coupled with rising prices it contributes towards higher housing wealth. This in itself adds to the financial attractiveness of buying.

“While first-time buyer prices are a fifth higher (20%) than in 2009, the number of first-time buyers getting on the housing ladder has grown by 44% over the period. Official Scottish Government schemes, such as Help to Buy and New Supply Shared Equity Scheme, have played a part in helping first-time buyers, as have improving economic conditions.”

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**Table 1.../**

**Table 1: First time buyer average monthly buying and rental costs by region, December 2016**

Region	Average monthly buying costs	Average monthly rental costs	% difference	£ difference	£ Annual Savings
North	£463	£510	-9%	-£47	-£565
North West	£538	£574	-6%	-£35	-£426
Yorkshire & the Humber	£508	£525	-3%	-£17	-£204
West Midlands	£573	£638	-10%	-£65	-£779
East Midlands	£562	£608	-7%	-£46	-£547
East Anglia	£736	£743	-1%	-£7	-£84
South East	£1,032	£1,077	-4%	-£45	-£537
Greater London	£1,420	£1,581	-10%	-£161	-£1,927
South West	£748	£829	-10%	-£81	-£969
Scotland	£522	£593	-12%	-£72	-£860
Wales	£486	£544	-11%	-£58	-£701
Northern Ireland	£403	£432	-7%	-£28	-£340
<b>United Kingdom</b>	<b>£705</b>	<b>£759</b>	<b>-7%</b>	<b>-£54</b>	<b>-£651</b>

Sources: Bank of Scotland, BM Solutions and ONS. Period covered is 12 months to December 2016.

**Table 2: First time buyer average monthly buying costs and rental payments - Scotland**

	Average monthly buying costs	Average monthly rental payment	% difference	£ difference	£ Annual Savings
<b>Dec-08</b>	<b>£756</b>	<b>£573</b>	<b>32%</b>	<b>£184</b>	<b>£2,202</b>
Dec-09	£505	£543	-7%	-£38	-£458
Dec-10	£491	£536	-8%	-£45	-£536
Dec-11	£492	£540	-9%	-£48	-£576
Dec-12	£488	£558	-13%	-£71	-£847
Dec-13	£503	£568	-11%	-£65	-£783
Dec-14	£536	£599	-11%	-£64	-£764
Dec-15	£524	£645	-19%	-£121	-£1,453
Dec-16	£522	£593	-12%	-£72	-£860

Sources: Bank of Scotland, BM Solutions and ONS. 12 months to December  
Rental payments are a crude, or simple, average.

## Editor's notes:

The **Bank of Scotland Buying vs. Renting Review** tracks the costs of buying and renting a three bedroom property faced by a typical **first time buyer** (FTB) across the UK. **Average buying costs include mortgage payments, income lost by funding a deposit rather than saving, spending on household maintenance and repair and insurance costs.** They do not include one-off costs, such as stamp duty, valuation and legal fees. The review is based on data from the Bank of Scotland housing statistics database, BM Solutions, the Bank of England, and the Office for National Statistics (ONS).

### <sup>1</sup> **Mortgage payments:**

Mortgage payments are the weighted average of repayment (capital and interest) and interest-only mortgage payments. They refer to the average first-time buyer with average advance data from the Council of Mortgage Lenders. Weights have been constructed using FCA regulated mortgage statistics on advances by mortgage type. Average mortgage payments (both repayment and interest-only) have been calculated using house price data from the Bank of Scotland housing statistics database and Bank of England series on the average of UK resident banks' sterling weighted average interest rate loans secured on dwellings to households for new borrowers only.

Mortgage payments refer to the average for a three-bedroom house over 12 months to December for each year. Bank of Scotland research shows that three bedroom homes are the most popular property types for first time buyers getting on the housing ladder.

### <sup>2</sup> **Average buying costs:**

Average buying costs include mortgage payments (weighted average of repayment and interest-only mortgage payments), household maintenance, repair, minor alterations and insurance costs and income lost by funding a deposit rather than saving.

Mortgage payments has been calculated from average advances made to first time buyers for each region and year published by the Council of Mortgage Lenders. The estimated average advance for Scotland was 85% in 2016. Figures relate to the first year of purchase.

### <sup>3</sup> **Rental payments:**

Average rental payments are from rental data from BM Solutions. Monthly rents (both regions and UK) are crude, or simple, averages based on the buy to let mortgage new transactions.

<sup>4</sup> CML number of FTBs buying with a mortgage (January to September each year).

<sup>5</sup> CML number of total house purchases (January to September each year).

<sup>6</sup> Estimated from Council of Mortgage Lenders data.

### **Income lost by funding a deposit rather than saving:**

It is assumed that there is a cost involved in funding a deposit which for this analysis is the monthly interest income lost from paying a deposit instead of saving it in an interest bearing account. This has been calculated using house price data from the Bank of Scotland's housing statistics database and the interest gained from an average of Bank of England quoted savings rates on instant access, notice, ISA and fixed rate bond accounts. For example, the average deposit required to buy a three bed home (£21,297) in Scotland would generate an average monthly income of just over £13. If used to fund a deposit, the income from the interest would be lost and is therefore included as a cost within the average monthly buying costs measure.

### **Household maintenance, repair, minor alterations and insurance costs:**

Estimated maintenance repair, minor alterations and insurance costs associated with owning a home have been sourced from the ONS Family Spending Survey for 2014. Estimates for 2008 to 2013 and 2016/2015 have been calculated using the 2014 survey data and adjusted using the CPI series on regular maintenance and repair of dwellings.

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