

Nationwide HOUSE PRICE INDEX



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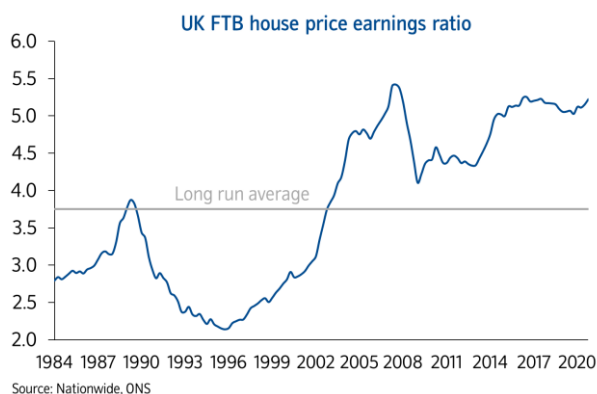
Affordability special report: raising a deposit rather than mortgage payments the major barrier for first time buyers

- 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 104% average income
- But low mortgage rates mean the cost of servicing a mortgage as a share of take-home pay is close to the historic average
- Significant variation by region and occupation
- North & Scotland remain most affordable regions

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

“We’ve developed a range of new affordability metrics as part of our new, annual HPI Affordability Report. These indicators consider affordability across a range of different attributes.

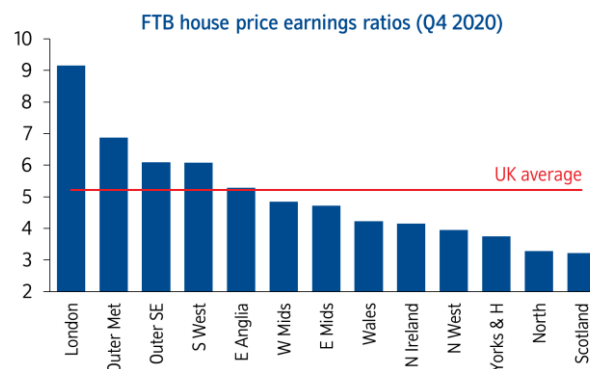
“Over the past few years, earnings growth has broadly kept pace with house price growth, which means that the ratio of house prices to average earnings (HPIER) has remained relatively stable, albeit at a high level. At the end of 2020, the UK First Time Buyer (FTB) house price to earnings ratio stood at 5.2, close to 2007’s record high of 5.4, and well above the long run average of 3.7.



“We have also seen a significant widening in the gap between the least affordable and most affordable regions. London has been the least affordable region for most of the past 40 years - the house price to earnings ratio in the

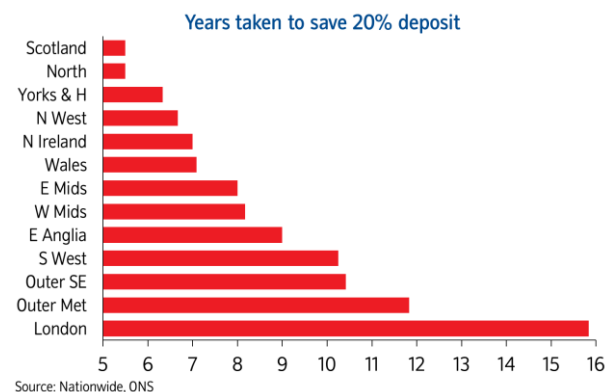
capital reached a record high in 2016 of 10.2 and remained elevated at 9.2 at the end of 2020.

“Scotland currently has the lowest house price to earnings ratio at 3.2, closely followed by the North at 3.3. Looking over the longer term, Northern England and Scotland have historically seen lower house price to earnings ratios than Southern England, Wales and Northern Ireland.



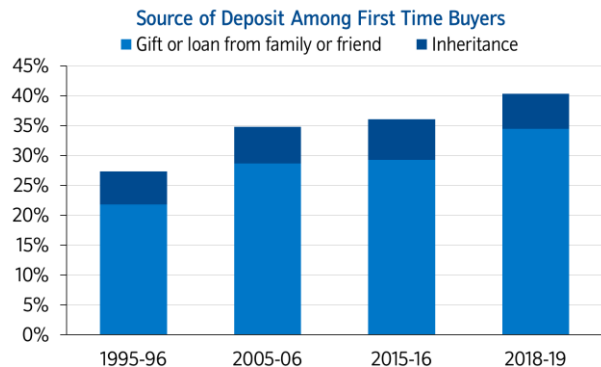
“One of the consequences of high house prices relative to earnings, is that it makes raising a deposit a significant challenge for prospective first time buyers. Indeed, at present, a 20% deposit is currently equivalent to 104% of the pre-tax income of a typical full-time employee, up from 87% ten years ago, although there is significant regional variation.

“This is 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 a typical FTB property, assuming they set aside 15% of their take-home pay each month.



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“In recent years a significant proportion of first time buyers have been drawing on help from friends and family or an inheritance to help raise a deposit, as illustrated in the chart below.



Source: MHCLG/EHS

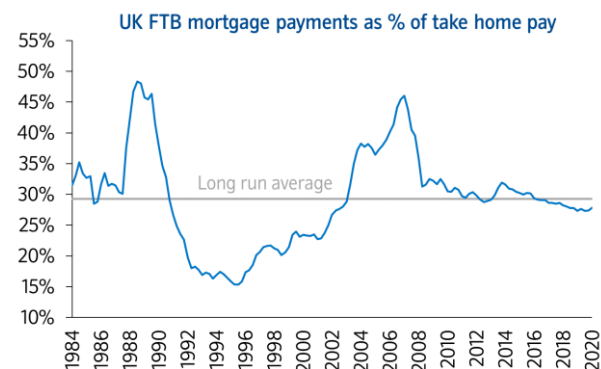
“In 2018/19, around 40% of first time buyers had some help raising a deposit, either in the form of a gift or loan from family or a friend or through inheritance. This is up from around a quarter in the mid-1990s.

Low rates mean monthly mortgage payments still affordable outside London and South East

“The good news is that for those that are able to raise a deposit, the cost of the typical monthly mortgage payment relative to take-home pay has been trending down in recent years.

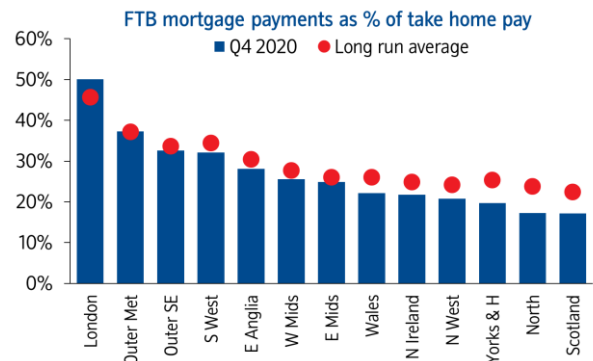
“As the chart below shows, first time buyer mortgage payments (based on an 80% loan-to-value mortgage, at prevailing mortgage rates) are currently slightly below the long run average, at 28% of take-home (net) pay.

“Affordability improved significantly between 2007 and 2009, primarily due to the fall in house prices in the wake of the financial crisis, and remained low, thanks to the decline in borrowing costs to all-time lows.



Source: Nationwide, UKF, ONS

“The cost of servicing the typical mortgage as a share of take-home pay is close to or even slightly below the long run average in most regions, as shown in the chart above right.



Source: Nationwide, UKF, ONS

“However, over the past decade, an increasing proportion of first time buyers have been opting to take out long-term mortgages to further lower their monthly repayments (though this increases the total amount repaid over the life of the mortgage).

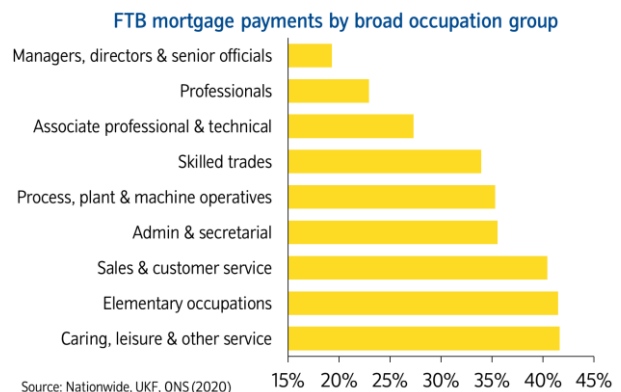
“In 2020, around 70% of first time buyers took out a mortgage with an initial term of over 25 years, up from 45% in 2010. Increasing the mortgage term from 25 to 35 years (which is the most common) increases the total amount of interest paid on a typical mortgage by 40%.

Considerable variation in affordability across different occupational groups

“We’ve also looked at how affordability varies for people in different professions looking to buy their first property. Perhaps unsurprisingly, mortgage payments relative to take home pay are lowest for those in managerial and professional roles, where average earnings tend to be higher.

“Note that these are benchmark measures, which use the average earnings in each occupational group, and the UK typical first time buyer property price. In practice, those in higher paid occupations may choose to buy more expensive properties.

“Affordability is most challenging for those working in areas classified as ‘elementary occupations’, which include jobs such as construction and manufacturing labourers, cleaners and couriers, and those in care, leisure and other personal service jobs. In these groups, typical mortgage payments would represent over 40% of average take-home pay.



Source: Nationwide, UKF, ONS (2020)

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“The differences in affordability reflect the divergence in earnings by occupational group. For example, those working in professional occupations typically take home around 75% more per year than those working in sales and customer service.

“All of this data and our house price data, alongside all of our monthly and quarterly reports will from today be found at www.nationwidehousepriceindex.co.uk. Each month, the reports and data will be published on this new site, starting with our January report on 2 February 2021.”

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), 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, Castle Point, Chelmsford, Chiltern, 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, South Bucks, 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, Wycombe

Outer South East: Adur, Arun, Ashford, Aylesbury Vale, 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, Wokingham

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

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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

HPI Affordability Report data uses 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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