Skipton Group

A Home of Your Own



THE SKIPTON GROUP HOME AFFORDABILITY INDEX

July 2024



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Foreword

At Skipton, we believe everyone should have somewhere to call home, but achieving that today is an unsurmountable struggle for far too many – and this doesn't sit well with me or my colleagues.

Skipton Group is led by Skipton Building Society and is built on two core foundations: helping people into homes and making their money work harder. The Group is made up of different businesses with shared goals including the UK's largest estate agency, Connells. Connells has 1,200 estate agency branches operating across multiple high street brands. Skipton Building Society has over 1 million members, and across the group there are 18,000 colleagues. We see, hear, and understand the challenges facing the UK housing market every single day. We want to harness this insight, together with our position at the nexus of homes and money, to help more renters and buyers into a home of their own.

The challenges facing today's housing market are well-documented, but comprehensive and forward-looking data is sorely needed. That's why we're publishing this unique Index which analyses not only the affordability of buying a property in Great Britain, but the affordability of running it too. It's been a real privilege to be able to turn our experiences and data into a single, aggregated source of insights, which can be navigated by region, income level, age and household type.

I hope you find our inaugural report and interactive online tool useful and motivating, especially as we enter an era of new Government, with housing undoubtedly at the top of the in-tray. Within this, we think the challenge for first-time buyers is particularly urgent and demands co-ordinated innovation and collaboration.

The Home Affordability Index is an important, data-rich initial step towards a better-informed conversation about what it's going to take to solve the problem. But data must be backed-up with action, so that's why we are launching a suite of mortgage solutions tailored to getting more first-time buyers onto that first rung of the ladder, by alleviating some of those upfront costs.

This is just the beginning of our long-term commitment to enable more people to access safe, affordable housing. Looking ahead, we stand ready to work with the entire ecosystem to make this a reality for more people.





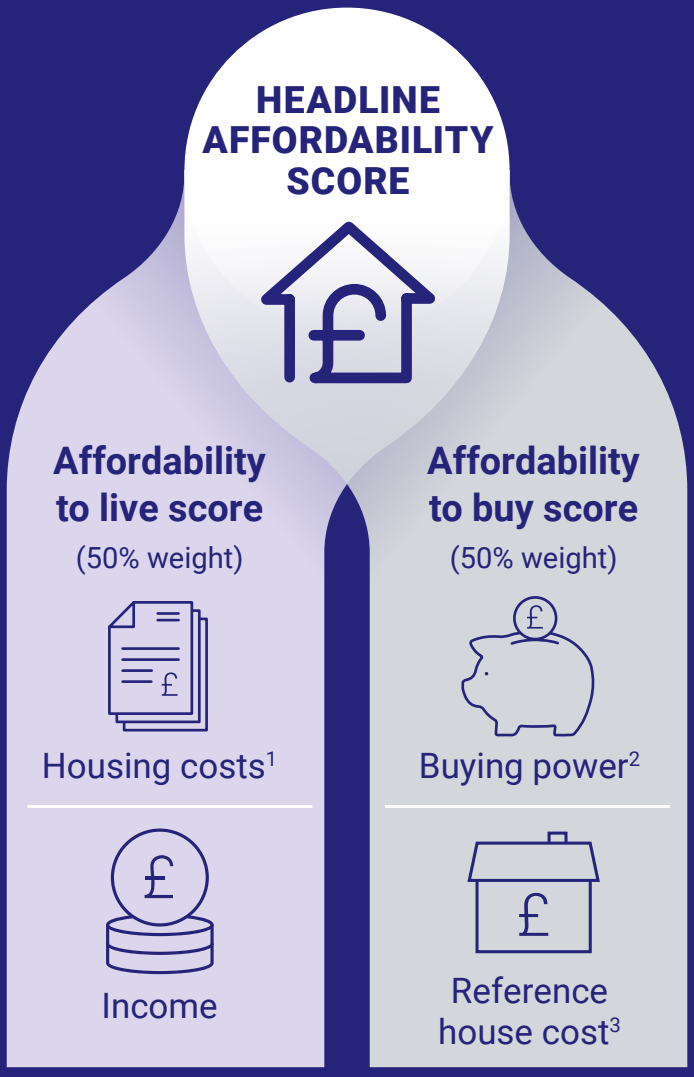
Stuart Haire
Group Chief Executive
Skipton Group



> ***The Home Affordability Index*** is an important, data-rich initial step towards a better-informed conversation about what it's going to take to solve the problem.

The Skipton Group Home Affordability Index

Methodology



The ***Skipton Group Home Affordability Index*** provides a comprehensive and forward-looking assessment of the costs of buying and running[1] a home across Great Britain. It is designed to track and forecast housing affordability in Great Britain over time (Q1 2020 to Q4 2026).

The Q1 2020 *Home Affordability Index* score was 50.0 out of 100. This acts as a starting point for comparison; scores above this level represent an improvement relative to the pre-pandemic period, while scores below represent a deterioration.

The Index draws on a unique data set that brings together data from the Skipton Group, Office for National Statistics, Bank of England, third-party external sources and, using forecasts from Oxford Economics' Global Economic Model, offers not just a picture of home affordability today but insights into likely trends in the future.

HOUSEHOLD TYPES

Affordability is explored across a range of household types allowing insights into households that face the greatest affordability challenges.



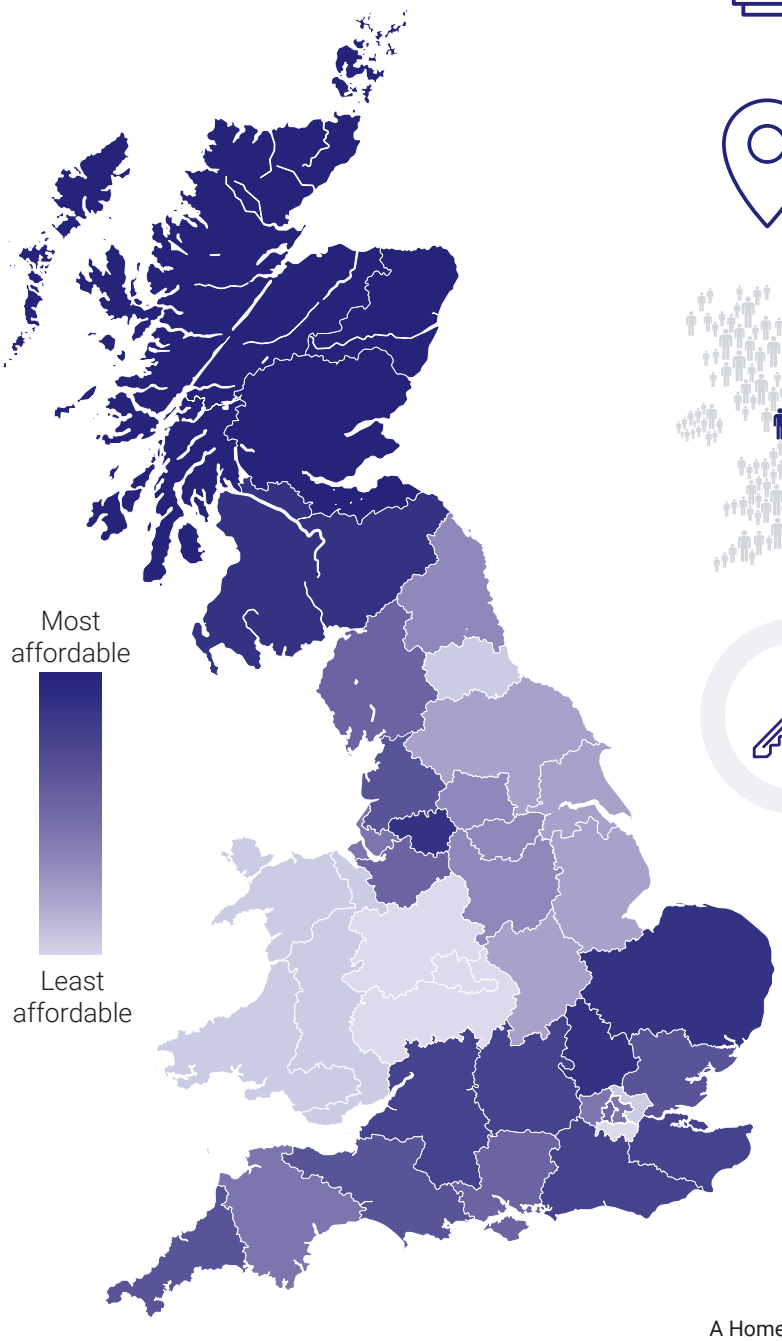
1. Mortgage/rent costs, council charges, utilities, insurance, maintenance & repairs.
2. Based on households' deposit and maximum mortgage.
3. Region specific. Based on cost of average first-time buyer house or one with an additional bedroom for owners.
4. Includes first-time buyers, owners with a mortgage, outright owners and renters.
5. Family types include households with children and households without children.

Key Findings

Only **1 in 8** potential first-time buyers can purchase the average first-time buyer house in their area, based on their own financial situation.

Almost **80%** of potential first-time buyers have insufficient savings for the deposit needed to get onto the property ladder in their area.

First-time buyer affordability score across the regions of Great Britain (Q2 2024)



Nearly **4 in 10** renters spend **45%** or more of their income on essential housing costs, compounding their inability to save for a deposit.

First-time buyer **affordability is worst in the West Midlands**, **London**, and **Wales**.

Fewer than **1 in 100** first-time buyer households earning below £22,850 a year (the bottom 25% of earners) can afford to take the first step on the property ladder in their local area.

Only **44%** of potential first-time buyer households earning over £71,250 a year (the top 25% of earners) can afford to buy their first home in their local area.

Despite improving during the pandemic, **housing affordability has fallen over the course of the cost-of-living crisis** and sits almost exactly where it was in Q1 2020.

Executive summary

How affordable is it to live in or own a property in Great Britain today? Cutting through the noise, the *Skipton Group Home Affordability Index* offers a new, detailed look into this very question, with insights broken down by region, income level, and household type.



As seen in constant media coverage, to be able to afford to rent or own a home of your own is challenging for millions of people across all corners of Great Britain. But despite the concerns, to date there has been no single unified and forward-looking inquiry into the data behind changing affordability levels that considers not just the cost of getting the keys to a property, but also the costs of living in it too.

The ***Skipton Group Home Affordability Index*** will provide a regularly updated, interactive, picture of the affordability of living in and buying a home.

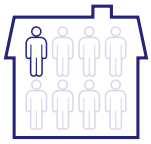
The Index combines the affordability of buying a home ('buying affordability'[6]) and living in a home over time ('living affordability') into a single metric, providing a crucial new perspective on the housing market. To do this, it draws on a unique dataset that brings together data from Skipton Group businesses, Office for National Statistics, Bank of England, third-party external sources, and – using forecasts from Oxford Economics' Global Economics Model – offers not just a picture of home affordability today, but insights into likely trends in the future.

In recognition of the varying degrees to which living affordability and buying affordability impact households, the Index explores how the affordability challenge differs based on tenure. This provides insights into the different living and buying affordability challenges that renters, first-time buyers, owners with a mortgage, and outright owners face.

6. Buying affordability includes the property price plus stamp duty, conveyancing (for sale and purchase), estate agent fees (for sale), removals, home survey costs and mortgage fees. (see the methodology report for more information)

One clear message that emerges from the data that underpins the *Skipton Group Home Affordability Index* is that the first step onto the property ladder is by far and away the hardest. Today's research highlights a new urgency and criticality to the situation facing first-time buyers in Great Britain.

We have dedicated a large portion of this report to focus on the affordability challenge faced by first-time buyers, to provide new insights into one of the housing system's longer-standing challenges. Our stark headline findings include:



Only **one in eight** potential first-time buyers can purchase the average first-time buyer house in their area[7], based on their own financial situation.



The picture is particularly bleak for first-time buyer households in the bottom quarter of earners in Great Britain, earning less than £22,850. For these households, **fewer than one in 100** can afford to take the first step on the property ladder in their local area.



Even among households earning over £71,250 (the top quarter of all earners across Great Britain), **only 44%** can afford to buy their first home in their local area.



Almost 80% of potential first-time buyers have insufficient savings for the deposit needed to get onto the property ladder in their area.



Nearly four in 10 renters spend 45% or more of their income on essential housing costs, compounding their inability to save for a deposit.



First-time buyers' **affordability levels are worst** in the West Midlands (driven by a combination of low deposit levels and moderate house prices), London (due predominantly to high house prices), and Wales (where lower income levels reduce households' buying potential).



In contrast, first-time buyers face the best prospects in Scotland (driven by lower house prices) and the East of England (due to above-average income to house price ratios).

Broadening the focus out from first-time buyers to Great Britain's wider population, the Index shows that overall housing affordability has stagnated since the start of the decade—with limited signs of improvement on the horizon.

Housing affordability has fallen over the course of the cost of living crisis and living affordability is not expected to return to pre-pandemic levels until 2026.

Despite improving during the pandemic, housing affordability has fallen over the course of the cost of living crisis and sits almost exactly where it was in Q1 2020 (50.1/100 in our measures in Q2 2024 vs. 50.0/100 in Q1 2020). There are marginal improvements in buying affordability—up 1.0 points on pre-pandemic levels—but this is counterbalanced by a 0.8-point decline in living affordability, driven by higher energy prices, increased mortgage repayments for households who have refinanced onto mortgages with higher interest rates, and strong growth in rental costs.

What's more, based on our forecast, living affordability is expected to continue to hold back overall home affordability for years to come. Despite predicted falls in energy prices and growing household income, living affordability is not expected to return to pre-pandemic levels until 2026.

The main body of this report that follows dives more closely into the detail of our research and findings.

7. The average first-time buyer house is based on the average price paid by first-time buyers in the region in which they currently live based on the ONS's House Price Index (Feb 2024).

1 Introduction

1.1 Great Britain's affordability challenge

Housing is widely recognised as one of the most important issues facing Great Britain.



From a buying affordability perspective, data from the Office for National Statistics (ONS) show full-time employees in England and Wales could expect to spend around 8.3 and 6.1 times their annual earnings[8] buying a home[9].

Home ownership has many benefits. It can offer a safe and more stable living situation, it provides a means to reduce housing costs in old age, and house price growth has historically benefited many homeowners.

However, not everyone is able to get onto the property ladder to take advantage of these benefits. A recent report by the Building Societies Association, supported by Skipton Building Society, highlights an increase in the proportion of people who want to buy their own home, but do not think they will be able to—up from 25% in March 2020 to 32% in March 2024.[10]

Existing research also shows that from a living affordability perspective, housing accounts for a larger share of spending in the UK than in any OECD[11] country except Finland[12]. This impacts households as unaffordable housing costs reduce their standard of living.

The ***Skipton Group Home Affordability Index*** provides a comprehensive and forward-looking assessment of the costs of buying and running (which includes mortgage/rental costs and bills) a home across Great Britain.

8. The price to earnings ratio has a number of issues, such as the fact prices aren't specific to the home potential buyers are looking to move into and the exclusion of moving costs, but it provides a simple metric for highlighting the cost of buying a house.
9. Housing affordability in England and Wales: 2023, ONS, 2024
10. Building Societies Association, "First-time buyers: Age-old problems, modern solutions" April 2024
11. The Organisation for Economic Co-operation and Development is an intergovernmental organisation with members from high income countries.
12. Adam Corlett and Lindsay Judge, "Housing Outlook Q1 2024", The Resolution Foundation, 2024

1.2 Introducing the Skipton Group Home Affordability Index

The *Skipton Group Home Affordability Index* combines data on the affordability of buying a home and the affordability of running a home into a single metric. The buying affordability score measures the ability of households across Great Britain to take the first, or next, step on the property ladder based on their buying power, local house prices, and other purchasing costs[13]. The living affordability score is based on the proportion of income that households spend on housing costs, such as rent, mortgage payments, bills, and essential maintenance. This new approach reflects the dual nature of Great Britain's housing challenge.

The ***Skipton Group Home Affordability Index*** combines data on the affordability of buying a home and the affordability of running a home into a single metric.

In addition to providing insights into the evolution of housing affordability in Great Britain, the Index also provides an assessment of how affordability is expected to evolve in the coming years. This forward-looking analysis is underpinned by forecasts from Oxford Economics' Global Economic Model, and complemented by scenario analysis that provides insights into how alternative economic outcomes could impact housing affordability.

The Index also goes beyond the headline picture for Great Britain. In recognition of the varying degrees to which living affordability and buying affordability impact different types of households, it explores how the affordability challenge differs for renters, first-time buyers, homeowners with mortgages, and mortgage-free homeowners. This reflects the fact that each tenure type will face different living costs and will be looking to buy different types of homes as they move onto, up, and down the property ladder.

The Index also allows affordability to be assessed based on a range of other household characteristics including location, age, and income. These features provide more granular insights into where affordability challenges exist across Great Britain.

The data underpinning the analysis in the report can be further explored using the ***Skipton Group Home Affordability Index*** interactive online tool.

The data underpinning the analysis in the report can be further explored using the *Skipton Group Home Affordability Index* interactive online tool. The tool allows users to explore living affordability and buying affordability across Great Britain for different types of households. For the interested reader, the *Skipton Group Home Affordability Index* Methodology Report provides further detail on the construction of the Index.

Section 2 of this report explores historic trends in the overall Index, as well as living affordability and buying affordability. It then goes on to cover the outlook for affordability. Section 3 then takes a deep dive into the buying affordability situation for first-time buyers, identifying which types of first-time buyer households face the greatest challenges in getting onto the property ladder, and the causes of these challenges.

13. Other purchasing costs include stamp duty, conveyancing (for sale and purchase), estate agent fees (for sale), removals, home survey costs and mortgage fees. See accompanying methodology document for further details.

2 Housing affordability in Great Britain



2.1 Trends in the overall home affordability score

The *Skipton Group Home Affordability Index* is designed to track how housing affordability in Great Britain has changed over time (Q1 2020 to Q2 2024). Increases in the score show an improvement in housing affordability and decreases show a deterioration. The Q1 2020 *Home Affordability Index* score was 50.0 out of 100. This acts as a starting point for comparison; scores above this level represent an improvement relative to the pre-pandemic period, while scores below represent a deterioration.[14]

The *Home Affordability Index* shows that housing affordability in Great Britain has fluctuated since the start of the decade, driven by the pandemic and the cost of living crisis. Overall affordability improved during the pandemic, peaking at 50.5 points in Q1 2021, before falling during the cost of living crisis to a low of 49.4 in Q1 2023. It has been improving since the start of 2023 and sits at 50.1 in Q2 2024 – just above the pre-pandemic Index score of 50.

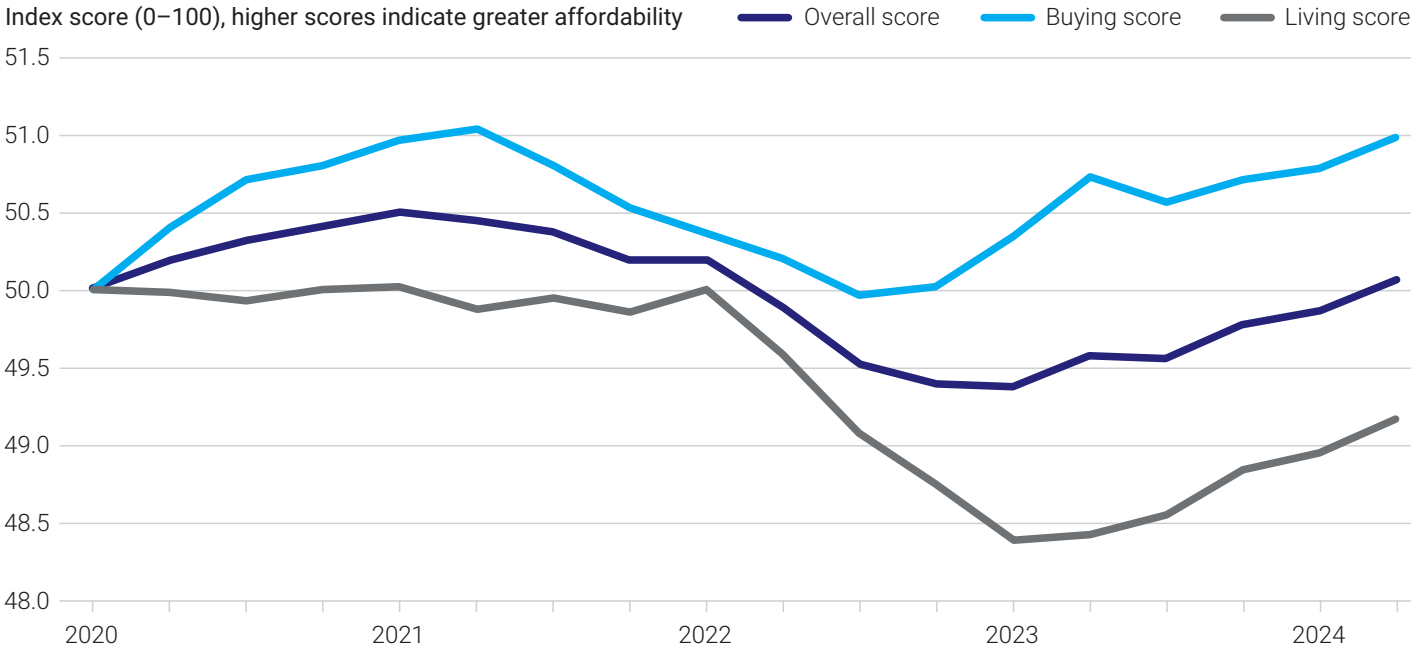
The ***Home Affordability Index*** shows that housing affordability in Great Britain has fluctuated since the start of the decade, driven by the pandemic and the cost of living crisis.

This means that after a period of significant turmoil, overall affordability in Great Britain is only marginally higher than the challenging conditions faced by households in Q1 2020.

These trends reflect changes in the buying and living affordability sub-indices, which underpin the overall Index, and are discussed in more detail in section 2.2 and 2.3. Buying affordability has been improving since the middle of 2022 and sits at 51.0 points in Q2 2024, 1.0 point above its pre-pandemic level. Despite sustained improvements since Q1 2023, living affordability sits at 49.2 points in Q2 2024 (0.8 points below its pre-pandemic level).

The trend in the buying affordability sub-index does not always mirror trends in the house price to earnings ratio that is often used to assess affordability in the housing market as the buying affordability sub-index factors in a wider range of data. In 2020, the median house price in England and Wales was 7.78 times the median workplace earnings.[15] The house price to earnings ratio jumped up to 8.95 in 2021, driven by an increase in the median house price, and has subsequently fallen but remains above the 2019 ratio at 8.14 in 2023.

Fig. 1: The evolution of the Home Affordability Index



Source: Oxford Economics

14. See accompanying methodology document for further details.
15. Office for National Statistics, "Housing affordability in England and Wales: 2023", accessed July 2024

The house price to earnings ratio suggests that buying affordability fell between 2020 and 2021. This contrasts with the findings from the buying affordability sub-index, which use additional data to show that buying affordability was higher in 2021 than at the outset of the pandemic and sits above its pre-pandemic level in Q2 2024. The reason for this difference is that although house prices rose in 2021 relative to incomes, households' buying power was helped by stamp duty relief, an increase in savings accumulated over the pandemic and, for homeowners, increases in the equity in their current property. The house price to earnings ratio does not account for these other dynamics, which affect households' ability to purchase a home. It also does not assess households' ability to afford essential housing costs associated with running a home, which is captured in our headline index.

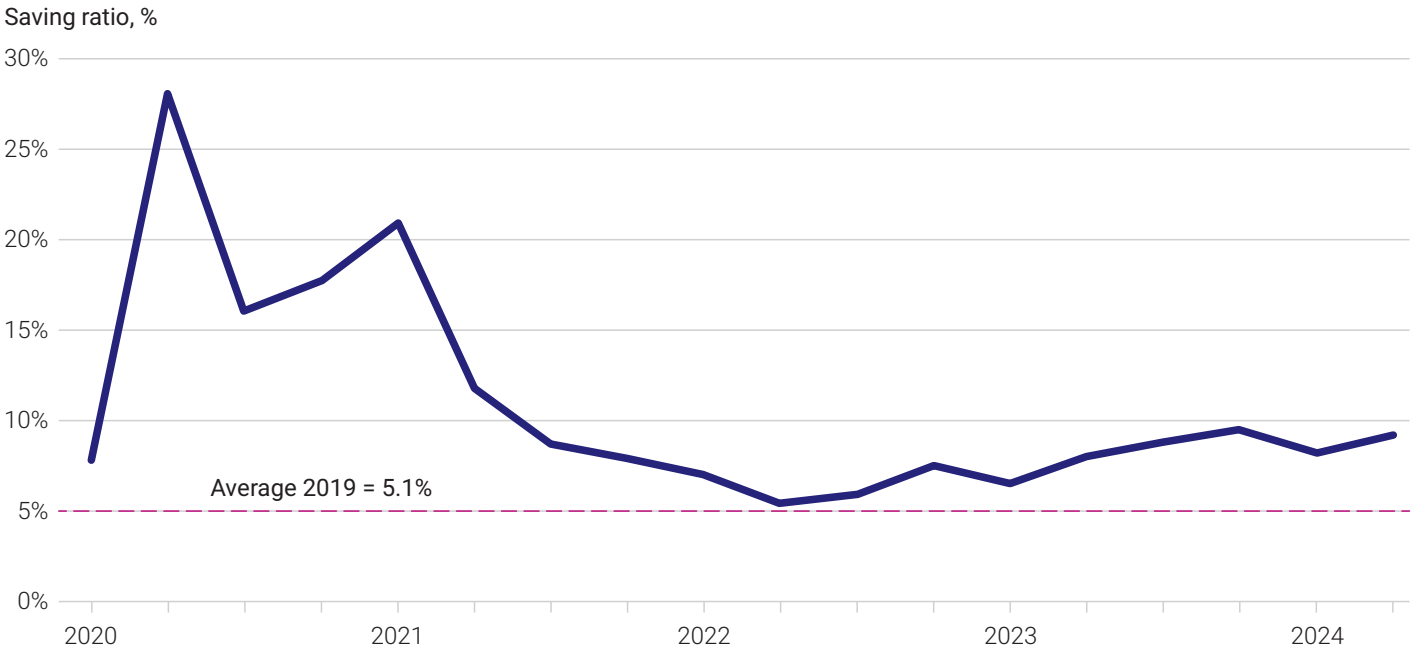
2.2 Trends in buying affordability

The buying affordability sub-index measures changes in the ability of households across Great Britain to afford to take the first, or next, step on the property ladder. The score captures the relationship between households' buying power and the total cost of purchasing a property relevant to them in their local areas.[16]

Buying power is based on households' financial circumstances and reflects the size of their savings and the maximum mortgage value they can obtain. In addition to households' financial characteristics, the maximum mortgage value metric also reflects changes over time in the maximum amount mortgage lenders are willing to offer, which is driven by their stress testing. The cost of purchasing the relevant property for a first-time buyer is based on the average price of a first-time buyer home in their local area. The cost of purchase for homeowners is based on the expected price they will face in moving to a house with an additional bedroom in their local area. Additional moving costs are factored into the cost of purchase to give a complete assessment of buying costs.

Buying affordability improved over the pandemic period and peaked at 51.0 points in Q2 2021. Over this period, households cut back on consumption due to lockdowns and household disposable income remained relatively stable due to government support schemes. This led to a sharp spike in the savings rate, which peaked at nearly 30% in Q2 2020, increasing net household wealth. This increased households' deposits and ultimately their purchasing power. At this same time, stamp duty relief reduced the overall cost of buying a house, further boosting buying affordability.

Fig. 2: The household savings ratio[17]



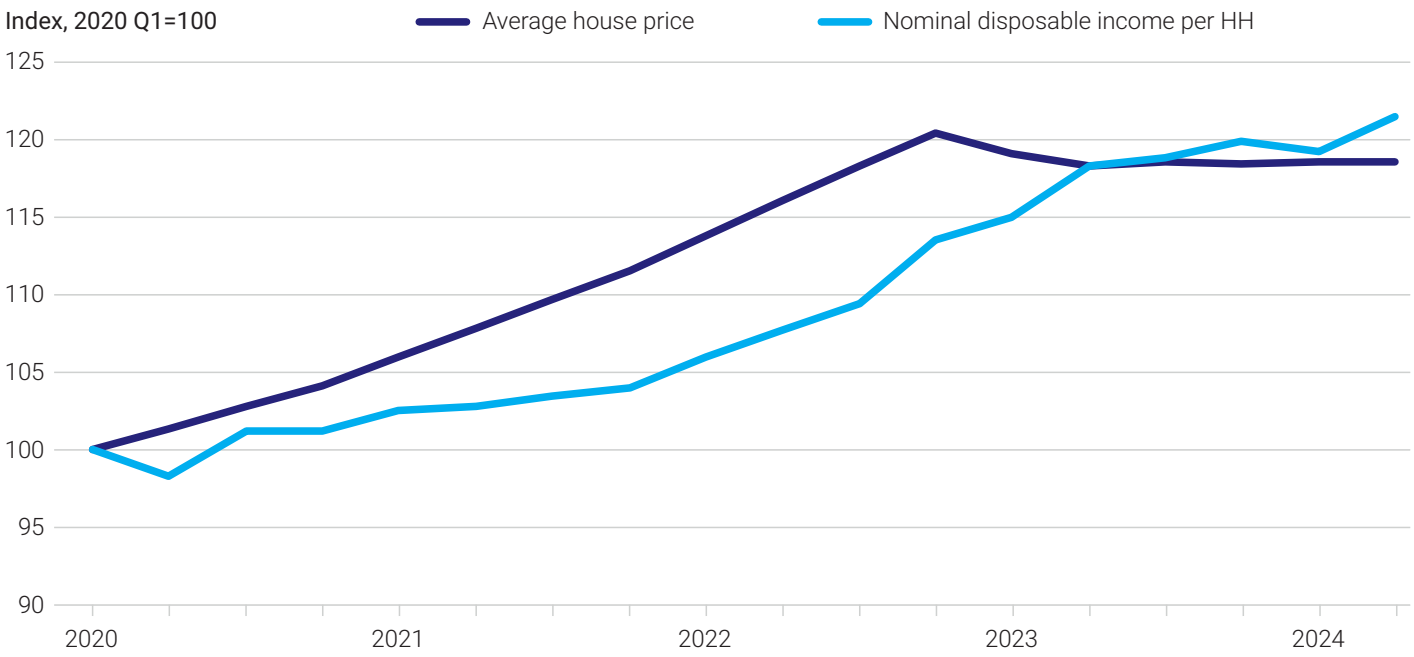
Source: Oxford Economics and ONS

16. Moving costs include stamp duty, conveyancing (for sale and purchase), estate agent fees (for sale), removals, home survey costs, and mortgage fees. See accompanying methodology document for further details.
17. The saving ratio is calculated using nominal personal disposable income and nominal private consumption.

A strong housing market combined with weaker growth in households' nominal disposable incomes, the end of stamp duty relief, and higher interest rates reducing households' maximum obtainable mortgage saw buying affordability fall by 1.0 points between Q2 2021 and Q4 2022. However, since the start of 2023 buying affordability has been improving, driven by a small dip in house prices and continued growth in households' disposable income.

Changes in the stress rate applied to mortgage applications lowered buying affordability in Q3 2023 but subsequently improved it in Q4 2023. The overall buying affordability score sits at 51.0 points in Q2 2024, up 1.0 points on the low seen in 2022 and its pre-pandemic levels. Despite this improvement only one in eight potential first-time buyers can purchase the average first-time buyer house in their area, based on their savings and household income.

Fig. 3: House price and nominal household disposable income growth



Source: Oxford Economics and ONS

2.3 Trends in living affordability

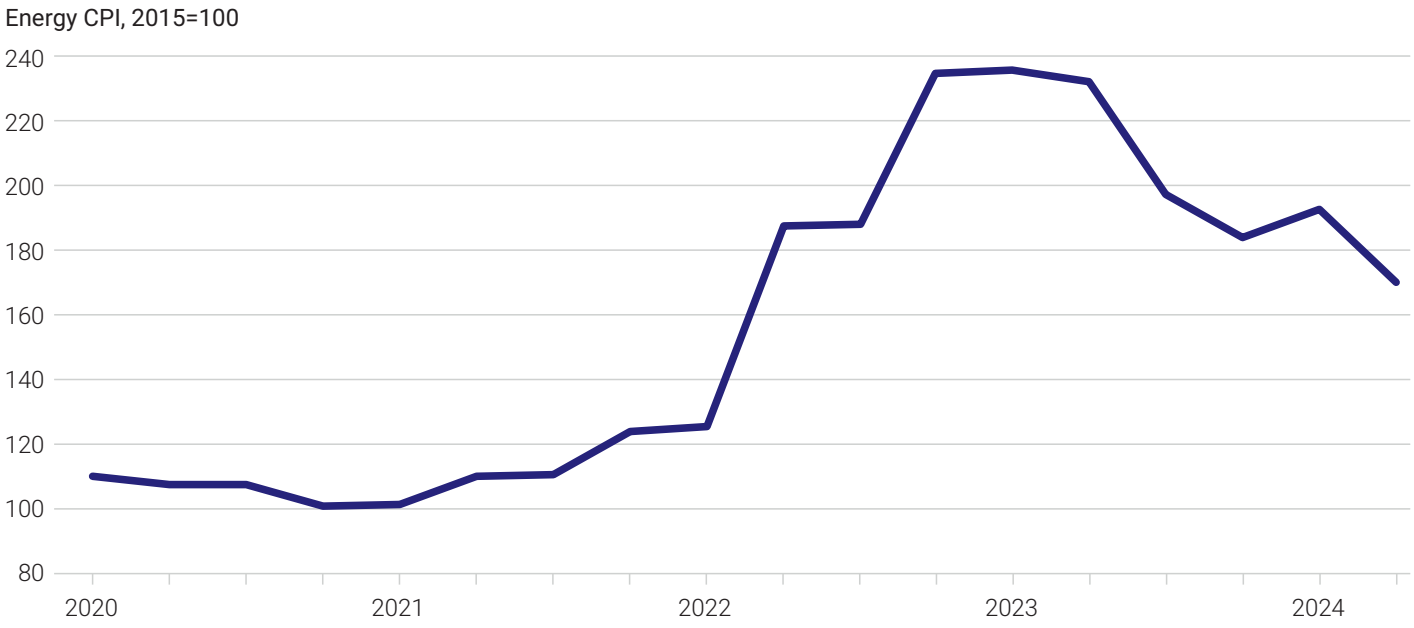
The living affordability score measures changes in the cost of running a home—including rent/mortgage payments, bills, and essential maintenance—as a proportion of household income.[18] This approach contextualises affordability within a household's personal financial circumstances, rather than simply focusing on the total running costs, as the same running cost may be easily affordable for one household but unaffordable for another. The living affordability score captures the cost of bills and essential household maintenance,[19] alongside rental and/or mortgage payments, to ensure the Index includes the full cost of running a home.

The living affordability score measures the cost of running a home: rent/mortgage, bills and essential maintenance.

The living affordability sub-index remained relatively stable over the pandemic period with the score in Q1 2022 matching the pre-pandemic level. It then fell sharply around the onset of the cost of living crisis from 50.0 points in Q1 2022 to 48.4 points in Q1 2023. This was driven by energy prices which rose by 87.8% over this period.

18. See accompanying methodology document for further details.
19. Bills and essential household maintenance includes mortgage / rent (incl. ground rent/service charge), council tax and refuse collection, water bills, fuel bills (electricity, gas and other), goods and services for routine household maintenance, essential household goods, broadband, landline, tv licence and home and contents insurance.

Fig. 4: Energy price growth

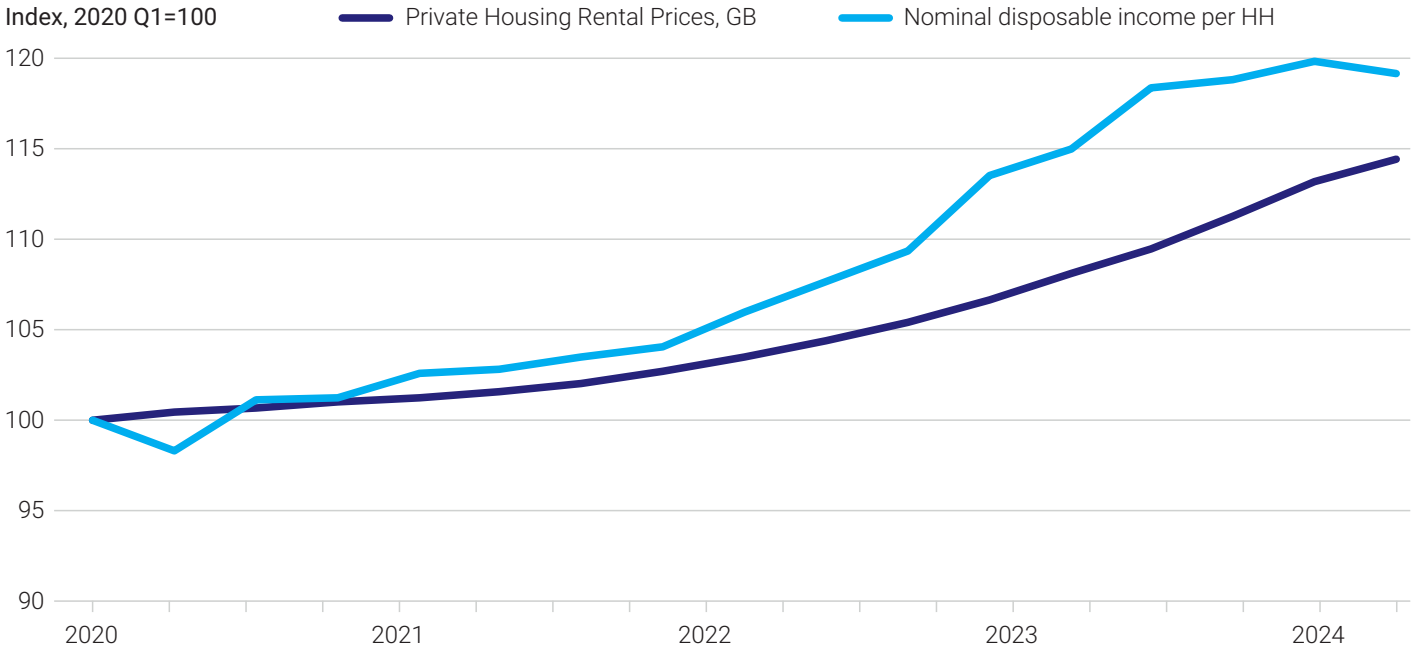


Source: Oxford Economics and ONS

In Q2 2024 living affordability sits at 49.2 points. The 0.8 points improvement in the living affordability score since Q1 2023 has been driven by a 27.8% fall in energy prices and continued nominal income growth seen over this period. However, energy prices in Q2 2024 remain 54.5% above that seen in Q1 2020, which largely explains why living affordability sits 0.8 points below its pre-pandemic level in Q2 2024.

Increased mortgage payments have also played a role in keeping living affordability below its pre-pandemic level. Homeowners have faced higher mortgage repayments as they roll off their lower fixed rate mortgages. An additional 1.6 million fixed-rate mortgages are scheduled to end by 2024, on top of the 1.5 million that saw increased costs in 2023.[20]

Fig. 5: Private rental price and nominal disposable income growth



Source: Oxford Economics and ONS

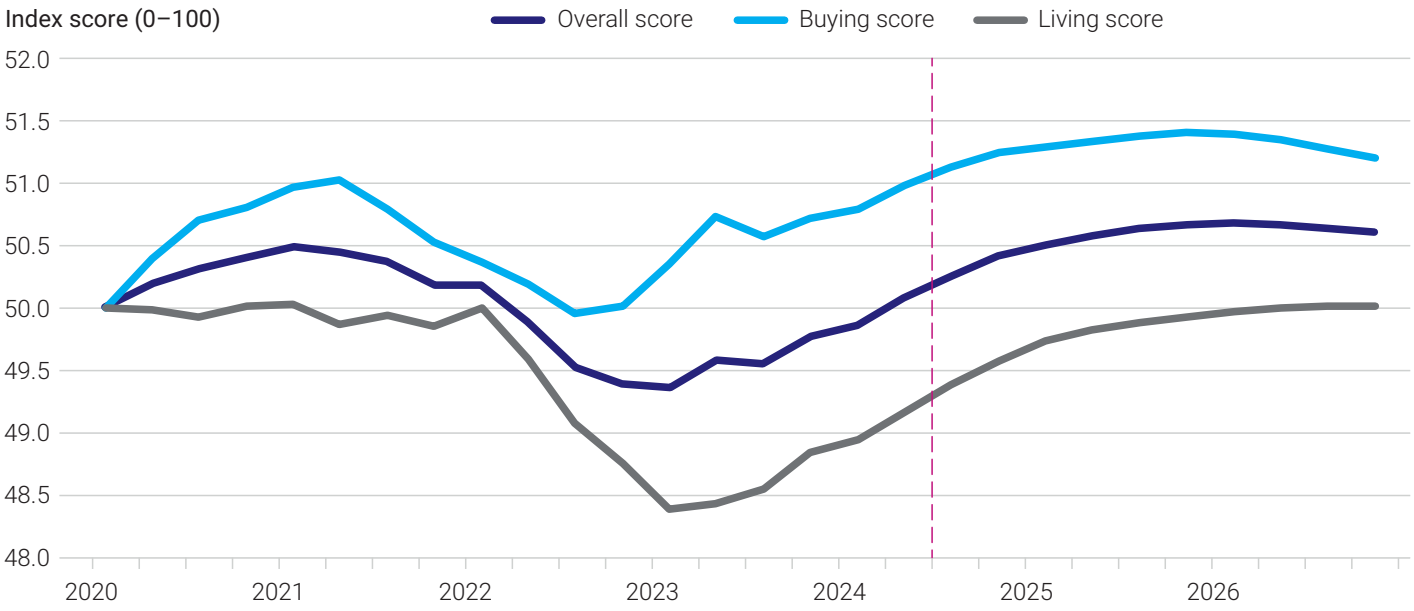
20. Household finance review Q4 2023, UK Finance.

2.4 The outlook for home affordability

The *Home Affordability Index* forecast is underpinned by an economic forecast produced by Oxford Economics. This allows the Index forecast to reflect the affordability impact of expected macroeconomic trends out to the end of 2026. It does not capture the potential impact of any new housing policies that may be implemented over this period. The *Home Affordability Index* is forecast to improve over the coming years, peaking at 50.7 before dropping back to 50.6 points in Q4 2026. This represents a 0.5 point increase on the current score of 50.1 in Q2 2024.

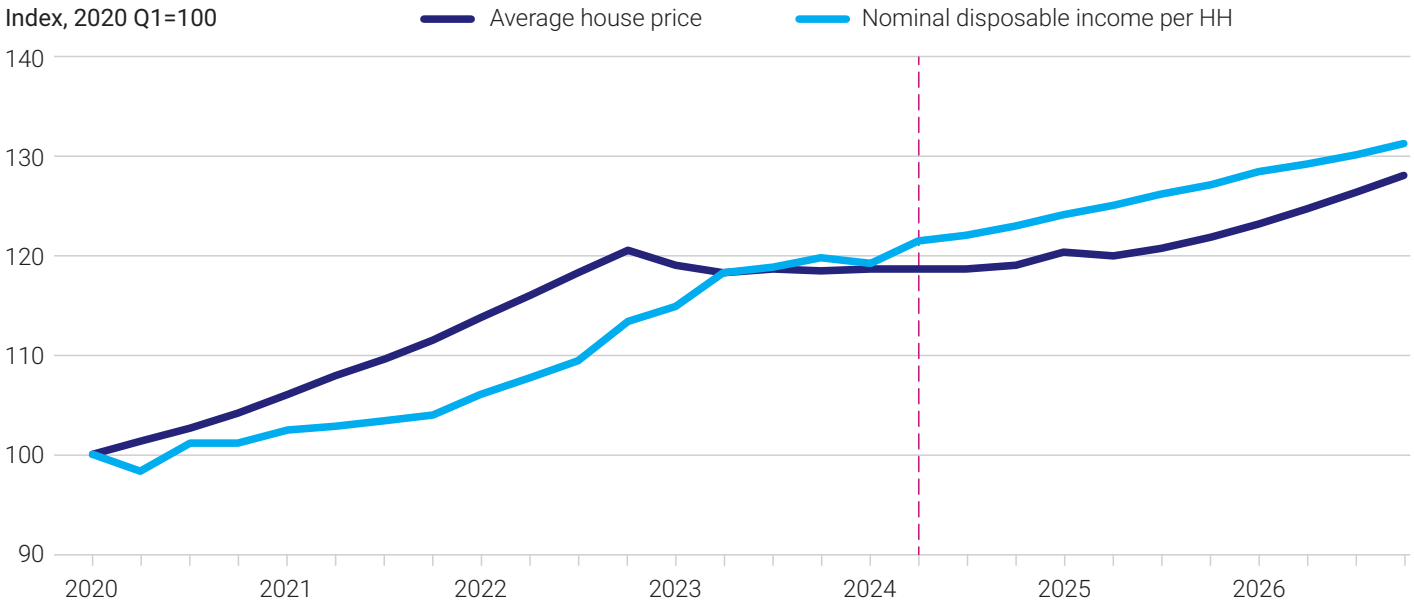
Over the forecast period buying affordability is expected to increase by 0.4 points to 51.4 points in Q4 2025 before falling back to 51.2 in Q4 2026. The initial improvement is driven by growth in disposable income and savings growth outstripping house price growth up to Q4 2025. This trend then reverses in the final year of the forecast, causing buying affordability to fall – but it is predicted to be higher than Q2 2024.

Fig. 6: Forecast for the Home Affordability Index



Source: Oxford Economics

Fig. 7: Change in house prices and nominal household disposable income

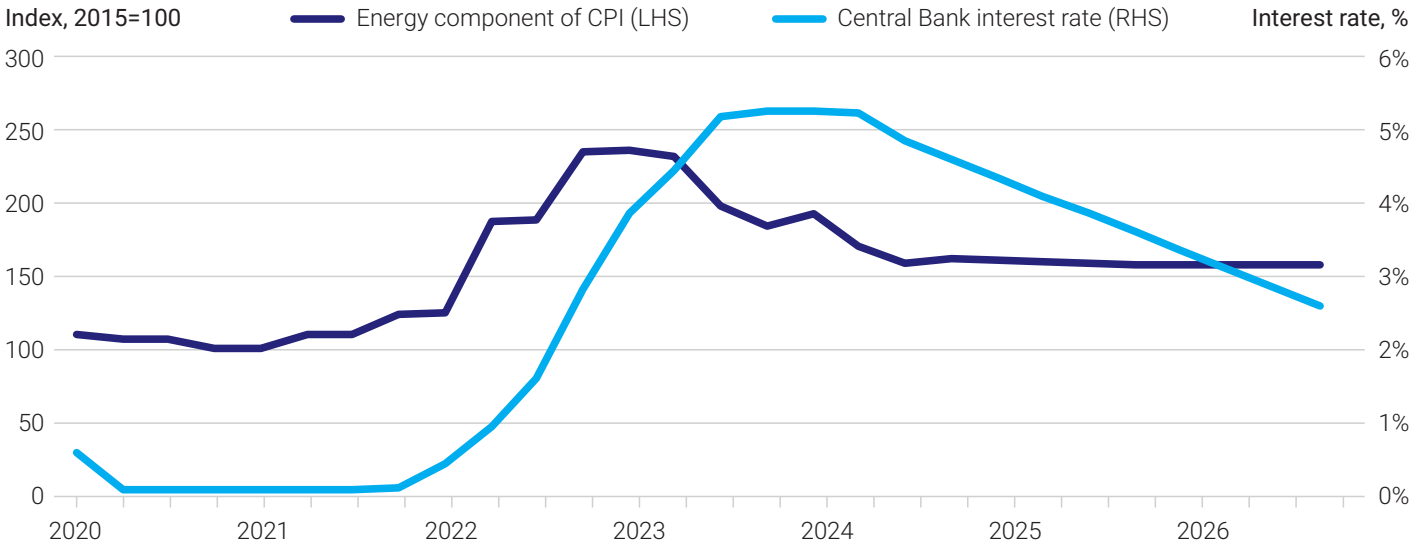


Source: Oxford Economics and ONS

Living affordability is expected to improve by 0.8 points by the end of the forecast period in Q4 2026. This improvement is driven by continued falls in household energy bills which are forecast to be 7.3% lower by Q4 2026 compared to Q2 2024. Increased mortgage payments for households rolling off their existing fixed term mortgages will continue to weigh on living affordability over this period. However, with interest rates expected to fall across the forecast, the cost of this transition is anticipated to ease. For renters, income growth from Q2 2024 to Q4 2026 is not projected to keep pace with rental growth (10.0% compared to 12.6%), reducing their living affordability score from 30.1 to 29.9 over this period. Despite the expected improvement over the forecast period, overall living affordability only returns to its pre-pandemic level in Q4 2026.

Despite the expected improvement over the forecast period, overall living affordability only returns to its pre-pandemic level in Q4 2026.

Fig. 8: Forecast change in energy prices and the Bank of England base rate



Source: Oxford Economics

2.5 The impact of higher for longer interest rates

The *Home Affordability Index* also allows the home affordability implications of alternative economic outlooks to be explored. In addition to the forecast set out above, the impact on the Index of a "higher for longer" interest rate scenario is also assessed. In this scenario more persistent inflation forces the Bank of England to maintain higher interest rates for longer than currently expected. This increases the cost of mortgages for households remortgaging over this period. This results in house prices sitting 6.2% below levels seen in the central forecast in Q4 2026, driven by a cooling of demand in the face of higher interest rates.

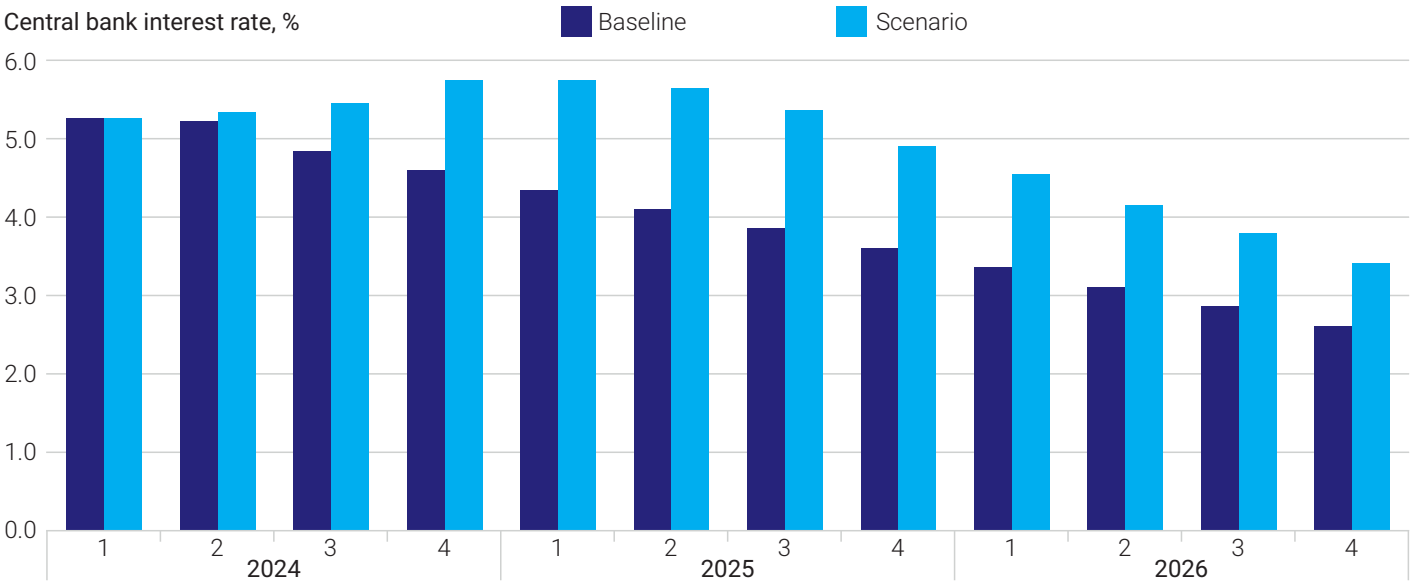
The higher for longer interest rate scenario results in a *Home Affordability Index* score of 51.9 points in Q4 2026, which is 1.3 points higher than in the central forecast. This improvement is the result of strong growth in the buying affordability score, driven by the fall in house prices which generally benefits both first-time buyers and those looking to move up the property ladder[21]. For those looking to move up the property ladder, saving for a deposit (which will be hit as lower prices reduce home equity) is less of a constraint on their affordability. Therefore, a fall in house prices tends not to prevent these households from achieving deposit adequacy. This means that this group's buying affordability improves as house prices fall, as their buying power declines by less than the fall in house prices.

The overall impact on the living affordability score in this scenario is small relative to the baseline. However, this hides significant variation in living affordability scores across households. The fall in the living affordability score for households that are remortgaging over this period, relative to the baseline, is significantly larger than the living affordability falls seen at the headline level.

This is because the scenario's higher interest rates hit these households hardest. The impact of higher interest rates is also larger for younger households as they typically have larger outstanding mortgages relative to their incomes, meaning higher rates are especially costly for them.

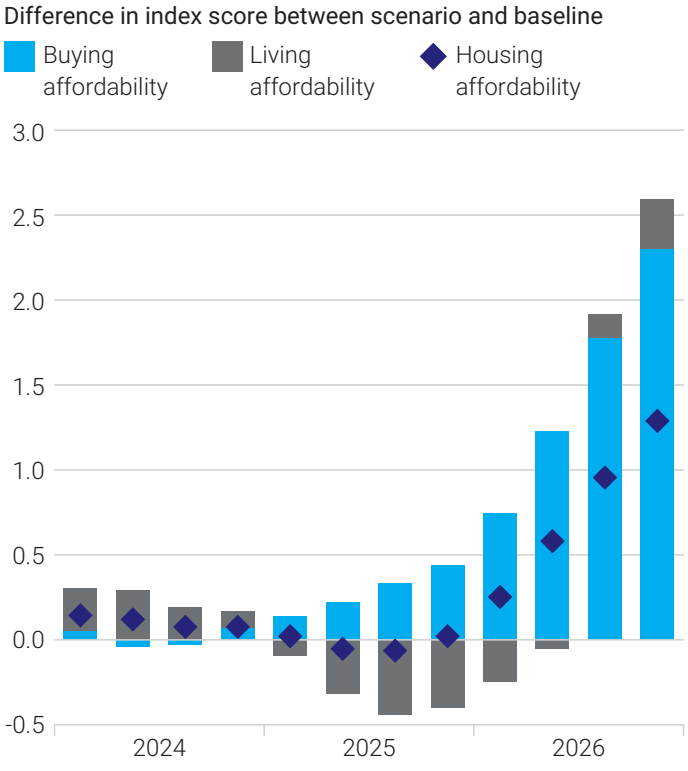
21. This group will benefit from a fall in the cost of taking the next step on the property ladder, but be adversely impacted by a decrease in the equity held in their house.

Fig. 9: The Bank of England base rate in the baseline forecast and the higher for longer interest rates scenario



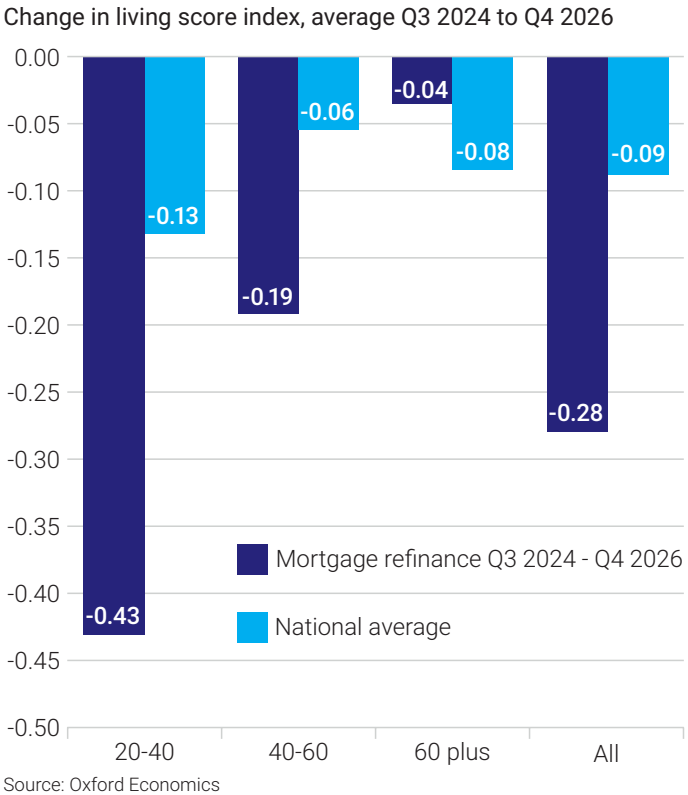
Source: Oxford Economics

Fig. 10: The impact of higher for longer interest rates on the Home Affordability Index



Source: Oxford Economics

Fig. 11: The average change in living affordability scores in the scenario (relative to the baseline forecast) for households remortgaging onto higher interest rates by age band[22]



Source: Oxford Economics

22. The 60 plus score shows that those refinancing between Q3 2024 and Q4 2026 see a smaller fall in living affordability than the average across Great Britain. This result reflects the fact that these households typically have small outstanding mortgage debt and the small sample size within the data set.

3 First-time buyers



3.1 The affordability challenge facing first-time buyers

One clear message that emerges from the data that underpins the *Skipton Group Home Affordability Index* is that the first step onto the property ladder is the hardest. This section focuses on this challenge. The research explores the variation in buying affordability—across geography, incomes levels, and age, identifying the types of first-time buyers that face the greatest challenge in getting onto the property ladder. It then assesses the relationship between the cost of running a home and the ability of first-time buyers to build up the required savings to take the first step onto the property ladder.

One clear message that emerges from the data that underpins the ***Skipton Group Home Affordability Index*** is that the first step onto the property ladder is the hardest. This section focuses on this challenge.

The analysis in this section classes all households in private rental accommodation as potential first-time buyers. The decision to take this broad definition reflects the fact that most renters would prefer to own, rather than rent, their home—a goal that has remained broadly stable over recent decades.[23] It ensures that the analysis does not exclude households who want to take the first step on the property ladder simply because it is not possible given their current financial circumstances. The research also captures the ability of potential first-time buyers to get onto the property ladder through their own current financial means, rather than through loans or gifts from the Bank of Mum and Dad.

3.2 Buying affordability score and the proportion of people who can take the first step onto the property ladder

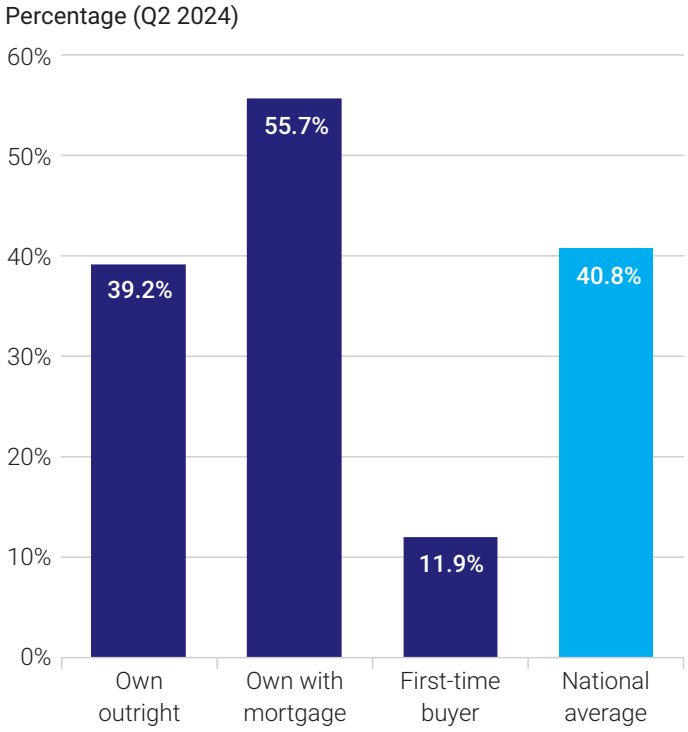
The *Home Affordability Index* shows that the first step onto the property ladder is the hardest. The buying affordability score for potential first-time buyers in Q2 2024 is 21.8 – which is significantly lower than the overall score of 51.0 for all households across Great Britain. This is 37.6 below the equivalent score for owners with a mortgage.

Just 11.9% of first time buyers are able to purchase the average first-time buyer property in their local area.

The data that underpins the Index also allows affordability to be assessed based on the proportion of households able to take the first, or next, step onto the property ladder[24]. Through this lens, the picture is equally bleak for potential first-time buyers – with just 11.9% of this group able to purchase the average first-time buyer property in their local area. In sharp contrast, more than half of owners with a mortgage can take the next step onto the property ladder based on their location and financial circumstances. The proportion of outright owners able to take the next step onto the property ladder is lower, as these households are typically older and less able to obtain the required mortgage for this next step. This is less of an issue for this group though as in many instances they are less likely to be looking to upsize and may even be considering downsizing.

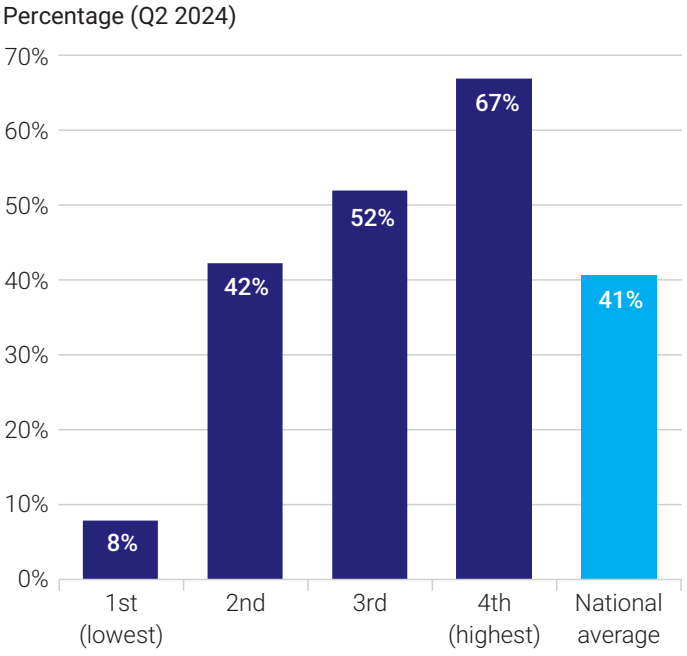
23. Ministry of Housing, Communities and Local Government, "Public Attitudes to housing: British Social Attitudes Survey", July 2019
24. In the Index households are defined as being able to take the next step on the property ladder if their buying power (maximum obtainable mortgage + deposit) exceeds the value of the total cost of purchasing a property relevant to them in their local area.

Fig. 12: Proportion of households that can take the first, or next, step onto the property ladder



Source: Oxford Economics

Fig. 13: Households that can take the first, or next, step onto the property ladder by income group[25]



Source: Oxford Economics

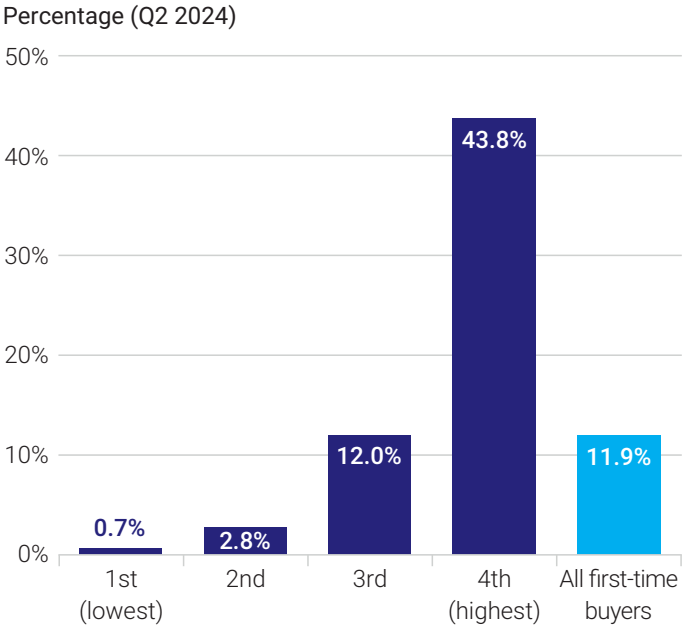
3.3 Buying affordability by income

As you would expect, buying affordability is closely tied to income levels. A higher income allows households to obtain a larger mortgage and increases their ability to build up savings for a deposit. Across Great Britain, two-thirds of all households in the top 25% of earners (those earning more than £71,250 a year in 2024) can afford to take the first, or next, step on the property ladder. This figure falls to just 7.8% for households in the bottom 25% of earners (those earning less than £22,850 a year in 2024).

Just 7.8% of households can afford to take the first or next step on the property ladder for those in the bottom 25% of earners.

Despite earning over £71,250 a year, only 43.8% of potential first-time buyer households in the top 25% of earners across Great Britain are able to take the first step onto the property ladder. The challenge is even greater for potential first-time buyer households in the bottom 25% of earners (those earning less than £22,850 a year in 2024) where less than 1% of this group can get onto the property ladder.

Fig. 14: First-time buyer households that can take the first step onto the property ladder by income[26] group

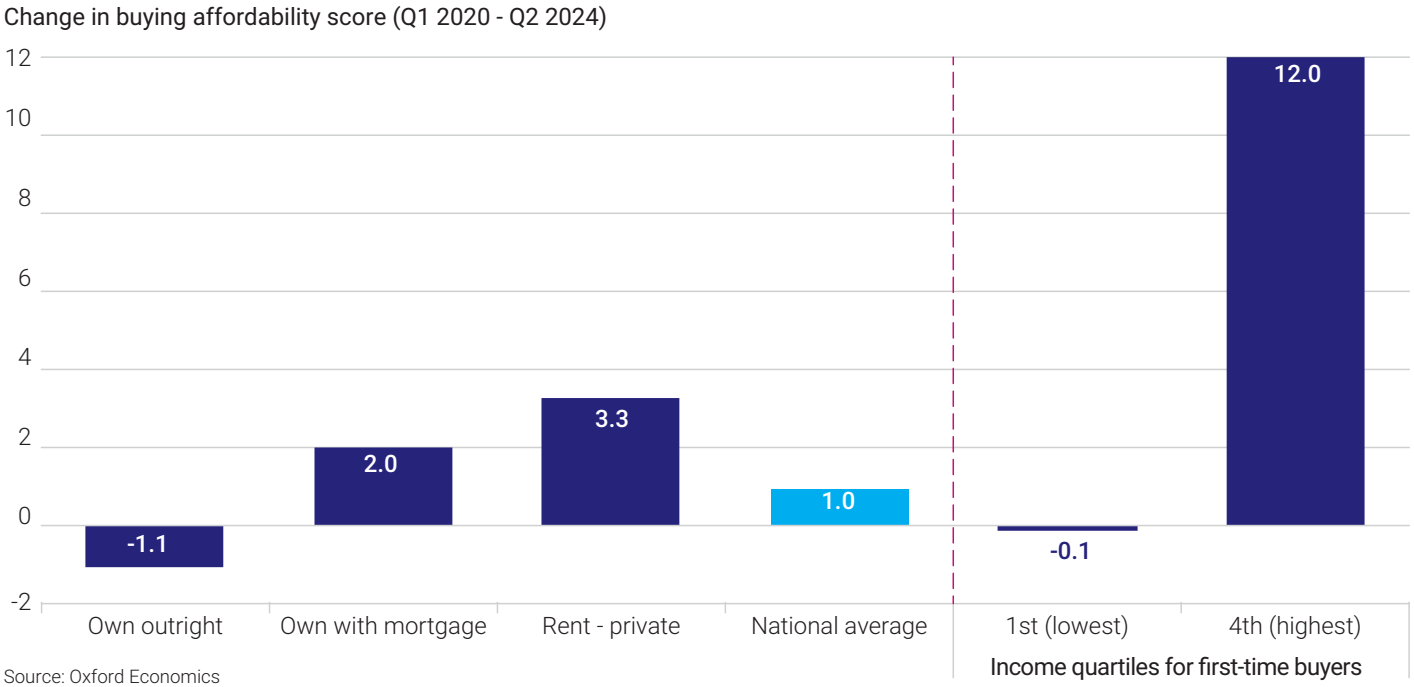


Source: Oxford Economics

25. The quartile groupings - Quartile 1: less than £22,850, Quartile 2: £22,580 - £41,550, Quartile 3: £41,550 - £71,250, Quartile 4: more than or equal to £71,250. The quartiles are based on the total household gross income distribution in the Wealth and Asset survey and adjusted using average weekly earnings growth between 2019 and Q2 2024.
26. The quartile groupings - Quartile 1: less than £22,850, Quartile 2: £22,580 - £41,550, Quartile 3: £41,550 - £71,250, Quartile 4: more than or equal to £71,250. The quartiles are based on the total household gross income distribution in the Wealth and Asset survey and adjusted using average weekly earnings growth between 2019 and Q2 2024.

The buying affordability score for first-time buyers has improved by 3.3 points since the start of 2020. This has been driven by increases in first-time buyers' purchasing power increasing by more than the prices of local first-time buyer properties. This improvement is larger than that seen on average across Great Britain and the other tenure types. Despite this improvement, the score for first-time buyers remains significantly below the scores across other tenure groups. The increase in the buying affordability score for first-time buyers has been driven by a 12.0 point improvement in the score among the highest earning first-time buyer households. In contrast, the lowest earning first-time buyer households have seen their buying affordability score decrease by 0.1 points. This change highlights how the gap in affordability among higher and lower earning first-time buyer households has expanded, further increasing inequality between these two groups.

Fig. 15: Change in buying affordability score Q1 2020 to Q2 2024 across household groups and first-time buyer income groups



Source: Oxford Economics

3.4 Buying affordability by region

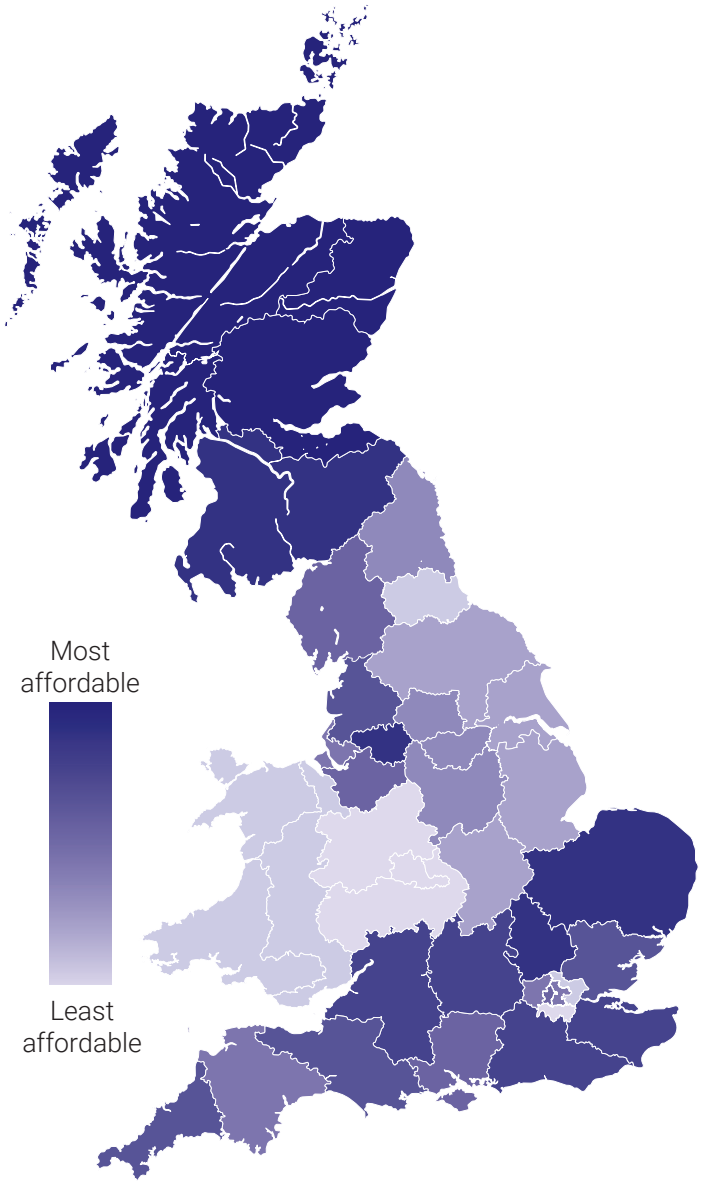
The buying affordability score for potential first-time buyers is significantly below the average score (for all tenure types) across all the regions of Great Britain. However, there are areas of higher and lower affordability for potential first-time buyers across Great Britain. First-time buyer affordability is highest in Scotland and the East of England and lowest in the West Midlands, London and Wales.

First-time buyer affordability is highest in Scotland and the East of England, and lowest in the West Midlands, London and Wales.

The higher buying affordability score in Scotland is driven by low first-time buyer house prices. The average first-time buyer house price in Scotland is around half the average price across Great Britain. In contrast, greater buying affordability in the East of England is driven by household incomes and savings that are large enough to offset first-time buyer house prices that sit above the average across Great Britain.

In the West Midlands lower buying affordability among first-time buyers is the result of low deposits against the backdrop of moderate house prices. Lower buying affordability in London is unsurprisingly driven by first-time buyer house prices that are significantly above the average across Great Britain. The cost of purchasing a property in the capital is sufficiently large to offset the high level of household income and savings seen in London. The lower affordability score for first-time buyers in Wales is driven by lower incomes reducing buying power.

Fig. 16: First-time buyer affordability score across the regions of Great Britain in Q2 2024



Source: Oxford Economics

Looking at the house price to earnings ratio would suggest that buying affordability is highest in the North East of England where the price-to-earnings ratio was 4.97 in 2023. London and South East of England, with price-to-earnings ratios over 10, are considered the least affordable regions to buy property according to this ratio. The ranking of regions according to first-time buyer buying affordability score differs to the price to earnings ratio because the Index is designed to go beyond this simple metric of housing affordability. Our buying affordability metric is based on the reference property for a first-time buyer rather than the median house price. It also considers other factors affecting household purchasing power such as their deposit, other moving costs, and the maximum mortgage they could obtain based on financial and demographic characteristics beyond income.

3.5 The deposit adequacy challenge

The adequacy of a potential first-time buyer's deposit is based on the value of their savings—after factoring in moving costs and leaving aside some funds to cover for rainy day expenses—compared with the average first-time buyer house price in their area.[27,28] Deposit adequacy is a major barrier for first-time buyers. More than three-quarters (78%) of first-time buyers do not have a large enough deposit to get onto the property ladder. This problem is unique to first-time buyers, as less than 1% of existing property owners struggle with deposit adequacy.

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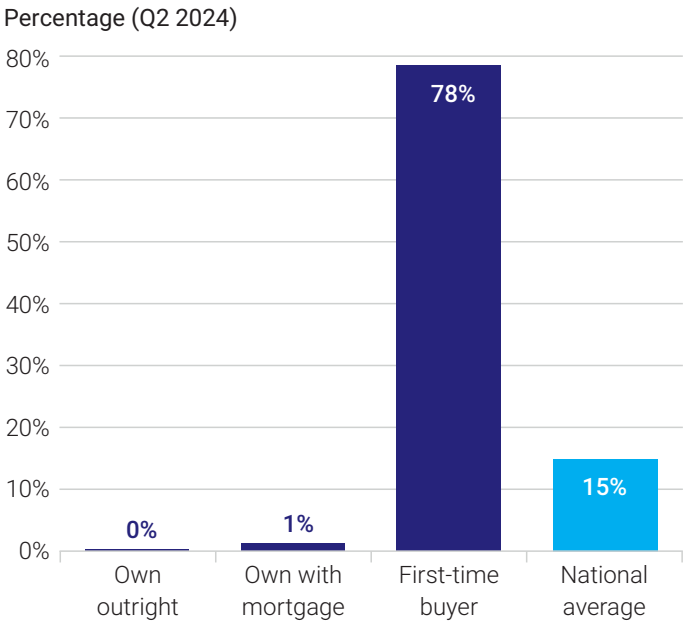
The living affordability challenge faced by potential first-time buyers (renters) makes it difficult for this group to save for a deposit. A significant proportion of renters (37.7%) across Great Britain are living in an unaffordable housing situation—where total housing costs (primarily rents) account for more than 45% of household income. This figure is much higher for renters than it is for owners with a mortgage (7.2%) and owners without a mortgage (3.1%).

27. See accompanying methodological document for further details.
28. An emergency fund for rainy day expenses is calculated as three months of essential spending. Essential household expenditure is under pinned by the ONS's Living Costs and Food Survey. This uses non-discretionary spending classifications, based on those used by the Australian Bureau of Statistics (ABS), to calculate a household's essential expenditure.

A significant proportion of renters (37.7%) across Great Britain are living in an unaffordable housing situation—where total housing costs (primarily rents) account for more than 45% of household income.

The living affordability situation for almost 20% of renters is even more extreme, with this group spending 60% or more of their household income on housing costs, making saving for a deposit exceptionally challenging.

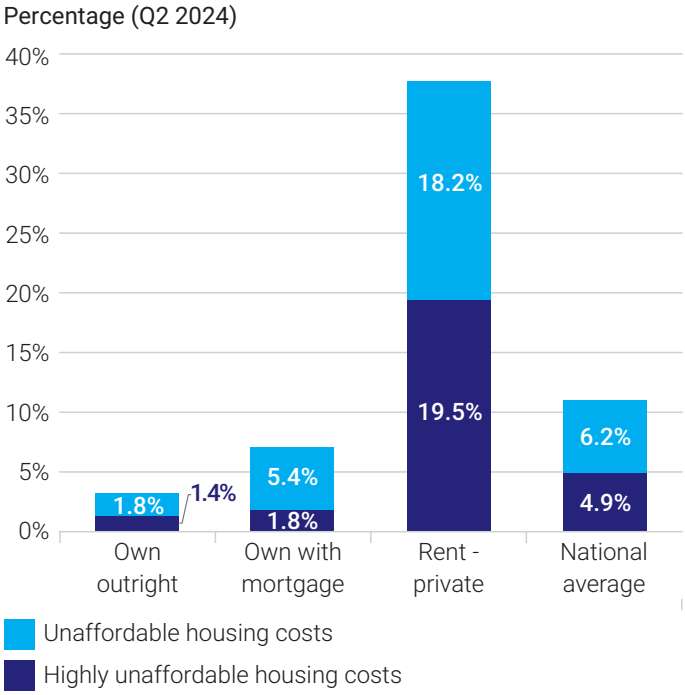
Fig. 17. Proportion of households with insufficient savings to take the first, or next, step on the property ladder



Source: Oxford Economics

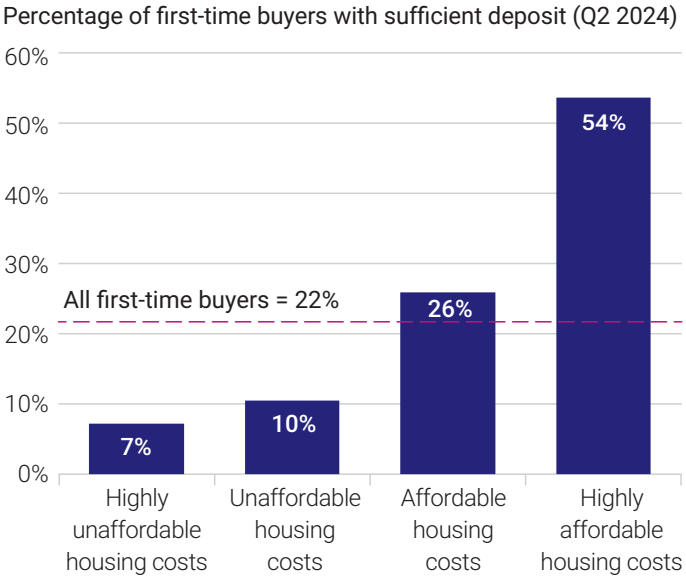
There is a strong relationship between first-time buyers with unaffordable rental costs and an inability to save for a sufficient deposit. Only 7% of renters facing highly unaffordable living costs (rent, bills, and essential maintenance accounting for 60% or more of their household income) have sufficient savings to afford the deposit on the average first-time buyer property in their area. The proportion of renters with highly affordable[29] living costs with sufficient savings to get onto the property ladder is over seven times higher.

Fig. 18. Proportion of households with unaffordable living costs by tenure type



Source: Oxford Economics

Fig. 19. Proportion of first-time buyer households with sufficient savings to take the first step onto the property ladder grouped by living affordability situation



Source: Oxford Economics

29. Within our framework households with unaffordable housing costs are defined as those with living costs greater than or equal to 45% of their gross income. This group has been divided to categorise those with highly unaffordable housing costs (equal to or greater than 60% of gross income) and unaffordable housing costs (between 45% and 60% of gross income). Households with affordable housing costs are defined as those with living costs less than 45% of their gross income. Similarly, this group has been divided to categorise those with affordable housing costs (between 20% and 45% of gross income) and highly affordable housing costs (equal or less than 20% of gross income).

Conclusion

This report is a stocktake of housing affordability across Great Britain, at the start of a new govenent. It offers an overview of the state of housing affordability, since the start of the decade and into the future, which accounts for both buying and living affordability.

It also provides unique insights into the affordability challenges faced by different types of first-time buyers and perspectives on how the different factors, such as deposit adequacy and living affordability, impact their ability to get onto the property ladder.



In Q2 2024 the *Skipton Group Home Affordability Index* score sits almost exactly where it was in Q1 2020: home affordability was a challenge then and remains so today. Overall housing affordability in Great Britain is expected to show limited signs of improvement on the horizon, and, as the first half of this decade has shown, economic shocks create risks to this outlook.

One clear message that emerges from the data that underpins the *Skipton Group Home Affordability Index* is that the first step onto the property ladder is the hardest. Within first-time buyers there are groups, such as lower earners and those in the West Midlands, London, and Wales who face greater challenges in getting onto the property ladder. Saving for an adequate deposit is a real challenge for most first-time buyers. The fact that this is in part driven by the unaffordable livings costs faced by many in this group highlights the relationship between the two pillars of the Index—living and buying affordability.

One clear message that emerges from the data that underpins the ***Skipton Group Home Affordability Index*** is that the first step onto the property ladder is the hardest.

This report and our interactive online tool provide an overall and household specific picture of the affordability of living in and buying a property today, tracking changes in the data over time. In subsequent iterations we will use the *Skipton Group Home Affordability Index* to illuminate trends, highlight challenges faced by households and convene debate among key stakeholders within the housing eco-system.

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