

This is the third **Bank of Scotland Home movers Review** tracking conditions for those already own a home. The review is based on data from the Bank of Scotland house price database, the Council of Mortgage Lenders, the Office for National Statistics and the Bank of England.

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## **SECOND STEPPERS CONTINUE TO STRUGGLE AS HOUSING MARKET REMAINS FLAT**

The home mover market in Scotland has remained relatively flat over the past year. However, despite seeing some slight improvements, second steppers are still bearing the brunt of the stagnant housing market, according to the Bank of Scotland's latest Home Movers Review.

- Bank of Scotland estimates that there were around 27,000 home movers in 2012, largely unchanged from 2011
- A typical second stepper's current equity position accounts for just 2% of the price of an average second stepper home, having been as high as 41% in 2006
- The average home mover deposit in 2012 was £47,311 – a four and a half fold increase from £10,516 in 2002.

The Bank of Scotland second stepper housing affordability measure for Scotland – calculated as the average price of a typical second stepper home<sup>1</sup> less their current equity position<sup>2</sup> as a ratio of average earnings – stood at 4.2 times gross annual average earnings in November 2012. This ratio has risen significantly over the past decade from 2.7 in 2002 and is well above the long-run average of 3.2.

However, second stepper affordability has improved slightly on the previous year – the Bank of Scotland measure reached its highest level (4.6) in a quarter of a century in 2011. As more time passes since the peak of the market and the subsequent fall in house prices in 2007-8, a higher proportion of potential second steppers will have bought their first property when house prices had already fallen from their peak. Despite this, second steppers in aggregate still face considerable challenges.

### **Low equity levels creating a barrier for second steppers**

The typical potential second stepper in 2012 would have bought their first home in 2008<sup>3</sup>. Such a homeowner is, on average, estimated to have an equity level of just £2,844<sup>4</sup> - equivalent to 2% of the average price for a semi-detached house (£133,711). This low level of equity covers just 40% of the average cost of moving in Scotland, estimated at close to £7,000<sup>5</sup>. Therefore, many of those looking to move up the ladder have no equity left in their home to help fund a deposit on their next home. In addition, there are also many potential second steppers who bought at the peak of the market in 2007. Many of these homeowners are likely to be in an even worse financial position, often with negative equity. It may also be the case that some FTBs who had bought before or after the market peak could also be facing problems moving along the property ladder.

This situation is in stark contrast to 2002 when second steppers had an average equity level of £16,582 – equivalent to 22% of the average price for a semi at the time.

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## **Scotland is one of the more affordable areas in the UK for second steppers**

Despite the worsening in affordability in the past decade, Scotland is the joint fourth most affordable part of the UK for second steppers. The South East of England is the least affordable UK region with an affordability ratio of 6.3 followed by London (6.1). The West Midlands and East Midlands (both 4.0) are the most affordable locations for those in their first home looking to take their next step on the property ladder.

### **Nitesh Patel, housing economist at Bank of Scotland, commented:**

"Even though many of Scotland's second steppers won't have bought at the height of the market, many are still going to struggle to make that move up the housing ladder. House prices have been falling or remaining flat for the past four years, and as a result many first time owners in Scotland are still in a very low equity position.

"The difficulties faced by aspiring second steppers are having a considerable knock-on impact for potential first-time buyers due to the resulting shortage of properties available on the market with housing chains proving hard to establish."

## **ADDITIONAL KEY FINDINGS**

### **Homemovers in 2011**

The data in the section below refers to 'home movers' who are defined as all those already in the housing market (i.e. they currently own a home). Second Steppers are a subset of home movers and refer only to those looking to get on the second rung of the housing ladder.

#### **Numbers**

- Bank of Scotland estimates that there were around 27,000 home movers in 2012, largely unchanged from 2011. The total, however, is only a third of the level in 2002 (83,100). (See Table 2)

#### **House Prices**

- Since the start of the housing downturn in 2007, the average price paid by Scotland's home movers has fallen by 13% from an average of £191,935 to £167,058 in 2012.
- Nationally, home mover property prices fell by 1% in the past year. Several regions - such as the North, West Midlands, East Anglia, South West and Wales - have seen a slight increase (1%-2%). (See Table 3)

#### **Deposits and Advances**

- The average home mover deposit in Scotland in 2012 was £47,311 – a four and a half fold increase from £10,516 in 2002.
- The average home mover deposit in Scotland is 23% below the UK average (£61,743). (See Table 4)

#### **Age**

- The average age of a home mover in Scotland is 40 years old. This is four years older than a decade ago (36 in 2002). Most of the increase in buyer age has occurred since 2008. (Source: CML)

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## **Mortgage affordability improves significantly**

- Typical mortgage payments for a home mover (i.e. those already in the housing market) – stood at 26% average gross disposable earnings at the end of 2012. This has come down sharply from an all time peak of 43% in 2007. This improvement has been due to a reduction in both mortgage rates and house prices.

### **EDITORS' NOTES:**

<sup>1</sup>The typical second stepper home is assumed to be a semi detached home based on consumer research by Lloyds TSB which found that 60% of people expect to take their second step on the property ladder into a semi-detached home: [www.lloydsbankinggroup.com/media1/press\\_releases/2012\\_press\\_release\\_brands/ltsb/2502\\_second.asp](http://www.lloydsbankinggroup.com/media1/press_releases/2012_press_release_brands/ltsb/2502_second.asp)

<sup>2</sup>Current equity position is defined as the sum of deposit, capital repayments (variable rate mortgage using average LTV for an FTB and the average mortgage rate for new business undertaken by UK banks produced by the Bank of England) and change in the average FTB house price over the period. The calculation is based on house purchasers moving 4 years after their first purchase, which is based on our market research (see below).

<sup>3</sup>The Second Steppers consumer research was undertaken by BDRC Continental ([bdrc-continental.com](http://bdrc-continental.com)) on behalf of Lloyds Banking Group. Fieldwork took place between 18th and 31st December 2010. 500 interviews were collected from a representative online consumer panel (Valued Opinions). Further methodological detail is available on request. One of the findings showed that FTBs stayed in their first property on average for 4 years before moving on to their next home. [www.lloydsbankinggroup.com/media1/press\\_releases/2012\\_press\\_release\\_brands/ltsb/2502\\_second.asp](http://www.lloydsbankinggroup.com/media1/press_releases/2012_press_release_brands/ltsb/2502_second.asp)

<sup>4</sup> Based on calculation from the Bank of Scotland House Price database

<sup>5</sup> LTSB estimate in [http://www.lloydsbankinggroup.com/media/pdfs/LTSB/2012/2701\\_Cost.pdf](http://www.lloydsbankinggroup.com/media/pdfs/LTSB/2012/2701_Cost.pdf)

### **THE AFFORDABILITY CALCULATION:**

The housing affordability measure for second steppers is defined as the average price for a typical second stepper home adjusted for the equity position from their current home as a ratio of average earnings. The typical second stepper home is assumed to be a semi detached home. Their current equity position is defined as the sum of deposit, capital repayments (variable rate mortgage using average LTV for an FTB and the average mortgage rate for new business undertaken by UK banks produced by the Bank of England) and change in the average FTB house price over the period. The calculation is based on a single income and is, therefore, conservative.

The multiple of 3.2 represents the average house price to income ratio for a second stepper over the past 24 years (1987-2011). (Source: Bank of Scotland).

### **DATA SOURCES:**

This research is based on data from the Bank of Scotland's housing statistics database as well as the Council of Mortgage Lenders, the Office for National Statistics and the Bank of England.

#### **1. 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.

#### **2. 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.

**3. Historic figures on the number of home movers and first-time buyers** have been sourced from the Council of Mortgage Lenders (CML).

**Ends**

**Table 1: Second Steppers Affordability\* by Region, 2002-2012\*\***

	2002	2012	2002-2012 Points change
<b>Scotland</b>	<b>2.7</b>	<b>4.2</b>	<b>1.6</b>
North	2.7	4.2	1.5
Yorkshire and Humberside	2.5	4.1	1.6
South East	3.2	6.3	3.0
South West	3.3	5.7	2.4
East Anglia	2.4	4.8	2.4
Northern Ireland	2.6	5.0	2.4
Wales	2.5	4.6	2.1
Greater London	4.1	6.1	2.0
West Midlands	2.2	4.0	1.9
East Midlands	2.3	4.0	1.8
North West	2.9	4.6	1.7
<b>UK</b>	<b>2.9</b>	<b>4.6</b>	<b>1.7</b>

Sources: Lloyds TSB, CML, Bank of Scotland and ONS

\*Average price of a typical second stepper home<sup>1</sup> less their current equity position as a ratio of average earnings.

\*\*All years refer to 12 months to November.

**Table 2: Number of Home movers in Scotland**

	Number of Homemovers	Annual % change	Number of First-Time Buyers	Annual % change
<b>2002</b>	83,100		49,900	
<b>2003</b>	88,800	7%	39,700	-20%
<b>2004</b>	82,500	-7%	31,700	-20%
<b>2005</b>	62,400	-24%	36,600	15%
<b>2006</b>	66,000	6%	39,100	7%
<b>2007</b>	65,000	-2%	35,400	-9%
<b>2008</b>	38,100	-41%	22,100	-38%
<b>2009</b>	29,000	-24%	17,800	-19%
<b>2010</b>	29,900	3%	17,800	0%
<b>2011</b>	27,500	-8%	16,800	-6%
<b>2012*</b>	<b>27,333</b>	<b>-1%</b>	<b>18,267</b>	<b>9%</b>

Source: CML

\*Bank of Scotland estimate

**Table 3: Home movers: Average House Price % Change, 2002-2012\*\***

	2002 £	2011 £	2012 £	1 year % change	10 year % change
<b>Scotland</b>	<b>101,217</b>	<b>169,485</b>	<b>167,058</b>	<b>-1.4%</b>	<b>65%</b>
North	97,747	146,019	147,142	0.8%	51%
Yorkshire and the Humber	106,936	160,342	159,854	-0.3%	49%
North West	116,213	165,599	158,783	-4.1%	37%
East Midlands	121,703	163,070	162,859	-0.1%	34%
West Midlands	140,546	171,632	175,323	2.2%	25%
East Anglia	146,661	194,287	195,920	0.8%	34%
Wales	108,235	154,115	156,093	1.3%	44%
South West	163,871	217,543	219,647	1.0%	34%
South East	206,245	264,871	263,910	-0.4%	28%
Greater London	268,026	362,222	357,170	-1.4%	33%
Northern Ireland	110,492	148,097	129,829	-12.3%	18%
UK	155,466	207,126	205,809	-0.6%	32%

Source: Lloyds TSB calculations, Bank of Scotland

\*\*All years refer to 12 months to November 2012

**Table 4: Home movers: Average Price and Deposit by Region, 2012\*\***

Region	Average House Price (£s)	Average Deposit (£s)	Deposit as % of purchase price
<b>Scotland</b>	<b>167,058</b>	<b>47,311</b>	<b>28%</b>
North	147,142	38,345	26%
Yorkshire and the Humber	159,854	43,144	27%
North West	158,783	40,537	26%
East Midlands	162,859	46,513	29%
West Midlands	175,323	51,001	29%
East Anglia	195,920	62,616	32%
Wales	156,093	45,095	29%
South West	219,647	73,648	34%
South East	263,910	83,725	32%
Greater London	357,170	110,151	31%
Northern Ireland	129,829	32,600	25%
UK	205,809	61,743	30%

Source: Lloyds TSB calculations, Bank of Scotland

\*\*All years refer to 12 months to November 2012

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