

**EMBARGOED UNTIL 00.01 ON SATURDAY 17 MARCH 2018**

## **Scottish homeowners pay out a fifth of their disposable income on their mortgage**

- **Mortgage payments cost Scotland's homeowners 20% of their disposable income on average**
- **Monthly mortgage payments are 9% more affordable north of the border compared to the UK average**
- **However, mortgage affordability has marginally dropped in the last 12 months**

**Scottish homeowners pay a fifth (20%) of their disposable income towards their mortgage each month**, according to new Bank of Scotland research. This proportion has close to halved from 2007.

Disposable income spent on mortgage payments in Scotland is 9% less than the rest of the UK (29%) making it the second most affordable place after Northern Ireland (19%) in the UK. Mortgage affordability has only marginally deteriorated (19.7% in 2016 to 20.1% in 2017), despite the first interest rate in recent years and house prices in Scotland rising by 7% in the last 12 months. (Table 1)

Five out of the ten most affordable Local Authority Districts (LAD) in the UK are in Scotland. Inverclyde is now Scotland's most affordable location and is the UK's second most affordable after Copeland in North West England. Inverclyde made the jump from fifth most affordable at the end of 2016 to Scotland's most affordable with mortgage payments taking up 15.7% of disposable income. North Ayrshire (15.9%), West Dunbartonshire (16.2%), Renfrewshire (16.4%), and East Ayrshire (16.6%) also feature in the UK's ten most affordable locations. (Table 2)

### **Base rate rise and higher house prices lead to small decrease in mortgage affordability**

Over the last 12 months we have seen a 7% increase in house prices in Scotland which has led to a marginal decrease in mortgage affordability.. Despite the recent increase in the Bank of England base rate at the end of last year there has been little impact on mortgage rates so far. However, if rates were to rise over the course of 2018 this could impact the 46% of UK households who have a mortgage either on a standard variable rate or tracker rate with potentially higher payments.

Despite the very slight decrease (0.4%) in affordability, the percentage of disposable income typically spent on mortgage payments has nearly halved compared to a decade ago. At the end of 2007, mortgage payments typically cost Scots 38% of their disposable income and now they pay 20.1% with an average monthly mortgage payment of £442. This is £227 less than the UK average of £669.

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**Ricky Diggins, director at Bank of Scotland, said:**

"Despite the base rate towards the end of last year, it was the rise in house prices that had a slight impact on mortgage affordability for homeowners in Scotland.

"However even with the slight decrease in affordability over the last year, the average amount that homeowners spend on their mortgage payments as a proportion of disposable income is significantly less now when compared to ten years ago and Scotland is typically more affordable when compared to the rest of the UK."

**Mortgage affordability has improved across the whole of Scotland over the last decade**

Affordability has improved significantly in all Scottish LADs since 2007. Mortgage payments as a proportion of average earnings have fallen by at least 15% in 28 out of 31 areas. The Shetland Islands has seen the smallest change in mortgage affordability since 2007, improving by 6.8% during that time.

The largest improvement in mortgage affordability was seen in Inverclyde where mortgage payments as a proportion of disposable earnings fell by 23% over ten years (38.7% to 15.7%). The least affordable location in Scotland is East Dunbartonshire where mortgage payments take up 24.7% of average monthly disposable income. This has increased by 1.8% since this time last year, other areas to see deterioration are East Renfrewshire (2.8%), Scottish Borders and Clackmannanshire (both 2.2%).

The area which has seen the biggest decrease in mortgage affordability is East Renfrewshire which is 2.8% less affordable than a year ago, making mortgage payments as a proportion of average earnings 24%.

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Notes to editors:

**Table 1: Affordability, UK, 2007 Q4 - 2017 Q4**

Region	Mortgage Payments as % of Disposable Earnings Q4 2007	Mortgage Payments as % of Disposable Earnings Q4 2012	Mortgage Payments as % of Disposable Earnings Q4 2016	Mortgage Payments as % of Disposable Earnings Q4 2017	Long term average (1983-2017)
Scotland	38.0	21.3	19.7	20.1	28.2
North	43.8	23.6	22.3	20.6	28.9
Yorkshire and the Humber	39.6	22.5	22.8	23.0	28.1
North West	40.7	22.9	23.9	23.1	29.2
East Midlands	44.3	25.1	26.0	26.9	32.6
West Midlands	49.4	27.9	28.6	29.0	35.7
East Anglia	43.1	26.4	28.0	28.4	34.9
South West	55.2	34.3	34.2	33.8	41.4
South East	54.6	34.4	41.1	40.2	46.6
London	52.4	35.9	47.9	44.8	43.6
Wales	46.7	26.5	22.3	24.8	31.5
Northern Ireland	63.1	20.1	20.4	18.8	28.4
<b>UK</b>	<b>47.3</b>	<b>27.8</b>	<b>29.6</b>	<b>29.0</b>	<b>35.2</b>

**Table 2: 10 Most Affordable Local Areas (UK), 2017 Quarter 4**

Local Authority District	Region	Mortgage Payments as % of Disposable Earnings Q4 2007	Mortgage Payments as % of Disposable Earnings Q4 2016	Mortgage Payments as % of Disposable Earnings Q4 2017
Copeland	North West	30.7	15.5	14.9
Inverclyde	Scotland	38.7	16.7	15.7
North Ayrshire	Scotland	31.7	16.5	15.9
West Dunbartonshire	Scotland	31.2	15.4	16.2
Renfrewshire	Scotland	32.6	16.4	16.4
East Ayrshire	Scotland	32.0	16.1	16.6
Pendle	North West	34.2	17.2	16.6
Burnley	North West	36.6	18.7	16.7
Hyndburn	North West	37.4	18.3	16.7
Barrow-in-Furness	North West	33.6	17.9	16.9

Sources: Bank of Scotland, ONS, Bank of England

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**Table 3: 10 Most Affordable Local Areas (Scotland), 2017 Quarter 4**

Local Authority District	Mortgage Payments as % of Disposable Earnings Q4 2007	Mortgage Payments as % of Disposable Earnings Q4 2016	Mortgage Payments as % of Disposable Earnings Q4 2017
Inverclyde	38.7	16.7	15.7
North Ayrshire	31.7	16.5	15.9
West Dunbartonshire	31.2	15.4	16.2
Renfrewshire	32.6	16.4	16.4
East Ayrshire	32.0	16.1	16.6
North Lanarkshire	32.6	15.4	16.9
Stirling	34.4	16.9	17.6
Dumfries and Galloway	37.1	17.0	18.0
Western Isles	29.5	18.8	18.1
Falkirk	35.8	17.2	18.8

Sources: Bank of Scotland, ONS, Bank of England

**Table 4: 10 Least Affordable Local Areas (Scotland), 2017 Quarter 4**

Local Authority District	Mortgage Payments as % of Disposable Earnings Q4 2007	Mortgage Payments as % of Disposable Earnings Q4 2016	Mortgage Payments as % of Disposable Earnings Q4 2017
East Dunbartonshire	37.7	22.8	24.7
City of Edinburgh	42.8	23.3	24.1
East Lothian	43.0	23.2	24.0
East Renfrewshire	42.7	21.2	24.0
Perth and Kinross	41.3	22.2	23.4
Aberdeenshire	40.9	22.8	23.0
Aberdeen City	37.9	22.4	22.9
Scottish Borders	40.3	19.7	21.9
Argyll and Bute	42.2	22.1	21.7
Midlothian	41.5	22.3	21.7

Sources: Bank of Scotland, ONS, Bank of England

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Notes to editors:

In Quarter 4 2017, the average monthly take-home wage in Scotland was £2,199 and the average monthly mortgage payment was £442.

In Quarter 4 2017, the average monthly take-home wage in the UK was £2,309 and the average monthly mortgage payment was £669.

### **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 2017 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.

46% of UK households have a mortgage either on a standard variable rate or tracker rate – UK Finance

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# Press Release



## **Mortgage Loan**

The national average loan to value (LTV) over the period 1983-2017 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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