

HALIFAX AFFORDABILITY REVIEW:

House price to income ratio has eased, but higher rates offset affordability benefits

- **Cost of a typical UK home now 6.7 times average earnings, down from a peak of 7.3 last summer**
- **The impact of rising interest rates has constrained improvement in overall housing affordability**
- **Westminster and City of London the least affordable local area in the UK to buy a home**
- **Inverclyde in Scotland the most affordable place in the country**
- **Surrey Heath has seen biggest improvement in affordability over the last year**

Downward pressure on property prices following last summer's peak, combined with strong wage growth, has seen the UK's house price to income ratio fall back from a record high, according to new research by Halifax, the country's biggest mortgage lender.

The analysis – based on data from the Halifax House Price Index – compared typical house prices to average earnings across the UK.

At its peak in June 2022, the cost of a typical UK home was £293,586, while the average annual earnings of a full-time worker were £40,196. This put the house price to income ratio at 7.3, the highest (or least affordable) level ever recorded.

A year on, the average house price had fallen to £286,276. Coupled with strong wage growth (around +7% over the last year), as annual earnings reached £43,090, the house price to income ratio fell to 6.7.

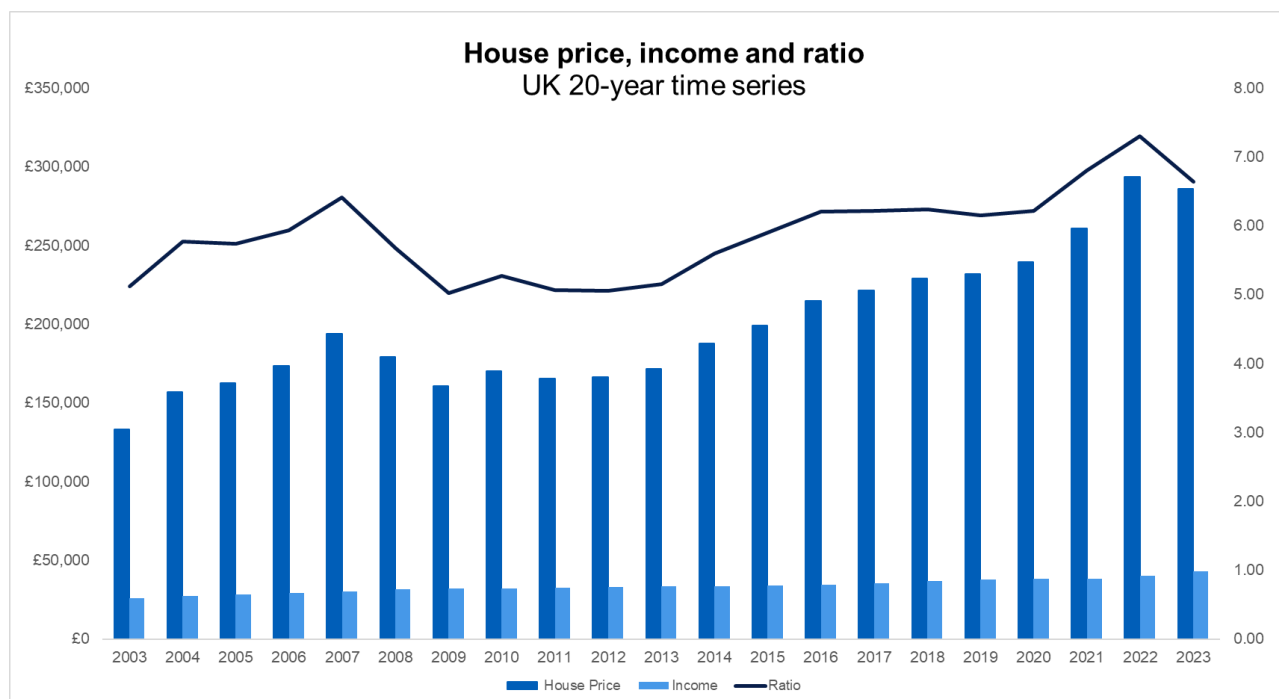
This is still somewhat higher than the ratio of 6.2 recorded in early 2020, demonstrating the continued legacy of surging property price inflation over recent years, brought about by increased buyer demand during the pandemic, incentives such as the Stamp Duty holiday, and record low interest rates.

Press Office Contact



Gregor Low | gregor.low@lloydsbanking.com | 07500 078 879

Lynsey Cheshire Willis | lynsey.cheshire-willis@lloydsbanking.com | 07595 124 294



Impact of rising interest rates

While the narrowing gap between house prices and incomes will be welcomed by prospective home buyers – and the housing market has been showing signs of resilience, with an uptick in activity recently – improvement in the overall affordability of housing costs for owners has been offset by the impact of rising mortgage rates.

Typical monthly mortgage costs have increased by +22% over the last year, from £1,020 to £1,249. That's based on the typical monthly cost of a 5-year fixed rate mortgage, with 25-year term and a 25% deposit (average interest rates of 2.9% and 5.0% respectively). That equates to mortgage costs as a percentage of income rising from 30% to 35% over the last year.

Compared with the start of 2020, on the same basis, the monthly cost of a typical mortgage has now increased by +65% (from £731 based on an average interest rate of 1.7%) when it made up 23% of average earnings.

While those figures are stark, they are not without modern precedent. Looking back to the previous peak in house prices in 2007 – prior to the recent era of record low interest rates – the house price to income ratio was 6.4.

However the typical cost of a mortgage as a percentage of average earnings was actually higher than today's 35%, at 37%. This was based on a 2007 average house price of £192,943, earnings of £30,262, a mortgage rate of 6.1%, and a monthly mortgage cost of £941.

Press Office Contact



Gregor Low | gregor.low@lloydsbanking.com | 07500 078 879

Lynsey Cheshire Willis | lynsey.cheshire-willis@lloydsbanking.com | 07595 124 294

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Kim Kinnaird, Mortgages Director, Halifax, commented:

“The sharp rise seen in interest rates over the last year has meant the sums now look very different for both homebuyers and those looking to remortgage. Typical monthly mortgage payments are up by around a fifth, which is a big jump at any time, but particularly during a wider cost of living squeeze.

“We should remember the preceding 15 years have been characterised by historically low interest rates. Mortgage costs as a proportion of income are now comparable to those seen in 2007, despite the significant rise in house prices seen over the last decade and a half.

“Of course much has changed in the housing market and wider economy since then. Banks carry out much tougher affordability checks to make sure borrowers can manage repayments when rates go up, and the average loan-to-value is considerably lower.”

Nations and regions comparison

The impact of higher interest rates isn't felt equally across the country, depending on the average house price and earnings in each area.

However the average house price to income ratio has fallen in every nation and region over the last year, with the exception of Wales, where it rose from 6.7 to 6.8.

Despite recording one of the slowest rates of house price growth of any UK region or nation over the last year (-2.6%), London remains by far the most expensive place in the country to buy a home, with an average property price of £533,057. Based on regional earnings, this puts the house price to income ratio at 9.3 (compared to 10.0 a year ago), the highest of any region. Typical mortgage costs in the capital now account for 49% of earnings (up from 42% last year), again the biggest proportion of anywhere in the UK.

By contrast, the North East of England remains the most affordable UK region in which to buy a home, with an average house price of £168,240 and a house price to income ratio of 4.9. This means that, along with Scotland, it is the only part of the UK with a ratio lower than 5.0, having fallen from 5.2 over the last year. Mortgage costs represent 26% of average incomes, also the lowest anywhere in the country (up from 22% last year).

Least and most affordable local areas

Greater London and the South East of England account for the majority of the least affordable local areas to buy a home. Westminster and City of London tops the table, where average prices are 16.0 times average earnings, followed by Kensington and Chelsea (15.7) and Moles Valley (13.2).

Press Office Contact



Gregor Low | gregor.low@lloydsbanking.com | 07500 078 879

Lynsey Cheshire Willis | lynsey.cheshire-willis@lloydsbanking.com | 07595 124 294

At the other end of the scale, northern locations dominate the list of most affordable local areas. Inverclyde on the west coast of Scotland is the most affordable place in the UK to buy a home, with typical house prices just 2.9 times average earnings, the only local authority area with a ratio below 3.0. It's followed by Dumfries and Galloway (3.2) and East Ayrshire (3.3), with the most affordable area outside of Scotland being Hull (also 3.3).

Surrey Heath in the South East has seen the sharpest improvement in the house price to earnings ratio of any location over the last year, falling from 11.8 to 9.6 (-2.2). Marginally behind on the list is Cambridge in Eastern England, also falling from 11.8 to 9.6 (-2.2).

Bucking the trend, Pembrokeshire in Wales saw the biggest deterioration in house price affordability of any local area over the last year, with the house price to income ratio rising from 5.8 to 6.9 (+1.1).

First-time buyer affordability

At a national level, the typical first-time buyer property price is 5.4 times average earnings, down from 5.8 last year.

However overall mortgage costs have increased by 25% for first-time buyers over the last year, from an average payment of £1,095 per month up to £1,364, as a result of higher interest rates. As a proportion of income, monthly mortgage costs have risen from 30% to 36%. This is based on typical first-time buyer property prices and the average interest rate for a 5-year fixed deal, with a 25-year term and 5% deposit (average interest rates of 3.5% and 5.7% respectively).

The real-life financial situation for many first-time buyers will be quite different though, with recent Halifax research showing that almost two-thirds (63%) are joint applicants and able to call on more than one salary.

According to UK Finance, the average **household** income of a first-time buyer mortgage application last year stood at just under £60,000, which would put the equivalent house price to joint-income ratio at around 3.8.

Recent industry figures also show that more than half of first-time buyers are now opting for 30-year mortgage terms. This would reduce the average monthly mortgage payment from £1,364 to £1,265.

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Kim Kinnaird, Mortgages Director, Halifax, continued:

"We don't yet know what the 'new normal' looks like for mortgage rates and house prices over the longer-term. But we expect the market to rebalance as both buyers and sellers adjust their expectations to reflect higher costs and lower demand."

Press Office Contact



Gregor Low | gregor.low@lloydsbanking.com | 07500 078 879

Lynsey Cheshire Willis | lynsey.cheshire-willis@lloydsbanking.com | 07595 124 294

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“It’s likely the gap between average earnings and property prices will narrow over time, which will be welcome news to first-time buyers in particular, especially in areas which could offer better value for money.”

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Additional data tables on following pages.

Table 1

10 most affordable local areas in the UK – Q2 2023		
Local Authority Area	Region	Ratio
Inverclyde	Scotland	2.9
Dumfries and Galloway	Scotland	3.2
East Ayrshire	Scotland	3.3
Hull	Yorkshire and Humberside	3.3
West Dunbartonshire	Scotland	3.3
Dundee	Scotland	3.4
Blackpool	North West	3.4
North Lanarkshire	Scotland	3.5
North Ayrshire	Scotland	3.5
Burnley	North West	3.7

Source: Halifax House Price Index / ONS

Table 2

10 least affordable local areas in the UK – Q2 2023		
Local Authority Area	Region	Ratio
Westminster / City of London	Greater London	16.0
Kensington and Chelsea	Greater London	15.7
Mole Valley	South East	13.2
St Albans	Eastern England	13.1
Elmbridge	Greater London	12.7
Hammersmith and Fulham	Greater London	12.6
Waverley	South East	12.6
Epsom and Ewell	South East	12.2
Guildford	South East	11.7
Epping Forest	South East	11.7

Source: Halifax House Price Index / ONS

Press Office Contact



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Table 3

10 local areas in the UK with biggest improvement in affordability: Q2 2022 to Q2 2023				
Local Authority Area	Region	Ratio 2022	Ratio 2023	Change
Surrey Heath	South East	11.8	9.6	-2.2
Cambridge	Eastern England	11.8	9.6	-2.2
Windsor and Maidenhead	South East	13.5	11.4	-2.1
Teignbridge	South West	9.2	7.2	-2.0
North Somerset	South West	9.4	7.6	-1.8
Test Valley	South East	9.5	7.7	-1.8
Waverley	South East	14.3	12.6	-1.7
Horsham	South East	11.1	9.4	-1.7
Hertsmere	Eastern England	12.9	11.2	-1.7
Welwyn Hatfield	Eastern England	10.3	8.7	-1.6

Source: Halifax House Price Index / ONS

Table 4

2007 (Q2)					
Region	House price	Earnings	Ratio	Monthly mortgage	% income
Eastern England	£202,718	£29,338	6.9	£989	40%
East Midlands	£156,040	£26,269	5.9	£761	35%
Greater London	£305,239	£45,027	6.8	£1,489	40%
Northern Ireland	£229,906	£24,704	9.3	£1,122	54%
North East	£143,350	£24,299	5.9	£699	35%
North West	£157,488	£27,308	5.8	£768	34%
Scotland	£153,024	£27,179	5.6	£746	33%
South East	£241,288	£31,491	7.7	£1,177	45%
South West	£201,576	£27,480	7.3	£983	43%
Wales	£150,720	£24,518	6.1	£735	36%
West Midlands	£165,980	£26,563	6.2	£810	37%
Yorkshire & Humber	£151,410	£26,101	5.8	£739	34%
UK average	£192,943	£30,262	6.4	£941	37%
2022 (Q2)					
Region	House price	Earnings	Ratio	Monthly mortgage	% income
Eastern England	£340,399	£40,388	8.4	£1,197	36%

Press Office Contact



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East Midlands	£241,348	£35,715	6.8	£849	29%
Greater London	£547,523	£54,846	10.0	£1,926	42%
Northern Ireland	£186,538	£34,098	5.5	£656	23%
North East	£169,708	£32,529	5.2	£597	22%
North West	£224,375	£36,930	6.1	£789	26%
Scotland	£202,054	£36,199	5.6	£711	24%
South East	£395,937	£40,557	9.8	£1,393	41%
South West	£307,572	£33,848	9.1	£1,082	38%
Wales	£219,140	£32,668	6.7	£771	28%
West Midlands	£247,452	£35,869	6.9	£870	29%
Yorkshire & Humber	£203,349	£34,350	5.9	£715	25%
UK average	£289,857	£40,196	7.3	£1,020	30%
2023 (Q2)					
Region	House price	Earnings	Ratio	Monthly mortgage	% income
Eastern England	£333,343	£42,897	7.8	£1,454	41%
East Midlands	£238,755	£40,162	5.9	£1,042	31%
Greater London	£533,057	£57,203	9.3	£2,326	49%
Northern Ireland	£186,856	£35,368	5.3	£815	28%
North East	£168,240	£34,276	4.9	£734	26%
North West	£223,493	£38,999	5.7	£975	30%
Scotland	£201,774	£40,703	5.0	£880	26%
South East	£384,106	£43,335	8.9	£1,676	46%
South West	£301,248	£37,561	8.0	£1,314	42%
Wales	£215,183	£31,654	6.8	£939	36%
West Midlands	£251,139	£37,002	6.8	£1,096	36%
Yorkshire & Humber	£203,674	£36,042	5.7	£889	30%
UK average	£286,276	£43,090	6.7	£1,249	35%

Source: Halifax House Price Index / ONS

Press Office Contact



Gregor Low | gregor.low@lloydsbanking.com | 07500 078 879

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Notes to Editors

This information is intended for the sole use of journalists and media professionals.

The research has been carried out in partnership with S&P Global.

All UK and regional house price data is based on the standardised Halifax House Price Index (HPI) methodology. Note that an average of three months' worth of transactional data is used to calculate each metric, therefore UK and regional headline figures may differ from those published in the main monthly Halifax HPI. Figures are based on Q2 (April to June) data in respective years unless otherwise stated.

Local Authority Area (LAA) data is based on a 'price per square metre' methodology, scaled up to a typically sized property for each LAA based on EPC data. In some cases, neighbouring LAAs have been combined to ensure a robust sample size. LAAs for Northern Ireland have not been included.

Income figures are the mean income for a full-time worker. Pre-Q1 2021 figures are based on annual income data from the Annual Survey of Household Earnings published by the Office of National Statistics (ONS). Latest income figures have been forecast by S&P Global using Average Weekly Earnings Data, also published by the ONS.

Average mortgage rates quoted reflect industry data compiled by the Bank of England.

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Press Office Contact



Gregor Low | gregor.low@lloydsbanking.com | 07500 078 879

Lynsey Cheshire Willis | lynsey.cheshire-willis@lloydsbanking.com | 07595 124 294