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The **Halifax Buying vs. Renting Review** tracks changes in the cost of buying and renting a three bedroom property across the UK. **Average buying costs include mortgage payments, income lost by funding a deposit rather than saving, spending on household maintenance and repair and insurance costs.** The review is based on data from the Halifax's own extensive housing statistics database, Birmingham Midshires, the Bank of England and the Office for National Statistics (ONS). UK figures are a weighted average of regional data using housing tenure figures.

## Buying is 16% cheaper than renting

**\*In 2008 buying was 29% more expensive\***

**Buying a home in the UK is over a £100 a month cheaper than renting, according to research by Halifax.** The typical monthly cost of buying a three bedroom house in the UK was £600 in December 2011: £116 (or 16%) lower than the average monthly rent of £716 paid on the same property type<sup>1</sup>.

This represents a significant turnaround compared with three years ago when the average cost of buying was 29% higher than the average rent paid. The monthly costs associated with buying accounted for 29% of average UK disposable income in 2011, compared to 47% in 2008<sup>2</sup>.

Home buying costs have fallen by more than a quarter (£328) since 2008, driven by a decline in the average monthly mortgage payment of nearly one-third (£242) due to the marked fall in mortgage rates and house prices. The mortgage rate for a new borrower has been reduced to an average of 3.63% in 2011 from 5.75% in 2008, while the average house price has dropped by 11% over the same period<sup>3</sup>.

Meanwhile, the average cost of renting has risen by 9% (£62) since 2009. Higher demand for rental property, driven partly by the difficulties for potential buyers entering the housing market, has pushed up rents.

Over the past year, buying costs have dropped by 5% whilst the typical cost of renting has risen by 5%, continuing the trends seen in 2010.

### **The regional picture**

Buying a home was more cost-effective than renting in eleven out of the twelve UK regions in December 2011. In contrast, buying was more costly than renting in all regions in December 2008, demonstrating the considerable turnaround over the last three years.

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Despite having higher absolute costs, buying is currently most affordable relative to renting in London with the average borrower in the capital paying 10.2% less per month than the typical private tenant. At the other end of the spectrum, Wales is the only region where renting remains cheaper than buying.

### Home Buyers: the inside track

The number of buyers entering the market has continued to decline despite the improvement in the affordability of buying compared with renting since 2008. Halifax estimates that there were around 510,000 home purchases with a mortgage in 2011: the lowest annual total since 1974 and 6% lower than in 2010. Much of this decline can be attributed to the increase in the size of the deposit required, with the size of the average deposit put down more than doubling over the past decade. In addition, higher costs related to moving home such as stamp duty and estate agents fees have also added to the overall cost of home buying.

### Martin Ellis, housing economist at Halifax, commented:

*"The affordability gains for buyers relative to renters in the last three years have been significant. The average mortgage payment has fallen dramatically over recent years as a result of falling house prices and mortgage rates. At the same time, rents have risen due to strong demand for rented accommodation. Nonetheless, despite the improvement in the relative affordability of buying a home, the number of purchasers has continued to fall due to the ongoing challenges in raising a deposit and the considerable uncertainty over the prospects for the UK economy, which have severely constrained housing demand."*

**Table 1 – UK average monthly mortgage and rental payments\***

	Average monthly buying costs	Average monthly rental costs	% difference
Dec-08	£928	£721	29%
Dec-09	£638	£654	-2%
Dec-10	£634	£682	-7%
Dec-11	£600	£716	-16%

Sources: Halifax, Birmingham Midshires and ONS

\*Weighted average of regional data using housing tenure figures.

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**Table 2 – Average monthly mortgage and rental payments by region, December 2011**

	Average monthly buying costs	Average monthly rental costs	% difference
North	£449	£488	-8.0%
Yorkshire and Humberside	£462	£488	-5.3%
North West	£483	£525	-8.0%
East Midlands	£482	£506	-4.7%
West Midlands	£529	£539	-1.9%
East Anglia	£579	£612	-5.4%
Wales	£479	£474	1.1%
South West	£685	£710	-3.5%
South East	£811	£858	-5.4%
Greater London	£1,089	£1,212	-10.2%
Northern Ireland	£396	£413	-3.9%
Scotland	£510	£540	-5.5%
<b>UK*</b>	<b>£600</b>	<b>£716</b>	<b>-16%</b>

Sources: Halifax, Birmingham Midshires and ONS

\*Weighted average of regional data using housing tenure figures.

## **Editors' Notes:**

### **<sup>1</sup> Average buying costs:**

Average buying costs include mortgage payments (weighted average of repayment and interest-only mortgage payments), household maintenance, repair, minor alterations and insurance costs. Mortgage payments refer to the average new borrower (including both first-time buyers and homemovers). Figures relate to the first year of purchase.

### **Rental payments:**

Average rental payments are based on rental data from Birmingham Midshires. UK figures are a weighted average of the regional rental data and are based on new loans only. Weights have been calculated using regional housing tenure data from the CLG. Rental payments refer to the average for a three bedroom house over 12 months to December.

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<sup>2</sup> Calculated using earnings data from the ASHE survey and the average earnings index published by the ONS.

<sup>3</sup> Bank of England series on the average of UK resident banks' sterling weighted average interest rate loans secured on dwellings to households for new borrowers only.

#### **Mortgage payments:**

Mortgage payments are the weighted average of repayment (capital and interest) and interest-only mortgage payments. They refer to the average for a new borrower – either first-time buyer or home mover. Weights have been constructed using FSA regulated mortgage statistics on advances by mortgage type. Average mortgage payments (both repayment and interest-only) have been calculated using house price data from the Halifax's own extensive housing statistics database and Bank of England series on the average of UK resident banks' sterling weighted average interest rate loans secured on dwellings to households for new borrowers only. It is assumed that the average advance is 73% of the purchase price and is based on CML data. UK mortgage payments figures are a weighted average of the regional data. Weights have been calculated using regional housing tenure data from the CLG. Mortgage payments refer to the average for a three bedroom house over 12 months to December.

#### **Income lost by funding a deposit rather than saving:**

It is assumed that there is a cost involved in funding a deposit which for this analysis is the monthly interest income lost from paying a deposit instead of saving it in an interest bearing account. This has been calculated using house price data from the Halifax's housing statistics database and the interest gained from an average of Bank of England quoted savings rates on instant access, notice, ISA and fixed rate bond accounts. For example, the average deposit required to buy a three bed home (£40,421) in the UK would generate an average monthly income of £39.99. If used to fund a deposit, the income from the interest would be lost and is therefore included as a cost within the average monthly buying costs measure.

#### **Household maintenance, repair, minor alterations and insurance costs:**

Estimated maintenance repair, minor alterations and insurance costs associated with owning a home have been sourced from the ONS Family Spending Survey for 2009. Estimates for 2008, 2010 and 2011 have been calculated using the 2009 survey data and adjusted using the CPI series on regular maintenance and repair of dwellings.

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