Nationwide HOUSE PRICE INDEX

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November 2021

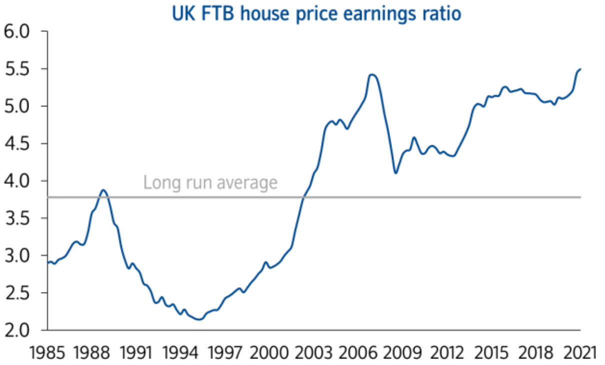
Special report: Raising a deposit still the biggest hurdle for first time buyers despite affordability becoming more stretched

- **High house prices relative to average earnings continue to make raising a deposit a significant barrier for first time buyers (FTBs)**
- **20% deposit equivalent to 110% average income – a record high and up from 102% one year ago**
- **House prices have risen quicker than earnings over last year resulting in increase in cost of servicing a mortgage relative to take-home pay**
- **North region & Scotland remain most affordable**

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

"House price growth has exceeded earnings growth over the past year and the ratio of house prices to average earnings (HPER) has increased to a record high. In the third quarter of this year, the UK First Time Buyer (FTB) house price to earnings ratio stood at 5.5, above the previous high of 5.4 in 2007, and well above the long run average of 3.8.

UK FTB house price earnings ratio

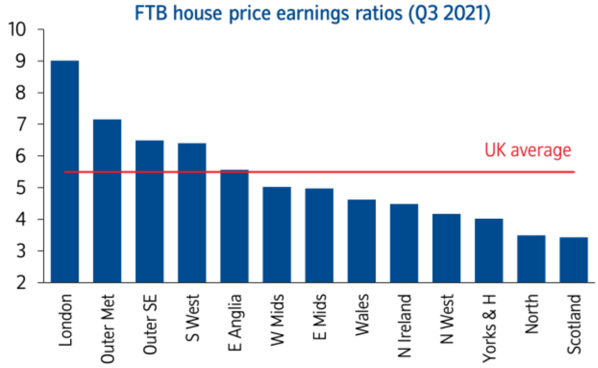


Source: Nationwide, ONS

"While there continues to be a significant gap between the least affordable and most affordable regions across the UK, this has remained broadly stable over the last year. London continues to have the highest house price to earnings ratio at 9.0, although this is still below its record high of 10.2 in 2016.

"Scotland continues to have the lowest house price to earnings ratio in the country at 3.4, closely followed by the North region at 3.5. Looking over the longer term, Northern England and Scotland have historically seen lower HPERs than Southern England, Wales and Northern Ireland.

FTB house price earnings ratios (Q3 2021)

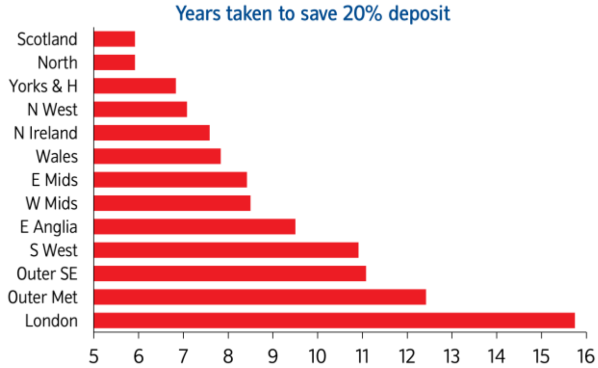


Source: Nationwide, ONS

"One of the consequences of high house prices relative to earnings is that it makes raising a deposit a significant challenge for prospective first time buyers. Indeed at present, a 20% deposit is now equivalent to 110% of the pre-tax income of a typical full-time employee, a record high and up from 102% a year ago.

"Nonetheless, there is substantial regional variation as illustrated in the chart 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.

Years taken to save 20% deposit



Source: Nationwide, ONS

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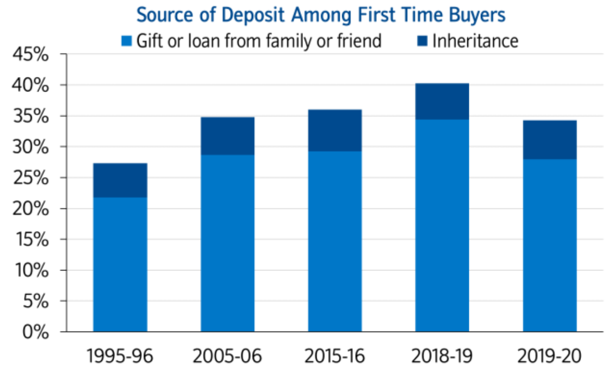
"A significant proportion of first time buyers draw on help from friends and family or an inheritance to help raise a deposit, as illustrated in the chart below.



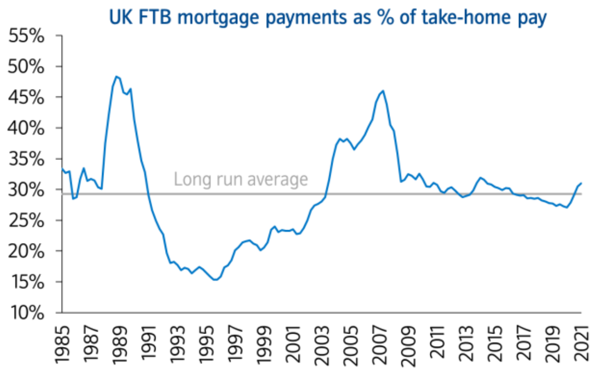
Source: MHCLG EHS

"In 2019/20, 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% 25 years ago.

Affordability becoming more stretched across all regions despite low mortgage rates

"House prices have continued to rise more quickly than earnings in recent quarters, which means affordability is becoming more stretched. Due to the historically low level of interest rates, the comparative cost of servicing a typical mortgage is still well below the levels recorded in the run up to the financial crisis. However, even on this measure, affordability is becoming more challenging.

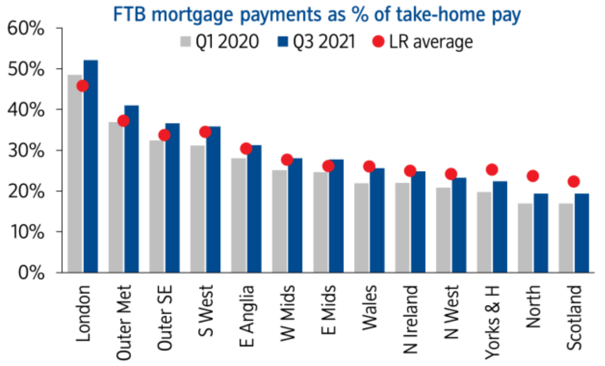
"As the chart below shows, first time buyer mortgage payments (based on an 80% loan-to-value mortgage, at prevailing mortgage rates) are currently slightly above the long run average, at 31% of take-home (net) pay.



Source: Nationwide, UKF, ONS

"The cost of servicing a typical mortgage as a share of take-home pay is now above its long-run average in the majority of UK regions. By contrast, pre-pandemic, this was only the case in one region (London).

"Recent price patterns suggest an element of rebalancing is occurring where most of the regions that have seen the strongest price growth are those in which affordability is still close to or below the long-run average.



Source: Nationwide, ONS, UKF

What impact could rate rises have?

"There has been increased speculation that the Bank of England's Monetary Policy Committee (MPC) will increase interest rates in the coming months.

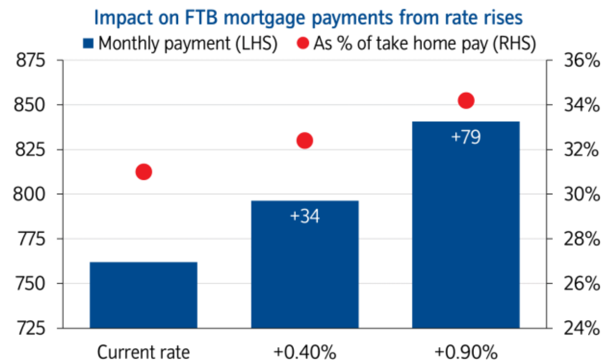
"Clearly, much will depend on the Committee's assessment of the outlook for growth and inflation, but investors expect Bank Rate to be increased from its current record low of 0.1% around the turn of the year – most likely to 0.25% or 0.5% – and perhaps reaching 1% within 12 months.

"Providing the economy does not weaken significantly, the impact of a limited rise in interest rates for existing borrowers is likely to be modest, especially given only 20% of outstanding mortgages are on variable rates.

"The vast majority of new mortgages in recent years have been extended on fixed rates, with five-year fixed rate deals becoming increasingly popular, accounting for nearly half of new mortgages.

"Despite the sharp rise in swap rates in recent months, mortgage rates have remained close to all-time lows. But this may not persist and, if rates for new mortgages were to rise, this would exert further pressure on affordability for prospective first time buyers.

"We've modelled the impact of mortgage rate rises on first time buyer initial mortgage payments, assuming an 80% LTV mortgage over a 25-year term.



Source: Nationwide calculations

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"A 0.4% increase in rates would increase initial mortgage payments by £34 a month. This represents a modest rise in mortgage payments relative to take-home pay from the current level of 31% to 32%. A 0.9% increase in rates would increase initial mortgage payments by £79 a month (from current levels), representing 34% of take-home pay.

"Provided the economic recovery remains resilient, higher interest rates are likely to exert a moderating influence on the housing market, as well as dampening price pressures across the economy more generally."

English Region Definitions

East Anglia: Cambridgeshire (Cambridge, East Cambridgeshire, Fenland, Huntingdonshire, South Cambridgeshire), Norfolk (Breckland, Broadland, Great Yarmouth, King's Lynn & West Norfolk, North Norfolk, Norwich, South Norfolk), Peterborough, Suffolk (Babergh, East Suffolk, Ipswich, Mid Suffolk, West Suffolk)

East Midlands: Derby, Derbyshire (Amber Valley, Bolsover, Chesterfield, Derbyshire Dales, Erewash, High Peak, North East Derbyshire, South Derbyshire), Leicester, Leicestershire (Blaby, Charnwood, Harborough, Hinckley & Bosworth, Melton, North West Leicestershire, Oadby & Wigston), Lincolnshire (Boston, East Lindsey, Lincoln, North Kesteven, South Holland, South Kesteven, West Lindsey), Northamptonshire (Corby, Daventry, East Northamptonshire, Kettering, Northampton, South Northamptonshire, Wellingborough), Nottingham, Nottinghamshire (Ashfield, Bassetlaw, Broxtowe, Gedling, Mansfield, Newark & Sherwood, Rushcliffe), Rutland

London: Barking & Dagenham, Barnet, Bexley, Brent, Bromley, Camden, City of London, Croydon, Ealing, Enfield, Greenwich, Hackney, Hammersmith & Fulham, Haringey, Harrow, Havering, Hillingdon, Hounslow, Islington, Kensington & Chelsea, Kingston upon Thames, Lambeth, Lewisham, Merton, Newham, Redbridge, Richmond upon Thames, Southwark, Sutton, Tower Hamlets, Waltham Forest, Wandsworth, Westminster

North: County Durham, Cumbria (Allerdale, Barrow-in-Furness, Carlisle, Copeland, Eden, South Lakeland), Darlington, Gateshead, Hartlepool, Middlesbrough, Newcastle upon Tyne, North Tyneside, Northumberland, Redcar & Cleveland, South Tyneside, Stockton-on-Tees, Sunderland

North West: Blackburn with Darwen, Blackpool, Bolton, Bury, Cheshire East, Chester West & Chester, Halton, Knowsley, Lancashire (Burnley, Chorley, Fylde, Hyndburn, Lancaster, Pendle, Preston, Ribble Valley, Rossendale, South Ribble, West Lancashire, Wyre), Liverpool, Manchester, Oldham, Rochdale, Salford, Sefton, St. Helens, Stockport, Tameside, Trafford, Warrington, Wigan, Wirral

Outer Metropolitan: Basildon, Bracknell Forest, Brentwood, Buckinghamshire, Castle Point, Chelmsford, Crawley, Dartford, Epping Forest, Gravesham, Harlow, Hart, Hertfordshire (Broxbourne, Dacorum, East Hertfordshire, Hertsmere, North Hertfordshire, St Albans, Stevenage, Three Rivers, Watford, Welwyn Hatfield), Horsham, Luton, Maidstone, Medway, Mid Sussex, Reading, Rochford, Rushmoor, Sevenoaks, Slough, Southend-on-Sea, Surrey (Elmbridge, Epsom & Ewell, Guildford, Mole Valley, Reigate & Banstead, Runnymede, Spelthorne, Surrey Heath, Tandridge, Waverley, Woking), Thurrock, Tonbridge & Malling, Tunbridge Wells, Windsor & Maidenhead, Wokingham

Outer South East: Adur, Arun, Ashford, Basingstoke & Deane, Bedford, Braintree, Brighton & Hove, Canterbury, Central Bedfordshire, Chichester, Colchester, Dover, East Hampshire, Eastleigh, East Sussex (Eastbourne, Hastings, Lewes, Rother, Wealden), Fareham, Folkestone & Hythe, Gosport, Havant, Isle of Wight, Maldon, Milton Keynes, New Forest, Oxfordshire (Cherwell, Oxford, South Oxfordshire, Vale of White Horse, West Oxfordshire), Portsmouth, Southampton, Swale, Tendring, Test Valley, Thanet, Uttlesford, West Berkshire, West Oxfordshire, Winchester, Worthing

South West: Bath & North East Somerset, Bournemouth, Christchurch & Poole, Bristol, Cornwall, Dorset, Devon (East Devon, Exeter, Mid Devon, North Devon, South Hams, Teignbridge, Torridge, West Devon), Gloucestershire (Cheltenham, Cotswold, Forest of Dean, Gloucester, Stroud, Tewkesbury), Isles of Scilly, North Somerset, Plymouth, Somerset (Mendip, Sedgemoor, Somerset West & Taunton, South Somerset), South Gloucestershire, Swindon, Torbay, Wiltshire

West Midlands: Birmingham, Coventry, Dudley, Herefordshire, Sandwell, Shropshire, Solihull, Staffordshire (Cannock Chase, East Staffordshire, Lichfield, Newcastle-under-Lyme, South Staffordshire, Stafford, Staffordshire Moorlands, Tamworth), Stoke-on-Trent, Telford & Wrekin, Walsall, Warwickshire (North Warwickshire, Nuneaton & Bedworth, Rugby, Stratford-on-Avon, Warwick), Wolverhampton, Worcestershire (Bromsgrove, Malvern Hills, Redditch, Worcester, Wychavon, Wyre Forest)

Yorkshire & Humberside: Barnsley, Bradford, Calderdale, Doncaster, East Riding of Yorkshire, Kingston upon Hull, Kirklees, Leeds, North East Lincolnshire, North Lincolnshire, North Yorkshire (Craven, Hambleton, Harrogate, Richmondshire, Ryedale, Scarborough, Selby), Rotherham, Sheffield, Wakefield, York

Notes

Indices and average 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. Price indices are seasonally adjusted using the US Bureau of the Census X12 method. Currently the calculations are based on a monthly data series starting from January 1991. Figures are recalculated each month which may result in revisions to historical data.

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

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 prevailing tax and national insurance rates.

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