

The **Bank of Scotland Affordability Review** tracks mortgage affordability for all homebuyers in 394 local authority districts across the UK, including 31 in Scotland. The 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 average house prices, mortgage rates and average earnings (see Editors' Notes for details).

NOT FOR BROADCAST OR PUBLICATION UNTIL 00:01 HRS SATURDAY 19TH JANUARY 2013

SCOTLAND HAS UK'S SECOND MOST AFFORDABLE MORTGAGES

Mortgage payments as a proportion of income have fallen by more than two-fifths in Scotland in recent years, from a peak of 38% in Q4 2007 to 22% in Q4 2012, according to new Bank of Scotland research. Lower house prices and reduced mortgage rates have been the main drivers behind the significant improvement in affordability. The average monthly take-home wage in Scotland is £1,954 while the average monthly mortgage payment is £424.

Mortgage payments for a new borrower have remained at their lowest level in relation to earnings for almost a decade

Typical mortgage payments for a new borrower – both first-time buyers and homemovers – at the long-term average loan to value ratio¹ have been broadly stable at 21-22% of disposable earnings over the past two years. This is the lowest level since 2002-03 and is comfortably below the average of 30% recorded since 1983.

Scotland is the second most affordable area in the UK

Mortgage payments account for the lowest proportion of disposable earnings in Northern Ireland (20%) followed by Scotland (22%). This compares with the UK average of 28%. (*Table 1*)

Seven of the ten most affordable local authority districts in the UK are in Scotland

West Dunbartonshire is the most affordable local authority district in Scotland and the second most affordable in the UK with typical mortgage payments accounting for 17.6% of average local earnings. West Dunbartonshire is followed by Renfrewshire, North Ayrshire (both 17.9%) and South Ayrshire (18.0%). (*Tables 2&3*)

Aberdeenshire is the least affordable local authority district in Scotland

Average mortgage payments on a new loan amount to 27.8% of average local earnings in Aberdeenshire. Perth & Kinross (27.3%), Edinburgh (27.0%) and East Renfrewshire (26.7%) are the next least affordable areas in Scotland. (*Table 4*)

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

"Mortgage payments in Scotland account for a lower proportion of disposable earnings than anywhere else in the UK, bar Northern Ireland. In addition, seven of the ten most affordable local authority districts are in Scotland with West Dunbartonshire the most affordable.

"Mortgage affordability has improved significantly over the past few years as a result of falls in house prices and cuts in mortgage rates. This development has been a key factor supporting housing demand and is expected to remain so in 2013 as interest rates remain low.

"The favourable mortgage affordability position is a boost for both those who already have a mortgage and those who are able to raise the required deposit to buy a home. Higher deposit requirements and low, or negative levels, of housing equity for many homeowners, however, mean that significant numbers of would-be home buyers and movers remain unable to enter the market."

Table 1: Mortgage Affordability, 2012 Q4

Region	Mortgage Payments as % of Disposable Earnings	
	2012 Q4	Long-term average (1983-2012)
North	24	30
Yorkshire & the Humber	23	29
North West	23	30
East Midlands	26	34
West Midlands	29	37
East Anglia	27	36
South West	35	43
South East	34	48
London	36	43
Wales	27	32
Scotland	22	30
Northern Ireland	20	30
United Kingdom	28	36

Table 2: 10 Most Affordable Local Areas in Scotland (2012 Q4)

Local Authority District	Mortgage Payments as % of Disposable Earnings
West Dunbartonshire	17.6
Renfrewshire	17.9
North Ayrshire	17.9
South Ayrshire	18.0
North Lanarkshire	18.2
Glasgow City	18.3
South Lanarkshire	18.3
Falkirk	18.4
East Ayrshire	18.6
Stirling	19.0

Table 3: 10 Most Affordable Local Areas in the UK (2012 Q4)

Local Authority District	Region	Mortgage Payments as % of Disposable Earnings
Copeland	North West	14.9
West Dunbartonshire	Scotland	17.6
Hyndburn	North West	17.9
Renfrewshire	Scotland	17.9
North Ayrshire	Scotland	17.9
Kingston upon Hull, City of	Yorkshire and The Humber	18.0
South Ayrshire	Scotland	18.0
North Lanarkshire	Scotland	18.2
Glasgow City	Scotland	18.3
South Lanarkshire	Scotland	18.3

Table 4: 10 Least Affordable Local Areas in Scotland (2012 Q4)

Local Authority District	Mortgage Payments as % of Disposable Earnings
Aberdeenshire	27.8
Perth & Kinross	27.3
Edinburgh, City of	27.0
East Renfrewshire	26.7
Highland	26.1
Moray	26.0
East Lothian	25.7
Scottish Borders	25.3
Angus	24.6
Argyll & Bute	23.8

Sources: Bank of Scotland, ONS, Bank of England

EDITORS' NOTES:

THE AFFORDABILITY CALCULATION:

The 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.

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 2012 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.

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 Bank of Scotland'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 Bank of Scotland 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.

Mortgage Loan

The national average loan to value (LTV) over the period 1983-2012 has been used throughout (i.e. applied to all regions and local authorities). The long-term average LTV of 70% is based on Bank of Scotland lending over this period.

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 (UK £32,708, Scotland £30,800- table 8.7a). Northern Ireland Average Earning figures are from DETINI – The Northern Ireland Annual Survey of Hours and Earnings (ASHE). Average earnings figures as at April 2012 have been inflated by the change in the AWE index to calculate figures for 2012 Quarter 4.

At local authority district level, figures for the relevant local authority district (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 quarters have been calculated based on the average weekly earnings (code KA17) published by the ONS.

Mortgage Rates

The average mortgage rate for new business undertaken by UK banks produced by the Bank of England has been used as the average rate for a new borrower. [Bankstats Table G1.4 code BJ95]

For further information, contact:

Zoe Redhead, Bank of Scotland Press Office

Tel: 0131 655 5405

Email: ZoeRedhead@bankofscotland.co.uk

Web: www.lloydsbankinggroup.com/media.asp

"This report is prepared from information that we believe is collated with care, however, it is only intended to highlight issues and it is not intended to be comprehensive. We reserve the right to vary our methodology and to edit or discontinue/withdraw this, or any other report. Any use of this report for an individual's own or third party commercial purposes is done entirely at the risk of the person making such use and solely the responsibility of the person or persons making such reliance." ©Bank of Scotland plc all rights reserved 2013