

Regional House Prices and Incomes

October 2006

Research
Centre

 Analysis

For a first time buyer, the affordability of property in the UK is a major problem. The Alliance Trust Research Centre has compared the situation facing today's first-time buyers with the one that might have faced their parents when they started out on the property ladder. Our key findings are:

- Since 1970, house price growth has outstripped income in every region of the UK. For first-time buyers, house prices have grown fastest in London and the South West and slowest in Scotland and Northern Ireland.
- House prices have risen from 2.5 times income in 1970 to 3.9 times income in 2005, a 60% increase in the ratio of prices to income. This ratio has worsened most in London, East Anglia and the South West.
- The house price to income ratio for first-time buyers is greater than four times income in London, the South East, the South West and East Anglia. The ratio is lowest in Scotland and the North of England where property is much more affordable.
- The deposit paid by first time buyers is largest in London at almost £52,000. This is more than 100% of the average annual income of a first-time buyer in London. In Yorkshire, the necessary deposit is equivalent to just 60% of average income.

Introduction

UK house prices have grown significantly in recent years, making it increasingly difficult for first-time buyers to get into the property market. In this report, the Alliance Trust Research Centre investigates the issue of affordability and compares the financing needs of today's

first-time buyers with those which faced their parents 35 years ago. We look at trends in house prices and incomes as well as the average mortgage advance to first-time buyers and deposit requirements. All of the data used in this analysis are sourced from the Department for Communities and Local Government.

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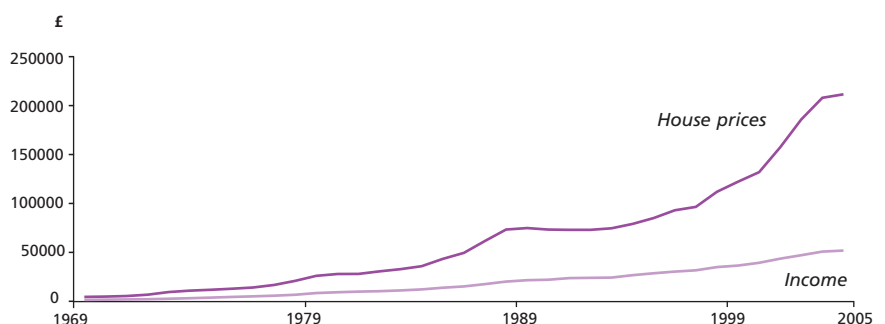
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House Prices and Income (First-time Buyers)



Source: DCLG

The House Price to Income Ratio

Since 1970, house price growth has outstripped income growth, producing a significant expansion in the house price to income ratio – from 2.5x to 3.9x in the case of first-time buyers. In 1970, property was most affordable in Yorkshire where the house price ratio was only 2.1x and was least affordable in the South East where the ratio was 2.7x. The difference between these two ratios was only 29%. By 2005, property had become most affordable in Scotland where the house price to income ratio was 3.2x and least affordable in London where the ratio was 4.4x. The difference between these ratios had widened to 38%. Affordability has declined everywhere, but the impact has been greatest in London, East Anglia and the South West and least in Scotland and North of England.

House Prices

The evident deterioration in affordability is the result of house prices rising more quickly than income. Since 1970, the average house price for a first-time buyer has risen by 3,163% but the average recorded income of this group of borrowers has risen by just 1,935%. For first-time buyers, house prices have risen the most in London where the increase was 3,432% followed by the South West with an increase of 3,427%. At the other end of the scale, Scotland has recorded house price growth of just 1,906%. In 1970, the average house price for a first-time buyer in Scotland was £4,262, or 70% of the average price in London of £6,119. By 2005, the average price in Scotland had risen to £85,501, but this represents just 40% of the average 2005 London price of £216,141.

Incomes

Affordability is affected not just by house prices but also by incomes. In 1970, the average income of a first-time borrower in the UK was £1,766. By 2005, this had increased by 1,935% to £35,937. Income growth for first-time buyers has been highest in the South West, closely followed by London and the East Midlands. Income growth has been considerably lower in Scotland, Northern Ireland and Wales.

In 1970, a Scottish first-time buyer had an average income of £1,787, which was

Average Deposit for First-time Buyers

| | £ |
|------------------|--------|
| United Kingdom | 30,661 |
| North of England | 17,656 |
| North West | 19,171 |
| Yorkshire | 18,409 |
| East Midlands | 22,661 |
| West Midlands | 23,198 |
| East Anglia | 31,520 |
| London | 51,800 |
| South East | 38,724 |
| South West | 34,792 |
| Wales | 21,222 |
| Scotland | 17,439 |
| Northern Ireland | 21,435 |

Source: DCLG, In-house

almost 7% higher than an equivalent first-time buyer in the South West. However, by 2005, a typical first-time buyer in Scotland had an income of £26,626, which is over 26% lower than the £36,224 income of the average first-time buyer in the South West.

Deposits

In this analysis we define 'deposit' as the difference between the house price and the mortgage advance.

The need to save for a larger deposit has been one of the main reasons why the average age of first-time buyers has increased in recent years. In 1970, the average first-time buyer in the UK had to find a deposit equivalent to 20% of the house price but this had risen to 22% by 2005. London is the only exception to this trend. First-time buyers there in 1970 had to put down a deposit equal to 25% of the value of the property but in 2005 this

had fallen to 24%. By contrast, the largest increase in deposit requirements is in Yorkshire where the deposit to house price ratio has risen from 15% to 18%.

In 1970, the average first-time buyer in the UK had to find a deposit of £866 whereas in 2005 this had risen to £30,661. The average deposit is considerably larger in London but much smaller in Scotland. The deposit that a first-time buyer in London must find is now 197% higher than the deposit required by a first-time buyer in Scotland - in 1970, the difference was just 85%.

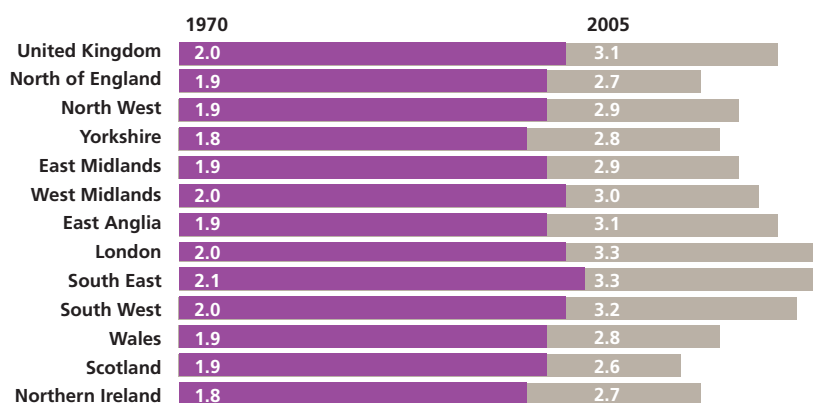
To analyse how onerous saving for a deposit has become, we calculated the deposit to income ratio over the period from 1970 to 2005. The average deposit for a first-time buyer in 1970 was equal to 49% of the reported income of this group of buyers but by 2005 it had increased to 85%. The ratio has increased in every region of the UK.

First-time Buyers - Key Ratios

| | House price to income | | Mortgage advance to income | | Deposit to income | |
|------------------|-----------------------|------|----------------------------|------|-------------------|------|
| | 1970 | 2005 | 1970 | 2005 | 1970 | 2005 |
| United Kingdom | 2.5 | 3.9 | 2.0 | 3.1 | 0.49 | 0.85 |
| North of England | 2.3 | 3.3 | 1.9 | 2.7 | 0.40 | 0.62 |
| North West | 2.3 | 3.5 | 1.9 | 2.9 | 0.36 | 0.64 |
| Yorkshire | 2.1 | 3.4 | 1.8 | 2.8 | 0.32 | 0.60 |
| East Midlands | 2.3 | 3.6 | 1.9 | 2.9 | 0.41 | 0.69 |
| West Midlands | 2.4 | 3.7 | 2.0 | 3.0 | 0.43 | 0.72 |
| East Anglia | 2.4 | 4.0 | 1.9 | 3.1 | 0.48 | 0.91 |
| London | 2.6 | 4.4 | 2.0 | 3.3 | 0.65 | 1.04 |
| South East | 2.7 | 4.3 | 2.1 | 3.3 | 0.58 | 0.96 |
| South West | 2.6 | 4.2 | 2.0 | 3.2 | 0.57 | 0.96 |
| Wales | 2.3 | 3.5 | 1.9 | 2.8 | 0.41 | 0.70 |
| Scotland | 2.4 | 3.2 | 1.9 | 2.6 | 0.46 | 0.65 |
| Northern Ireland | 2.3 | 3.5 | 1.8 | 2.7 | 0.50 | 0.77 |

Source: DCLG, In-house

Mortgage Advance to Income Ratio for First-time Buyers



Source: DCLG, In-house

Saving for a deposit is most onerous in London where the average deposit is 104% of income compared with 65% of income in 1970. The South West and the South East follow close behind with average deposits now equal to 96% of reported income. Saving for a deposit is least onerous in Yorkshire where the average deposit to income ratio was just 60% in 2005. However, this compares with an even less onerous ratio of just 32% in 1970. The deposit to income ratio is also relatively low in both the North of England and North West. Although the average deposit for a first-time buyer is smallest in Scotland, the lower level of income there gives it a deposit to income ratio of 65%.

Mortgage Advances

The mortgage advanced to a first-time buyer measures the amount of debt actually taken on. Across the UK, the average advance has declined as a percentage of the house price, from 80% in 1970 to 78% in 2005. In both Yorkshire and the North West, the average advance is equivalent to 82% of the price of the property but in London this ratio is only 76%.

To analyse how onerous this debt might be for first-time buyers, we compared it to the average income of this group. In 1970, the average mortgage advance was equivalent to 2.0x reported income but this had increased to 3.1x income in 2005. The ratio is highest in both London and the South East at 3.3x and lowest in Scotland at 2.6x. The increase in the relative debt burden is highest in London and lowest in Scotland.

Conclusion

House prices have risen much more than incomes since 1970, making it far more difficult for first-time buyers to get onto the property ladder. Whereas the house price to income ratio has increased from 2.5x to 3.9x, the mortgage advance to income ratio has risen by less (from 2.0x to 3.1x). However, the deposit to income ratio has almost doubled (from 0.5x to 0.9x).

Our analysis quantified some significant regional differences. It showed a widening gap in affordability for first-time buyers among regions. The shifting relationship between house prices and income in the different regions has resulted in Scotland taking over from Yorkshire as the most affordable region and London replacing the South East as the least affordable.