Nationwide
AFFORDABILITY REPORT

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January 2023

Mortgage rate rises add to affordability pressures

- **Higher mortgage rates have resulted in a significant increase in the cost of servicing a mortgage relative to take-home pay**
- **High house prices relative to average earnings continue to make raising a deposit a significant barrier for first time buyers (FTBs)**
- **Affordability remains most stretched in London and south of England; the North & Scotland remain the most affordable regions**

Commenting on the figures, Andrew Harvey, Senior Economist, said:

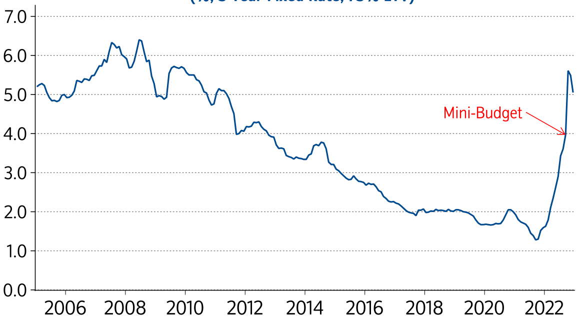
"The biggest change in terms of housing affordability for potential buyers over the past year has been the rise in the cost of servicing the typical mortgage as a result of the increase in mortgage rates.

"This trend began in earnest towards the end of 2021, with typical five-year fixed rates rising from 1.3% in late 2021 to 2.9% by mid-2022, as market interest rates that underpin mortgage pricing rose steadily, reflecting expectations that the Bank of England would have to raise rates significantly in the years ahead to help bring surging inflation back to its target rate of 2%.

"But mortgage rates surged after the mini-Budget in late September, reaching their highest levels since 2010, over four times higher than the lows prevailing in 2021.

"While wider financial market conditions had stabilised by the end of 2022, with market interest rates falling back towards the levels prevailing before the mini-Budget, mortgage rates are taking longer to normalise.

Quoted Mortgage Rate
(%, 5 Year Fixed Rate, 75% LTV)

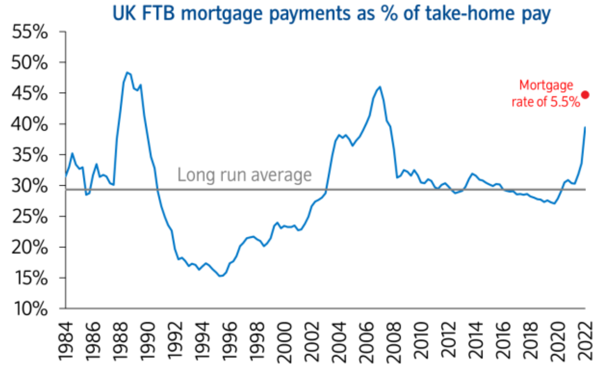


Source: Bank of England

"The impact of this on mortgage affordability is illustrated in the chart (above right), which shows first time buyer (FTB) mortgage payments (based on 80% loan-to-value mortgage, at prevailing mortgage rates) as a share of take-home pay.

"This measure is now well above the long run average, at 39% of take-home (net) pay, and close to the levels seen in the run up to the financial crisis.

UK FTB mortgage payments as % of take-home pay



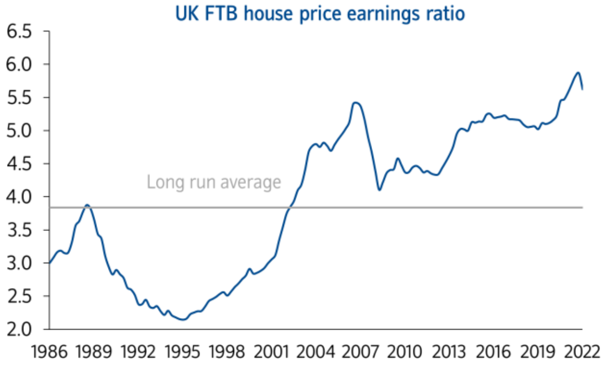
Source: Nationwide, UKF, ONS

Raising a deposit remains a significant challenge

"Unfortunately raising a deposit remains a major hurdle for prospective buyers. In recent quarters, strong wage growth and a small fall in house prices (which fell c2.5% between August and December 2022) has led to a modest fall in the house price to earnings ratio (HPER). But this has done little to improve the situation, as it follows several years when house price growth outpaced earnings by a wide margin.

"For example, between the start of the pandemic and the end of 2022, house prices increased by 19%, while incomes rose by a much more modest 9%. At the end of 2022, the UK first time buyer house price to earnings ratio stood at 5.6, the same level as at the end of 2021.

UK FTB house price earnings ratio



Source: Nationwide, ONS

"This in turn means that a 20% deposit on a typical first time buyer home is now equivalent to 112% of the pre-tax income of a typical full-time employee, a similar level to a year ago, and only modestly below the all-time high of 117% recorded earlier in 2022.

"While UK households, in aggregate, saved £200bn more in bank deposits than we would have expected over the

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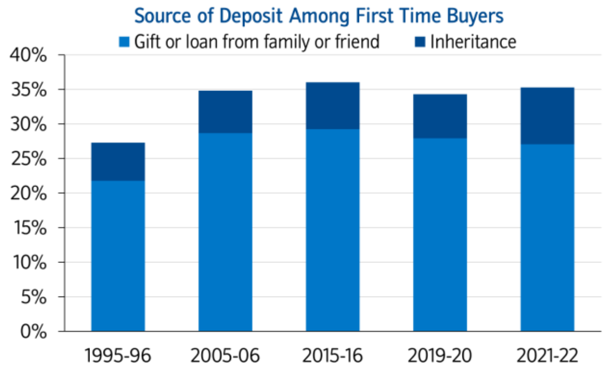
pandemic period as a result of lockdowns, the majority of this was accrued by older, wealthier households and therefore probably helped fewer first time buyers step into the market than it might first appear.

"Indeed, the data suggests that a significant proportion of first time buyers have continued to draw on help from friends and family or an inheritance to help raise a deposit in recent years, as illustrated in the chart below.



Source: MHCLG EHS

"In 2021/22, around a third of first time buyers had some help raising a deposit, either in the form of a gift or loan from family or a friend or through inheritance – up from 27% in the mid-1990s.

What are the prospects for affordability?

"There is some scope for affordability to improve a little in the year ahead. Longer-term interest rates, which underpin mortgage pricing, have fallen back towards the levels prevailing before the mini-Budget.

"If sustained, this should feed through to mortgage rates and improve the affordability position for potential buyers, albeit modestly, as will solid rates of income growth (wage growth is currently running at c.7% in the private sector), especially if combined with weak or negative house price growth.

"Nevertheless, the overall affordability situation looks set to remain challenging in the near term. Saving for a deposit will still be a struggle for many. The cost of living is set to outpace earnings growth by a significant margin again this year, while labour market conditions are widely expected to weaken (albeit from a robust starting position).

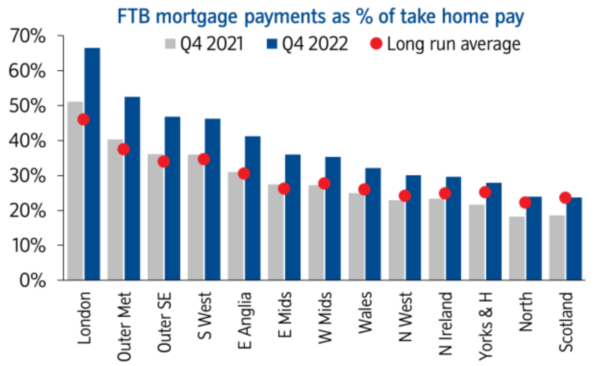
"Moreover, rents have also been rising at their strongest pace on record (on data extending back to 2005 for England), which will be a further drag for those currently renting who are looking to buy a home (especially since they also tend to spend a larger share of their income on housing costs than owners with a mortgage).

"The Help to Buy Equity Loan scheme that helped those with a smaller deposit buy a newbuild property is due to end in March. However, the mortgage guarantee scheme which helps to secure the availability and lower the cost of higher LTV mortgages has been extended until the end of 2023.

How does the affordability picture vary across the UK regions?

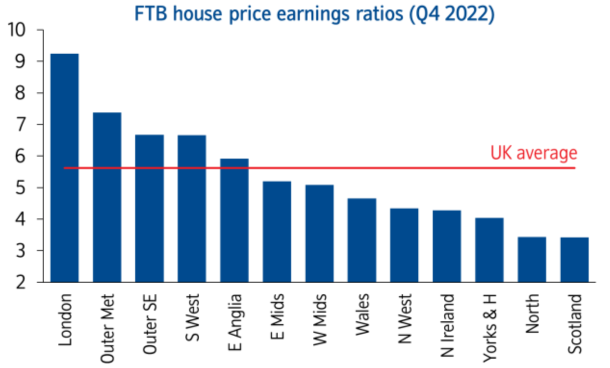
"All regions have seen a deterioration in affordability compared to 2021, with the cost of servicing the typical mortgage as a share of take-home pay now at or above the long-run average in all regions.

"Affordability pressures remain particularly acute in London and the south of England, where mortgage servicing costs have risen sharply compared with a year ago. Scotland and the North continue to be the most affordable regions but, even there, mortgage payments as a share of take-home pay are at their highest level for over a decade.



Source: Nationwide, UKF, ONS

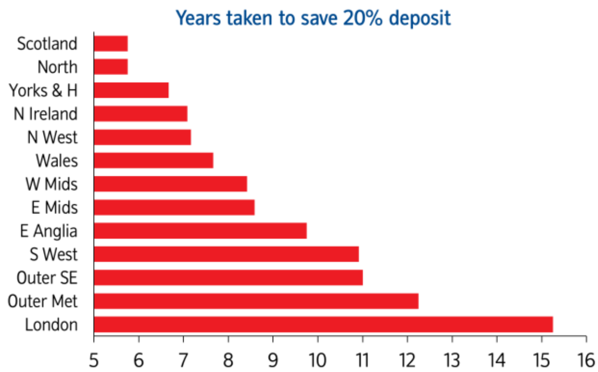
"There continues to be a significant gap between the least affordable and most affordable regions, although this has remained broadly stable over the last year. London continues to have the highest house price to earnings ratio at 9.2, but this is still below its record high of 10.2 in 2016.



Source: Nationwide, ONS

"Scotland and the North region have the lowest house price to earnings ratios at 3.4. Over the longer term, Northern England and Scotland have historically seen lower HPERs than Southern England, Wales and Northern Ireland.

"But there is substantial regional variation, as illustrated below, which shows the average time it would take someone earning the typical wage in each region to save a 20% deposit towards an average FTB property, assuming they set aside 15% of their take-home pay each month.



Source: Nationwide, ONS

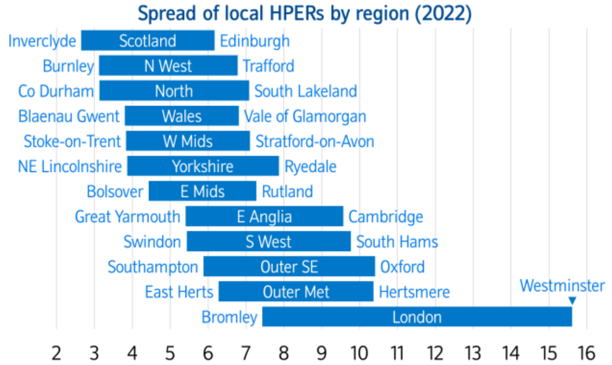
Local affordability update

- **London borough of Westminster is least affordable; Inverclyde in Scotland is most affordable**
- **East Midlands has smallest gap between least and most affordable areas**
- **Only c10% of local authorities have seen an improvement in affordability over past year**

"As well as affordability becoming more stretched across all regions, there is also considerable variation within regions. Our local affordability metrics, which use house price and earnings data from the Land Registry & Office for National Statistics (ONS), give the most comprehensive view at a local level.

"As illustrated by the chart below, London continues to have the greatest gap between the most and least affordable boroughs – by a considerable margin. Meanwhile, the East Midlands has the smallest difference between local authority house price to earnings ratios (HPERs).

Spread of local HPERs by region (2022)



Source: Nationwide analysis of ONS/Land Registry data

Least affordable local authorities

"The table below shows the least affordable local authorities, as measured by the first time buyer HPER in each region. Note that data is not available for Northern Ireland.

Least affordable local authorities (2022)		
Region	Local Authority	HPER
London	Westminster	15.6
Outer South East	Oxford	10.4
Outer Metropolitan	Hertsmere	10.4
South West	South Hams	9.8
East Anglia	Cambridge	9.6
Yorkshire & The Humber	Ryedale	7.9
East Midlands	Rutland	7.3
West Midlands	Stratford-on-Avon	7.1
North	South Lakeland	7.1
Wales	Vale of Glamorgan	6.8
North West	Trafford	6.8
Scotland	Edinburgh	6.2

"Westminster replaced Kensington and Chelsea as the least affordable local authority in London and, by extension, Great Britain, with a HPER of 15.6.

"Oxford remains the least affordable area in the Outer South East region, with house prices 10.4 times average earnings, up from 10.1 a year ago. Hertsmere in Hertfordshire, in the neighbouring Outer Metropolitan region, has the same HPER.

"South Hams in Devon has replaced Cotswold as the least affordable area in the South West, with a house price to earnings ratio of 9.8. House prices in the area have increased by 18% over the past year, the strongest increase in the South West region.

"Cambridge is the least affordable local authority in East Anglia and also the most expensive, with average prices in the city significantly higher than other parts of the region.

"In Yorkshire and The Humber, the district of Ryedale in North Yorkshire continues to have the highest house price to earnings ratio, with 2022 seeing a pickup in house price growth. This predominately rural area includes towns such as Malton and Pickering.

"Rutland, the smallest historic county in England, remains the least affordable in the East Midlands, while in the West Midlands, it is the popular tourist spot of Stratford-on-Avon. Continuing the theme, South Lakeland, which includes parts of the Lake District National Park, such as Ambleside and Windermere, is the least affordable area in the North West.

"Edinburgh remained the least affordable area in Scotland, with house prices 6.2 times average earnings. Meanwhile in Wales, the Vale of Glamorgan, which includes Barry, remained the least affordable area, with a HPER of 6.8. With the same HPER of 6.8 is Trafford in Greater Manchester, which is the least affordable local authority in the North West.

Most affordable local authorities

"We've also explored the most affordable areas, based on the local authorities with the lowest first time buyer HPERs within each region (see table below). Inverclyde in Scotland replaced East Ayrshire as the most affordable authority in Great Britain, with average first time buyer house prices just 2.6 times average earnings in the area. Inverclyde, located west of Glasgow, includes Greenock and Port Glasgow.

"Burnley and County Durham are the most affordable areas in the North West and North regions respectively, both with a HPER of 3.8.

Most affordable local authorities (2022)		
Region	Local Authority	HPER
Scotland	Inverclyde	2.6
North West	Burnley	3.1
North	County Durham	3.1
Wales	Blaenau Gwent	3.8
West Midlands	Stoke-on-Trent	3.8
Yorkshire & The Humber	North East Lincolnshire	3.9
East Midlands	Bolsover	4.4
East Anglia	Great Yarmouth	5.4
South West	Swindon	5.4
Outer South East	Southampton	5.9
Outer Metropolitan	East Hertfordshire	6.3
London	Bromley	7.4

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"Meanwhile, Blaenau Gwent replaced Merthyr Tydfil as the most affordable local authority in Wales. The main towns in the area are Abertillery, Ebbw Vale and Tredegar.

"Stoke-on-Trent continues to have the lowest house price to earnings ratio in the West Midlands at 3.8, with the city remaining the cheapest area in the region.

"North East Lincolnshire regained its position as the most affordable area in Yorkshire and The Humber, while in the neighbouring East Midlands region, the district of Bolsover remains the most affordable and also the lowest priced area.

"Over on the east coast, Great Yarmouth in Norfolk continues to have the lowest HPER in East Anglia, despite seeing relatively strong house price growth over the last year.

"Swindon remains the most affordable area in the South West, with a house price to earnings ratio of 5.4. Southampton remains the most affordable region in the Outer South East, with a HPER of 5.9, despite a pickup in house price growth over the last year.

"East Hertfordshire, which includes Bishop's Stortford and Ware, is the most affordable part of the Outer Metropolitan region, with a HPER of 6.3.

"Bromley remains the most affordable London borough, though its house price to earnings ratio of 7.4 is still higher than most local authorities across the country. Indeed, Bromley is less affordable than the *least* affordable authorities in six out of the 12 regions.

Which areas have seen an improvement in affordability?

"The table below shows the areas that have seen the biggest improvement in housing affordability over the last year, by comparing the FTB HPER in 2022 with 2021. Note, no local authorities in East Anglia have seen an improvement in affordability in this period.

Region	Local Authority	HPER 2021	HPER 2022	Chg. (ppts)
South West	Tewkesbury	6.8	5.9	-0.9
Outer Met	Three Rivers	9.7	8.8	-0.9
London	Brent	11.1	10.2	-0.8
East Mids	Melton	7.3	6.5	-0.8
Outer SE	Colchester	6.5	6.2	-0.3
North	Northumberland	4.2	3.9	-0.3
North West	Pendle	3.7	3.5	-0.3
Scotland	Aberdeen	3.4	3.1	-0.3
West Mids	Staffs Moorlands	5.0	4.8	-0.3
Yorks & H	Calderdale	4.2	4.2	-0.1
Wales	Conwy	5.3	5.2	-0.1

"Tewkesbury in the South West and Three Rivers in the Outer Metropolitan region have seen the biggest improvement in affordability over the last year, with the average first time buyer earnings ratio falling by nearly a percentage point.

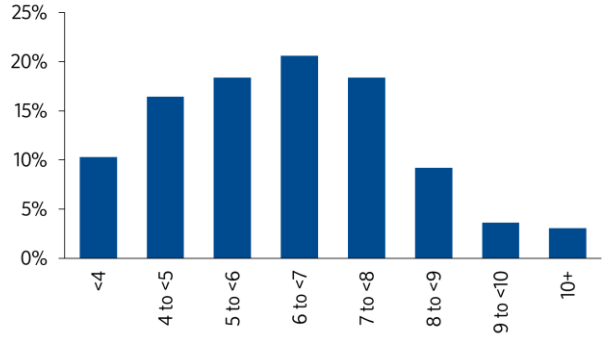
"A number of London boroughs have seen a fall in their HPERs compared with 2021, but the biggest improvement has been in Brent, where the average HPER fell from 11.1 to 10.2.

"Melton, in Leicestershire in the East Midlands, saw its HPER improve from 7.3 to 6.5.

"Affordability gains in other regions have been more modest. Overall, only c.10% of local authorities in Great Britain have seen an improvement in affordability compared to a year ago, while 83% have seen a deterioration, with the remaining local authorities unchanged.

"The chart below shows the distribution of local first time buyer house price to earnings ratios. Only 10% of local authorities have a HPER below 4, while 16% have a HPER of eight or above.

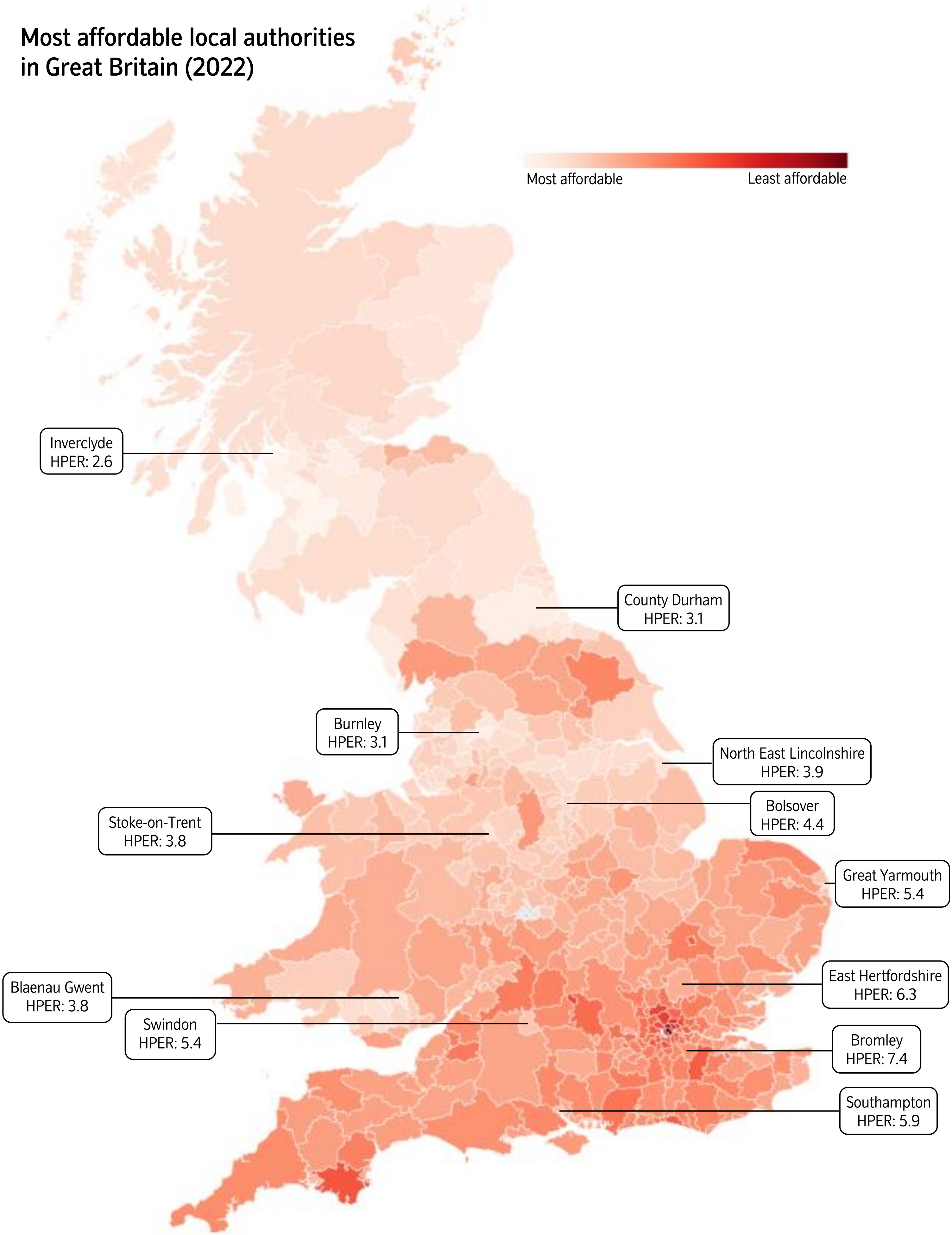
Distribution of local authority FTB house price earnings ratios (2022)



Source: Nationwide analysis of ONS/Land Registry data

"Affordability data for all local authorities, alongside all of our usual monthly and quarterly reports, can be found at www.nationwidehousepriceindex.co.uk."

Most affordable local authorities in Great Britain (2022)



Notes

Regional average first time buyer prices are produced using Nationwide's updated mix adjusted House Price Methodology, which was introduced with effect from the first quarter of 1995. The data is drawn from Nationwide's house purchase mortgage lending at the post survey approvals stage.

More information on the house price index methodology along with time series data and archives of housing research can be found at www.nationwidehousepriceindex.co.uk

Local authority house price data is sourced from the UK House Price Index (UK HPI) dataset for first time buyers. Data is at June 2022. The UK HPI is a joint production by HM Land Registry, Land and Property Services Northern Ireland, Office for National Statistics and Registers of Scotland. Contains HM Land Registry data © Crown copyright and database right 2022. This data is licensed under the Open Government Licence v3.0.

Affordability indicators use earnings data from the ONS Annual Survey of Hours & Earnings. Mean earnings for a full time worker on adults rates are used. Quarterly series are calculated using straight line interpolation for earnings, with points after the last annual observation extrapolated using average growth rates and hence are subject to revision. Mortgage payments relative to take home pay are based on an 80% LTV capital repayment mortgage over a 25 year term, at new lending rates at the time, sourced from UK Finance. Take home pay calculated using tax and national insurance rates applicable at the time.

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