

This is the fourth **Bank of Scotland Homemovers Review**, which tracks conditions for those already in the housing market (i.e. they currently 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' HOUSING AFFORDABILITY IMPROVES – BUT HOMEMOVER MARKET STILL STRUGGLING

Home affordability for second steppers – those home owners still living in their first home but looking to take their next step up the property ladder - has improved in the past year as a result of higher equity levels, according to the latest Bank of Scotland Homemovers Review.

Housing affordability improves in the past year, but has declined in the past decade

Housing affordability for Scotland's second steppers – calculated as the average price of a typical second stepper home¹ less their current equity position² as a ratio of average earnings – stood at 3.9 times gross annual average earnings in June 2013. This measure of affordability has risen significantly over the past decade – signifying a decline in affordability - from 2.6 in 2003. There has been a modest improvement since June 2012 when the ratio stood at 4.0.

Rise in equity levels improves second stepper housing affordability

The typical potential second stepper in June 2013 bought their first home in 2008³. Such a homeowner is, on average, estimated to have an equity level of £13,985⁴ - equivalent to 10% of the average price for a semi-detached house (£134, 667) which is a typical second stepper home. This is an improvement on a year earlier when the typical second stepper equity level (£9,498) was estimated to be 7% of the average price for a semi-detached home.

Despite this improvement, equity levels for second steppers remain low by recent standards. For example, the typical second stepper in 2007 was able to fund close to half (48%) of their next home through equity built up in their first property.

In addition, with the average cost of moving estimated at close to £7,000⁵, it is unlikely that the increase in equity over the past year will be sufficient for many potential second steppers to be able to fund a move to their next home.

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

"Housing affordability for the typical second stepper in Scotland has marginally improved in the past year. Nonetheless, there are many potential second steppers who are still in their first home which they bought in the run-up to, and at, the peak in house prices in 2008. Many of these homeowners may still be unable to move due to having either very low, or negative, equity in their homes.

"The lack of equity for many homeowners in their existing home largely explains why the number of Scottish homemovers in the first six months of 2013 rose by only 2% compared with a year earlier; while the number of first-time buyers grew by 22 % over the period."

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ADDITIONAL FINDINGS

Homemovers, 2013:

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

Proportion of homemovers at 12 year low

There were 13,600 homemovers in Scotland in the first half of 2013; a rise of 2% on the same period in 2012. During the same period, the number of the first time buyers rose by an estimated 22%. As a result, homemovers accounted for the smallest share of all homebuyers⁶ (56%) since 2001 (51%). The low proportion reflects both the current difficulties faced by homeowners in accessing mortgage finance and a difficult economic outlook. (See table 2)

Homemover house prices rise 54% since 2003

The average house price paid by a homemover in Scotland has risen by 54% (£59,582) over the past decade; a greater increase than anywhere else in the UK. In the past year average homemover price has increased by 1%. The average Scottish homemover house price stood at £170,534 in 2013, 20% lower than the UK average of £212,586.

Average homemover deposit rises by a half over the past decade

The average homemover deposit in Scotland in 2013 was £52,246. This is almost a 50% rise from the average of £35,220 in 2003. Homemovers across the UK put down an average deposit of £70,540, 35% higher than the Scottish average. (See table 3)

Table 1: Second Stepper Affordability*, 2003-2013**

	2003	2013	2003-2013 Percentage Points change
Scotland	2.6	3.9	1.3
North	2.9	3.4	0.5
Yorkshire and the Humber	2.7	3.4	0.7
North West	3.0	3.7	0.7
East Midlands	2.2	3.1	0.9
West Midlands	2.2	3.1	0.9
East Anglia	2.3	3.3	1.0
Wales	2.5	3.5	1.0
South West	3.3	4.6	1.3
South East	2.7	4.5	1.8
Greater London	4.9	5.7	0.8
Northern Ireland	2.4	3.8	1.4
UK	2.9	4.4	1.5

Sources: Bank of Scotland, CML, and ONS

*Average price of a typical second stepper home¹ less their current equity position as a ratio of average earnings.

**All years refer to 12 months to June.

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Table 2: Number of homemovers in Scotland (purchasing with a mortgage)

	Number of Home movers	Annual % change	Number of First Time Buyers	Annual % change
2003 H1	38,800		21,100	
2004 H1	40,500	4%	15,600	-26%
2005 H1	30,000	-26%	15,800	1%
2006 H1	29,900	0%	18,500	17%
2007 H1	30,900	3%	17,400	-6%
2008 H1	21,300	-31%	12,800	-26%
2009 H1	11,800	-45%	7,000	-45%
2010 H1	14,100	19%	8,800	26%
2011 H1	12,300	-13%	7,700	-13%
2012 H1	13,300	8%	9,000	17%
2013 H1	13,600	2%	11,000	22%

Source: CML

Table 3: Homemovers: Average House Price % Change, 2003-2013**

	2003 £	2012 £	2013 £	1 year % change	10 year % change
Scotland	110,952	168,217	170,534	1%	54%
North	110,024	147,681	149,712	1%	36%
Yorkshire and the Humber	121,673	161,827	160,456	-1%	32%
North West	128,828	161,439	164,310	2%	28%
East Midlands	137,237	164,928	167,583	2%	22%
West Midlands	151,913	172,774	183,363	6%	21%
East Anglia	163,302	192,027	202,118	5%	24%
Wales	120,620	153,204	162,392	6%	35%
South West	181,469	218,966	223,638	2%	23%
South East	226,879	262,901	275,431	5%	21%
Greater London	291,907	359,782	376,075	5%	29%
Northern Ireland	114,172	137,092	129,692	-5%	14%
UK	168,284	206,121	212,586	3.10%	26%

Sources: Bank of Scotland

**All years refer to 12 months to June

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Table 4: Homemovers: Average Price and Deposit by Region, 2013**

	Average House Price (£s)	Average Deposit (£s)	Deposit as % of purchase price
Scotland	170,534	52,246	31%
North	149,712	44,460	30%
Yorkshire and the Humber	160,456	51,604	32%
North West	164,310	49,676	30%
East Midlands	167,583	51,943	31%
West Midlands	183,363	59,005	32%
East Anglia	202,118	70,784	35%
Wales	162,392	52,216	32%
South West	223,638	83,001	37%
South East	275,431	96,409	35%
Greater London	376,075	126,528	34%
Northern Ireland	129,692	36,912	28%
UK	212,586	70,540	33%

Source: Bank of Scotland

**All years refer to 12 months to June

EDITORS' NOTES:

¹The typical second stepper home is assumed to be a semi detached home based on consumer research by Bank of Scotland which found that 60% of people expect to take their second step on the property ladder into a semi-detached home.

²Current 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 5 years after their first purchase, which is based on our market research (see ³ below).

³The Second Steppers consumer research was undertaken by BDRG Continental (bdr-continental.com) on behalf of Lloyds Banking Group. Fieldwork took place in January 2013. Around 500 interviews were collected from a representative online consumer panel (Valued Opinions). Further methodological detail is available on request.

⁴ Based on calculation from the Bank of Scotland House Price database

⁵ Bank of Scotland estimate in http://www.lloydsbankinggroup.com/media/pdfs/bos/2012/2701_moving_Scotland.pdf

⁶ Refers to the proportion of those buying with a mortgage.

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.

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.

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

Ends

"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

For further information, contact:

Name: Zoe Redhead, Bank of Scotland Press Office

Tel: 0131 655 5405

Email: zoeredhead@bankofscotland.co.uk

Web: www.lloydsbankinggroup.com/media.asp