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BUYING IS A BETTER MOVE THAN RENTING FOR SCOTTISH FIRST TIME BUYERS

First-time buyers in Scotland are on average £1,440 (19%) a year better off with their own home compared to those who rent, according to research by Bank of Scotland. The average monthly buying cost (including mortgage payments¹) associated with a first-time buyer buying a three bedroom house stood at £525² in December 2015; £120 (or 19%) lower than the typical monthly rent of £645³ paid on the same property type.

This represents an increase of £659 over the past year compared with the annual saving associated with buying a home instead of renting of £781 in 2014. The difference has grown as result of average monthly rents rising by £46 (8%) compared to a £9 (2%) decrease in monthly buying costs.

Gap grows significantly in past 5 years

The financial gap between buying and renting is almost treble the annual saving of £548 in 2010 to the current level of £1,440. Over this period, the average rent has grown by 20% (£109 a month) from £536 whilst average buying costs have increased by 7% (£35 a month) from £490. The last time renting was the cheaper option was in 2008 (£573 against £755). (See Table 1)

Scotland sees second largest saving in the UK

First time buyers in the North West save the most by buying a property rather than renting. Average monthly buying costs there (£525) are 20% less expensive (£133) than average monthly rental costs (£658). Scotland is close behind, with a 19% (£120) monthly saving buying a property. In both Northern Ireland and Wales it is 18% cheaper a month (£85 and £103 respectively) to buy than rent.

On the other hand, average monthly buying costs (£965) in the South East are higher (£65) than average monthly rental costs (£900) – the only UK region where renting is the cheaper option. (See Table 2)

Number of first-time buyers in the housing market

The number of first-time buyers in Scotland is estimated⁴ to have totalled 27,900 in 2015; largely unchanged from 27,700 in 2014. This represents an increase of two-thirds (67%) since the number of first-time buyers fell to a recent low of 16,700 in 2011.

The number of first-time buyers accounted for 46%⁵ of all house purchases made with a mortgage in 2015. This share has grown from 35% at the start of the housing downturn in 2007.

Nicola Noble, Mortgage Director, Bank of Scotland said,

"Since 2009, average buying costs have consistently been lower than average renting costs. In the past year this gap has doubled to an annual saving of £1,440. Of course, it was not always like this. In 2008, buying was more expensive than renting, but record low mortgage rates, coupled with rising private rents, have made getting on the housing ladder financially more attractive for those able to raise the necessary deposit and with access to mortgage finance.

"This improvement in the costs of buying compared to renting over the past few years has helped to boost the number of first-time buyers, who now account for 46% of all home sales in 2015 – up from 35% in 2007. Official government schemes, such as Help to Buy have also played a part in helping first-time buyers as have improving economic conditions."

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Table 1: Scottish first time buyer average monthly buying costs and rental payments

Year	Average monthly buying costs	Average monthly rental payment	% difference	£ difference	£ Annual Savings
Dec-10	£490	£536	-9%	-£46	-£548
Dec-11	£491	£540	-9%	-£49	-£589
Dec-12	£487	£558	-13%	-£72	-£859
Dec-13	£502	£568	-12%	-£66	-£797
Dec-14	£534	£599	-11%	-£65	-£781
Dec-15	£525	£645	-19%	-£120	-£1,440

Sources: Bank of Scotland, BM Solutions and ONS. 12 months to December
Rental payments are a crude, or simple, average.

Table 2: First time buyer average monthly buying and rental costs by region, December 2015

Region	Average monthly buying costs	Average monthly rental costs	% difference	£ difference	£ Annual Savings
North	£460	£508	-10%	-£49	-£585
North West	£525	£658	-20%	-£133	-£1,598
Yorkshire & the Humber	£502	£525	-4%	-£23	-£275
West Midlands	£556	£603	-8%	-£46	-£554
East Midlands	£539	£564	-4%	-£25	-£297
East Anglia	£671	£713	-6%	-£43	-£513
South East	£965	£900	7%	£65	£776
Greater London	£1,355	£1,444	-6%	-£89	-£1,073
South West	£703	£791	-11%	-£88	-£1,062
Scotland	£525	£645	-19%	-£120	-£1,440
Wales	£471	£574	-18%	-£103	-£1,232
Northern Ireland	£390	£475	-18%	-£85	-£1,014
UK	£672	£744	-10%	-£72	-£865

Sources: Bank of Scotland, BM Solutions and ONS. Period covered is 12 months to December 2015.

Editor's notes:

¹ **Mortgage payments:**

Mortgage payments are the weighted average of repayment (capital and interest) and interest-only mortgage payments. They refer to the average first-time buyers with average advance data from the Council of Mortgage Lenders. Weights have been constructed using FCA 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 Lloyds Banking Group's (LBG) 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.

Mortgage payments refer to the average for a three bedroom house over 12 months to December for each year. LBG research shows that three bedroom homes are the most popular property types for first time buyers getting on the housing ladder.

² **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 and income lost by funding a deposit rather than saving.

Mortgage payments are calculated from average advances made to first time buyers for each region and year published by the Council of Mortgage Lenders. The average advance for 2014 varies from 76% in London to 85% in the northern regions; the UK average is 83%. Figures relate to the first year of purchase.

In previous Buying versus Renting Reviews a uniform 90% average advance had been taken for all regions and years; in this review the methodology has been changed to take published market figures for all regions and years. As a consequence of using lower average advances, average buying costs are now lower than in previous years. The new methodology has been applied across all years in Table 1

³ Rental payments:

Average rental payments are based on rental data from BM Solutions. Monthly rents (both regions and UK) are crude, or simple, averages based on the buy to let mortgage new transactions. Rental payments in 2015 for London, North, Yorkshire and the Humber, East Midlands and West Midlands are estimates.

⁴ Estimate of FTBs buying with a mortgage

⁵ Estimate of total house purchases

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 (£31,101) in the UK would generate an average monthly income of just over £26. 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 2014. Estimates for 2010 to 2013 and 2015 have been calculated using the 2014 survey data and adjusted using the CPI series on regular maintenance and repair of dwellings.

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