

SKIPTON GROUP HOME AFFORDABILITY INDEX: METHODOLOGY

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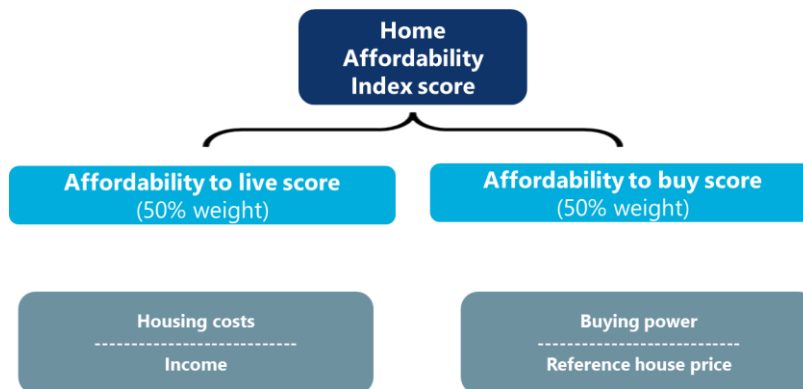
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1. INTRODUCTION

OVERVIEW—INDEX DESIGN

The *Skipton Group Home Affordability Index* combines household-level data on the affordability of buying a home and the affordability of running a home into a single housing affordability 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. 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 approach reflects the dual nature of the nation’s housing challenge.

The Skipton Home Affordability Index—conceptual framework



In addition to providing insights into the evolution of housing affordability in Great Britain, the Index provides a forward look at how affordability is expected to evolve in the coming years. This forward-looking analysis is underpinned by forecasts from Oxford Economics’ [Global Economic Model](#) (GEM).

This document sits alongside the *Skipton Group Home Affordability Index* and provides a detailed explanation of the methodology underpinning the results. It outlines how the core household dataset has been constructed, the development of the housing affordability indicators, and the approach to forecasting the future path of housing affordability.

OVERVIEW—DATA SOURCES, EXTRAPOLATION, AND FORECAST

The data underpinning the Index is a household panel dataset. This is a database of a representative sample of households which captures how socioeconomic characteristics vary across households in Great Britain and over time. It is constructed by combining data from several household surveys, most notably, the Wealth and Assets Survey (WAS) and the Living Costs and Food Survey (LCFS), both conducted by the Office for National Statistics (ONS).

The WAS is the most detailed financial survey in the UK with information on a wide range of aspects of households’ finances. It also includes demographic data such as the age of household members, whether households own or rent their property, and household location.

Despite this detail, the WAS does not contain all the information we needed to develop the *Home Affordability Index*. For example, the WAS does not contain detailed insights on household expenditure patterns across different types of goods and services, which is crucial in determining essential housing costs. Such information was, however, available in the LCFS. Insights from other surveys, such as the Labour Force Survey (LFS) were also merged into our central household panel dataset. These datasets were combined by imputing the required additional variables using the correlation between these indicators and household characteristics evident in both sets of survey data.

In addition, the WAS dataset that is publicly available only reports the location of households at the Government Office region¹ (e.g. North East of England). Using Census (2021 for England and Wales along with 2022 and 2011 for Scotland²), and the Land Registry's Price Paid datasets, we have developed models that have estimated the housing affordability results at the local authority level.

Housing market data, available by local authority, were also merged into our central household panel dataset. This includes average house price and average first-time buyer house price sourced from the UK House Price Index and average private rents sourced from the Office for National Statistics' Price Index of Private Rents.^{3,4} Such data were required to assess housing affordability within each local authority.

The WAS is published with a long reporting lag meaning that the data are not timely. At the launch of the *Home Affordability Index*, the latest WAS dataset was based on interviews conducted between 2018 and 2020 (Round 7 of the WAS). To understand how housing affordability has changed over time and is projected to evolve over the coming years we have constructed a time series dimension to this dataset up to Q2 2028. We use Round 8 of the WAS to extrapolate the dataset to Q1 2022 and then extrapolate to Q2 2025 using detailed historical data. Thereafter, the dataset is projected to Q2 2028 using macroeconomic forecasts from Oxford Economics' GEM. The forecast element of this dataset also allows us to evaluate the consequences on housing affordability of alternative macroeconomic projections via scenario analysis.

Once the dataset was developed, the final step in our analysis was to derive the affordability to live and affordability to buy scores (as illustrated in 0) and bring together the data in a single metric, the *Home Affordability Index*.

A key benefit of this household dataset is that it enables the research to go beyond the national picture and investigate the housing affordability challenges faced by different types of households. For example, the underlying data offers insight into how affordability differs across households based on their tenure status, location, age, income, and family type.

¹ These regions are in-line with the NUTS1 / ITL1 geographic definition.

² The 2011 Census for Scotland was the most recent census with available micro-data at the time the modelling was undertaken.

³ Gov.uk, "[UK House Price Index: reports](#)"

⁴ Office for National Statistics, "[Price Index of Private Rents. UK: monthly price statistics](#)"

2. INDEX DESIGN

This chapter describes how the key housing affordability indicators were estimated and how they are transformed into our housing affordability Index.

HOME AFFORDABILITY INDICATORS

Essential housing costs

A list of spending categories were agreed upon that were deemed essential for running a home.⁵ These costs underpin the housing costs used in the living affordability score and can be broadly grouped into six categories—mortgage/rent, council charges, utilities, insurance, maintenance and repairs, and household goods. For each household, their overall essential housing cost was given by the sum of these spending categories.

The value of mortgage and rent payments were taken directly from the WAS while all other housing spend categories were only available in the LCFS and were imputed based on common household characteristics.

Essential housing spending categories

Broad spending category	Cost description
Mortgage / rent	Rent payments (incl. housing benefit)
	Mortgage payments
Council charges	Council tax (incl. rebates)
	Refuse collection
Utilities	Water & sewerage
	Electricity
	Gas
	Other fuels
	Internet
	Landline
	TV licence (excl. satellite subscriptions)

⁵ Capital investments in a property were not deemed an essential running cost for a home. In practice, capital investments may be split between those that may be deemed essential (such as replacing faulty fittings and fixtures) and those that may be deemed non-essential (such as a house extension). Given available data, it was not feasible to determine what proportion of capital investments could be accurately deemed as essential. We have therefore treated all capital investments in a property as non-essential spending.

Insurance	Buildings insurance ⁶
	Contents insurance
Maintenance & repairs	Ground rent and service charge
	Central heating repairs
	Property maintenance
	Equipment hire
	Cleaning materials
	Domestic services
	Repair of furniture and furnishings
Household goods	Furniture (excl. garden furniture)
	Floor coverings
	Household appliances
	Household textiles
	Kitchenware
	Tools and equipment

Household income

Gross household income underpins the living affordability score. It was calculated as the sum of employment income, self-employed income, total benefits received, pension income, investment income, and other regular income minus housing benefit.⁷

Buying power

The maximum property value a household can afford to buy underpins the buying affordability score. It depends on a household's available deposit (after accounting for moving costs and leaving some savings aside for rainy day costs) and the maximum mortgage they could receive according to their household and financial characteristics.

Deposit

When purchasing a property, households need to set aside part of their savings to cover the moving costs associated with the property purchase. It is also reasonable to assume that households would

⁶ Not relevant to renters

⁷ Housing benefit is excluded from gross income because it is deducted from rent payments. Including housing benefit in gross income would therefore lead to double counting of housing benefit.

keep a proportion of their savings aside as an “rainy day fund” in case of unexpected changes to their financial situation. The value of the deposit that households could put towards a property therefore must subtract moving costs and rainy day funds from their total household savings.

Households’ total savings are captured by the value of all assets they hold.^{8 9} For owner-occupiers, this includes the equity they hold in their current property. We assume that households keep aside savings to the value of three months of essential spending as a “rainy day fund”.

Our approach to estimating the moving costs associated with purchasing a property used insights from secondary data and from Connell’s moving cost calculator. A summary of our approach is given in 0 below.

Move cost categories

Move cost category	Approach
Stamp duty	Calculated using the relevant stamp duty rates for the tenure status and reference house price of each household.
Conveyancing (purchase)	Calculated using cost estimators provided by Connell’s estate agents and varying according to the value of the households’ reference house and country.
Conveyancing (sale) ¹⁰	Calculated using cost estimators provided by Connell’s estate agents and varying according to the value of the households’ current property and country.
Estate agent fees	Assumed equal to 1.75% plus VAT of the value of households’ current property in England and Wales. The rate in Scotland is 1% plus VAT. ¹¹
Removals	Determined by the number of bedrooms in the households’ current property. ¹²
Home survey	Determined by the value of the households’ reference house. ^{13,14}
Mortgage fee	Fixed arrangement fee and valuation fee ^{15,16}

⁸ Assets include cash-based accounts, such as current and savings accounts, as well as share-holdings, bonds insurance produces and informal financial assets. Property and business investments have been excluded from households total savings.

⁹ For first-time buyers, the value of Lifetime ISAs decreases if the house reference price exceeds £450,000, reflecting the loss of the government bonus that would have applied to their first property purchase. The full balance, including the bonus, is used when the first-time buyer’s house reference price is less than £450,000.

¹⁰ Only relevant to existing owner-occupiers.

¹¹ Assumption sourced from Connell’s moving cost estimator.

¹² Home Owners Alliance, “How much do removals cost?”

¹³ Home Owners Alliance, “How much does a house survey cost?”

¹⁴ Assume that all households purchase a RICS Home Survey Level 3

¹⁵ Money Saving Expert, “What mortgage fees will you pay?”

¹⁶ Assumed fixed for all households.

Maximum available mortgage

The Skipton Building Society provided data regarding the effective disposable income that households have according to their gross household income and household composition.^{17,18} This is scaled by a stress coefficient (which depends on the length of the mortgage term and changes over time) to determine the maximum mortgage that would be lent to a household in a given period.¹⁹ This information was used to calculate the maximum obtainable mortgage value that households could expect to receive based on financial characteristics from the WAS.

The maximum property value that each household could afford is calculated as the sum of their deposit and the maximum obtainable mortgage. We assume that households must put down a deposit that is at least 5% of the value of their reference property. If households cannot put down a 5% deposit, then their obtainable mortgage is capped at 20 times the value of the deposit they have.

Reference house price

It is expected that the value of the property a household would be looking to purchase would differ depending on their characteristics. For example, first-time buyers would likely buy a cheaper property than a household already on the property ladder looking to upsize. To accurately assess buying affordability it is therefore important to consider the type of property that each household would likely be looking to buy rather than simply considering the national, or local, average property price.

A household's reference house price reflects the value of the property that it is most likely to purchase based on their characteristics. Our approach to estimating the reference house price differs depending on whether the household is a first-time buyer or existing owner-occupier.

For prospective first-time buyers, their reference house price is given by the average property price paid by first-time buyers in the local authority where they live. These data are sourced from the ONS House Price Index. We therefore assume that households would purchase their first property in the same local authority as they currently live and at the average first-time buyer price point.

For owner-occupiers, it is assumed that they would be looking to move into a property with one additional bedroom to their current property and within the local authority in which they currently reside. ONS data relating to the average house price, by region and number of bedrooms, are used to estimate the uplift in property price associated with an additional bedroom.^{20,21} These uplift factors will vary depending on the current number of bedrooms a household has and the region in which they

¹⁷ Skipton exclude investment income from gross household income when estimating the maximum mortgage loan they would offer to households. Our analysis replicates this approach and removes investment income from gross household income when calculating households' buying power.

¹⁸ Number of adults and dependents.

¹⁹ When assessing mortgage applications, households are stress-tested to determine whether they would still be able to afford to repay their mortgage if interest rates were to rise.

²⁰ Office for National Statistics, "[Simple average house prices by number of bedrooms, 2015 to 2021](#)". Data are only available by Government Office Region and therefore all local authorities within a Government Office Region have the same uplift factor for a given property size. Data are provided in response to a user data request and are not updated.

²¹ Data are from the Regulated Mortgage Survey and therefore only reflect property transactions in which a mortgage was involved. Average property prices are simple averages and have not been mix-adjusted or weighted.

live.²² For each owner-occupier household, the current value of their main residence (based on the value stated in the WAS and house price inflation in their area since this value was stated) is multiplied by the additional bedroom uplift factor to estimate the price of their reference house.

CONCEPTUAL DESIGN

The *Home Affordability Index* has been designed to capture the dual nature of the nation's housing challenge by assessing buying affordability and living affordability. These two measures represent distinct sub-indices that are combined to produce an overall home affordability score. The Index is scored from 0 to 100, with higher numbers representing better home affordability. The Index enables comparisons of home affordability to be made over time as well as between different cohorts of the British population.

Living affordability

Living affordability is measured by the proportion of gross household income that is spent on essential costs to maintain a home. The lower the proportion of household income that is spent on housing costs, the greater the living affordability.

As previously discussed, these costs cover not only mortgage / rent payments but also include council charges, utility bills, property maintenance and repairs and the purchase of household goods. This provides a more comprehensive picture of the overall cost associated with living in a home than simply looking at mortgage / rent payments in isolation. By doing so, we can identify home affordability pressures that result from events such as the spike in energy prices in 2022, which would not be reflected in mortgage / rent payments.

There are two main approaches that could be taken when assessing housing costs relative to household income. The first is to calculate housing costs as a proportion of household income and the second is to calculate the "residual income" after housing costs have been deducted from household income. With the latter, this "residual income" can be compared to essential non-housing costs (such as food and transport) to determine whether a household has sufficient income to meet their essential needs after accounting for housing costs. We chose to measure living affordability as the ratio of housing costs to gross household income. The rationale for this was that this approach is easier to understand, and the "residual income" approach can misdiagnose the source of affordability challenges (e.g., as this metric also captures changes in wider costs that are not related to housing).

Buying affordability

Buying affordability is measured as the maximum affordable property a household could purchase relative to their reference property. The greater the maximum property value a household can afford relative to their reference house, the greater their buying affordability.

²² The uplift associated with moving from a one-bed property to a two-bed property was based on the national average property price because there were significant reductions in average property prices associated with an additional bedroom in several regions.

A commonly used metric to assess buying affordability is the price-to-income ratio. This measure has several limitations which our approach seeks to overcome:

- The average property might not be an appropriate reference point for all households. For example, first-time buyers are more likely to move into cheaper properties than existing owners looking to upsize.
- The overall cost of purchasing a property is not limited to just the purchase price but also the associated moving costs, which are not captured in this approach.
- Buying power does not depend solely on household income but on the size of deposit and mortgage that could be granted. The latter will depend on household income but also other household characteristics (such as household size or applicant age) which could mean two households with the same income receive different mortgage loans.

Our assessment of buying affordability is undertaken relative to each individual household's reference property (including moving costs) rather than an average property. This, combined with an assessment of their buying power, provides a unique assessment of the affordability challenges faced by different types of households.

Cohort analysis

Index scores can be calculated based on household characteristics such as tenure, income, and average household age²³.

In addition, sub-national index scores have been estimated. In the publicly available WAS dataset, household locations are reported only at the level of Government Office Regions (e.g., South East of England). The dataset has been enhanced by including estimates of the likelihood that each household belongs to a local authority district²⁴. This allows the findings from the analysis to be calculated for more granular geographic boundaries (local authorities) than the Government Office Regions reported in the WAS.

The analysis 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. 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.

RESULTS

Index scores

Both home affordability ratios (housing costs as a share of gross household income and buying power as a share of reference house price) are converted into z-scores by subtracting the mean and dividing

²³ Average household age based on the adults in the household.

²⁴ There were 363 local authority districts in [Great Britain](#) as at December 2021. This aligns with the number of local authorities used in the 2021 census.

by the standard deviation. For all quarters in the extrapolation period and forecast period, z-scores are calculated with reference to the mean and standard deviation from the initial period²⁵. This enables comparisons over time to be made. Z-scores are then transformed into index scores on a 0-100 scale with a score of 50 equal to the national average for the initial period (Q1 2020) for both buying and living affordability.

Both sub-indices are weighted equally in the overall home affordability Index score, meaning a score of 50 aligns with the national average score for Q1 2020. This ensures that neither sub-Index has undue influence over changes in the overall Index as they are given equal importance within our framework.

Index scores are also calculated for specific cohorts, such as by tenure status. The interpretation of such scores is the same. For example, a score below (above) 50 for prospective first-time buyers would mean housing is less (more) affordable for prospective first-time buyers than the national average in the initial period.

Affordability thresholds

The Index scores described above provide a means to compare affordability trends over time or the relative affordability position of different cohorts. An alternative way to analyse the data is to calculate the proportion of households who score above or below an affordability threshold from a buying or living perspective.

Where an affordability threshold is set will have a significant impact on the proportion of households that are classified as being in an unaffordable housing situation. An affordability threshold of 30% of household income on solely rent/mortgages payments are used by the ONS.²⁶ However, our measure of housing expenditure includes a much wider range of spending than simply mortgage or rent payments and therefore a 30% threshold would likely be too low. Instead, we calculated the proportion of households who faced unaffordable mortgage or rent payments (defined as greater than 30% of their gross household income). We then set the affordability threshold for overall housing costs at a level that resulted in a similar proportion of households facing unaffordable housing costs as seen in the ONS approach. Using this approach, we define housing costs to be unaffordable if they account for more than 45% of gross household income.

Setting a threshold with regard to buying affordability was more straightforward. A move onto, or up, the property ladder is only affordable if households' buying power exceeds their reference house price.

²⁵ The initial period is based on the period covered by the 7th Wave of the Wealth and Asset Survey – Q2 2018 to Q1 2020. To simplify the labelling in the main report, this whole period is labelled as Q1 2020. As the tool is at the annual level, this period is labelled as 2019 and 2020 represents the average value between Q2 2020 and Q4 2020.

²⁶ ONS, "[Private rental affordability, England, Wales and Northern Ireland Statistical bulletins](#)"

3. CONSTRUCTING THE DATASET

The latest WAS dataset at the time of constructing the Index was based on interviews conducted between 2018 and 2020. We have extrapolated and forecast the variables from the WAS that underpin the Index for the period between Q1 2020 and Q2 2028 using a wide range of macroeconomic and survey data. The dataset is extrapolated up to Q2 2025 and, after this, macroeconomic forecasts from Oxford Economics' GEM are used to forecast the dataset to Q2 2028. This approach ensures that the extrapolation is consistent with macroeconomic trends and the forecast is consistent with the economic outlook from the GEM.

In this section, we outline the approach used to extrapolate and forecast the key home affordability indicators that underpin the Index.

HOUSEHOLD INCOME

Household income has been extrapolated and forecast based on employee and self-employed earnings from work, benefits, investments, and other regular sources of income. Each component has been separately extrapolated and forecast while maintaining consistency with overall macroeconomic trends.

Extrapolation

Data from Round 8 of the WAS have been incorporated to extrapolate the variables to 2022 Q1. To do this, we first identified overlapping households that were present in both Round 7 and Round 8 of the survey. For these households—comprising approximately 50% of our household dataset—we include the more recent Round 8 values wherever possible²⁷. For the remaining households not observed in Round 8, we estimate missing values using key household characteristics such as income group, employment status, and family size²⁸. Additionally, macroeconomic indicators were incorporated to generate quarterly patterns and align them with the overall change between the two rounds. This general approach is used when incorporating other Round 8 data into our household dataset.

²⁷ For overlapping households that have retired or changed tenure we use estimated values rather than actuals because we keep underlying household characteristics fixed in the dataset to ensure they remain representative of the overall UK population. Furthermore, actuals and predicted values are averaged to reduce the volatility seen in the actuals.

²⁸ Quantile regressions are used to estimate values for Round 7 and Round 8 using the full sample. The change in the predicted values is applied to the actuals from Round 7 to generate predicted values for the Round 8 period.

General approach to incorporating Round 8 data

Organise Round 8 data

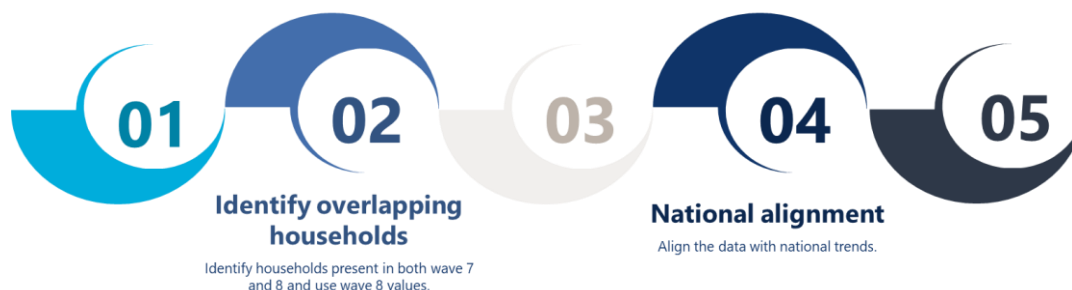
We create the wave 8 family unit dataset and align it with the latest census data.

Econometric analysis

For households not observed in wave 8, we have estimated the household values using wave 8 data.

Dataset intergration

The data is added to the household dataset for 2020Q2–2022Q1, serving as the basis for extrapolating and forecasting thereafter.



From Q2 2022, the earnings from work extrapolation for each household is based on seasonally adjusted average weekly earnings²⁹ data from the ONS. The earnings of household members are extrapolated based on the industry in which they are employed³⁰. To better reflect the realities of the labour market during the Covid-19 pandemic, our extrapolation approach also includes the likelihood that the individuals were placed on furlough^{31,32} as well as trends in seasonally adjusted employment by industry to capture changes in work-based earnings attributed to job losses.³³

Household benefits are extrapolated based on the announced changes to benefits that households receive and then constrained to ensure our estimate across all households aligns with the national figure. Benefits received by households who are not on Universal Credit or other work-related benefits are increased in line with CPI inflation.

Other regular household income and income from investments have been extrapolated using data from the GEM. The quarterly change of total personal disposable underpins other regular household income³⁴ while personal sector dividend receipts are used for income from investments.

Forecast

In a similar approach to the extrapolation, household income has been forecast based on the individual sources of income using forecasts from the GEM. Earnings from work are underpinned by total wages and salaries while benefits change in line with personal sector transfers from the central government. Investment and other regular sources of income are forecast using the quarterly change of personal sector dividend receipts and total personal disposable respectively.

²⁹ Average weekly earnings (AWE) by 16 NACE industries published by the ONS and seasonally adjusted.

³⁰ Other household work-based earnings are extrapolated in line with the primary earner

³¹ The probability of being placed on furlough depended is estimated using the LFS and based on industry, education, age, full time/part time status, and managerial status of the individual.

³² Individuals placed on furlough were paid 80% of their wages.

³³ This adjustment to individuals' income is only applied while a particular industry's employment is below Q4 2019 levels.

³⁴ Other regular income covers a wide range of income not included in the GEM such as income from royalties and educational grant. Given this, it changes in line with the total disposable income.

ESSENTIAL HOUSING COSTS

Each household's consumption is extrapolated and forecasted by COIOP³⁵ category. The individual COIOP categories are then aggregated to calculate total essential housing costs for each household which underpins the living affordability sub-Index. Each category has been separately extrapolated and forecast while maintaining consistency with overall macroeconomic trends.

Extrapolation

Household consumption is based on household-specific saving ratios, trends in consumer spending, and household-specific changes in mortgage repayments. Savings rates from Bank of England data are combined with household income to estimate total household consumption before being constrained to match the national consumption trends from the GEM.

Initially, household COIOP data from the Living Costs and Food Survey is used to estimate household-specific spending by consumption category, allowing household consumption for each COIOP category to be extrapolated up to 2022³⁶. After this, seasonally adjusted national COIOP data released by the ONS are used to extrapolate household consumption for each category of consumption excluding mortgage payments and rent. Spending on each element of housing costs, such as fuel bills, are therefore extrapolated individually from Q1 2020 to Q2 2025. For example, the spike in energy bills in Q2 2022 and its gradual decline during 2023 will be reflected in the extrapolation of the relevant variables.

Household-specific mortgage payments have been modelled based on Bank of England mortgage data and published mortgage interest rates. Until 2022, interest rates and mortgage payments remained at historical lows. However, with the Bank of England increasing interest rates, mortgage costs began to rise. For households on fixed mortgages, the change in interest rates does not impact them until they roll off their fixed rate. The analysis accounts for the estimated number of households refinancing their mortgage each quarter and those on a variable interest rate who will see their mortgage payment change. Mortgage payments will reflect the interest rate faced in the quarter they refinance their mortgage or the variable rate they need to pay.

Updated rental market data have also been incorporated for households that rent. Comparisons with ONS data revealed that WAS rental values were lower than official estimates. To correct for this discrepancy, we adjusted the WAS rental figures to align with the ONS data. Rental payments are then extrapolated based on the average growth in private rents by local authority..

Forecast

The forecasts of consumption excluding mortgage and rents are underpinned by the forecast variables from the GEM. CPI trends in food, energy, fuel, and core inflation are combined with overall

³⁵ The Classification of Individual Consumption According to Purpose (COIOP) is the international reference classification of household expenditure.

³⁶ For each year and COIOP category, models are estimated to predict household spending in that category based on key household characteristics such as income group, employment status, and family size. National quarterly COIOP data released by the ONS are used to interpolate the annual series to quarterly before applying the trend to the households within the dataset.

real consumption changes to provide specific consumption forecasts for all elements of housing costs (except for mortgage and rent payments) for each household.

Consistent with the extrapolation model, mortgage payments are dependent on the refinancing period of the household and the repayment costs they are expected to face based on the GEM's forecast for interest rates.

Forecasts of rent growth (for newly agreed rentals only) provided by Hamptons were adjusted using ONS rental data³⁷. This adjustment accounts for existing rentals, providing an estimate of overall rental growth. The forecast provided by Hamptons was split between London and the rest of Great Britain. This forecast was used to project rental payments for each household in our dataset.

BUYING POWER

Household buying power is determined by evaluating household savings and the maximum obtainable mortgage. The deposit amount depends on their savings and home equity. The maximum obtainable mortgage depends on household income, their deposit, and how much lenders are willing to offer based on their financial characteristics at a given point in time.

Households in the dataset accumulate or draw down on their assets based on their extrapolated income and consumption over time. As well as this, the current stock of household assets will have changed in value. To ensure consistency with aggregate household savings, household savings are constrained to match the trends in three asset groups: liquid assets, financial products, and bonds³⁸.

Personal sector liquid assets stock is used to constrain household's liquid assets. For financial products, which include all types of shareholdings,³⁹ personal sector holdings of companies' securities data are used. Both these projected macroeconomic series capture the expected change in value as well as the amount of assets held by the personal sector. Finally, government bonds and gilts are based on changes in personal sector stock of government debt as well as the interest rate earned on their current stock of bonds as measured by the 10-year gilt projections.

Extrapolation

Up to Q1 2022, estimates of asset values held is underpinned by Round 8 of the WAS, together with trends in asset holdings observed in the Financial Lives Survey. After this, the accumulation or drawing down of assets is based on the historical assets held by the household. Observed financial data are used to change the household's current stock of assets.

Forecast

Savings levels in the forecast are based on data from the GEM. The change in the value of liquid assets in the forecast is driven by expected future interest rates on bank deposits, while financial products are influenced by share price index projections. Government bonds and gilts are based on forecast changes in the personal sector's stock of government debt.

³⁷ Office for National Statistics, "[Price index of private rents, UK: monthly price statistics](#)"

³⁸ Insurance products and informal financial assets remain unchanged

³⁹ Share holdings include UK and overseas shares, investment and unknown ISA, unit investment trusts, and employee shares and options.

Financial indicators used to extrapolate asset values

Asset group	Asset	Linked financial variable
Liquid assets	Household value of current assets	Interest rate on bank deposits, GEM
	Household value of savings accounts	Interest rate on bank deposits, GEM
	Household value of cash ISAs	Interest rate on bank deposits, GEM
	Household value of National Savings certificates and bonds	Direct Saver interest rate
Financial products	Household value of stocks and shares ISAs	MSCI World TR
	Household value of UK shares	FTSE All-Share Index TR
	Household value of fixed-term bonds	10-year gilt, GEM
	Household value of employee shares and share options	FTSE All-Share Index TR
	Household value of Unit/Investment trusts	MSCI World TR
	Household value of overseas shares	MSCI World ex UK TR
Bonds	Household value of UK bonds/gilts	10-year gilt, GEM
	Household value of overseas bonds/gilts	Barclays Aggregate Global Bond Index
Other	Household value of insurance products	No change
	Household value of informal financial assets	No change

Home equity
Extrapolation

For homeowners, the value of their house is extrapolated based on the value of their house as stated in the WAS and the UK House Price Index published by the Land Registry^{40,41}. The house price of the main residence is extrapolated based on the local authority and type of property.⁴²

The outstanding value of the mortgage held by each household is extrapolated based on the trend in the national average mortgage value from Q1 2020 to Q2 2025.⁴³ For each household, the equity they hold in their main residence has been estimated by calculating the difference between the value of their main residence and their outstanding mortgage loan during the reported quarter. Equity held in second homes is excluded from the total buying power estimate.

⁴⁰ <https://landregistry.data.gov.uk/app/ukhpi>

⁴¹ While data was available in Round 8 of the WAS, households are unlikely to accurately report changes in their household prices, while the published data are expected to provide more accurate and reliable estimates.

⁴² The WAS includes information on house type including: detached, semi-detached, and terraced.

⁴³ The average has been calculated based on the total number of mortgages outstanding and the total mortgage liabilities from the GEM

Forecast

Regional house price forecasts were provided by Hamptons. Oxford Economics calibrated the local authority house price forecasts used in the Index based on the regional forecast from Hamptons. The calibrated local authority house price forecasts were used to forecast the value of homes for existing homeowners. The outstanding value of the mortgage held by each household is forecast based on the projected mortgage liabilities of the household sector. Equity in a household's main residence has been estimated by combining these two metrics.

Moving costs**Extrapolation**

To estimate the moving costs associated with purchasing a property, we utilised insights from Connell's moving cost calculator and secondary data. The data on conveyancing, removals, home survey costs, and mortgage fees related to Q2 2025 and were therefore deflated using consumer price inflation (CPI). Specific components—such as legal fees—of conveyancing costs vary according to the sale or purchase price. For these components, we calculate cost as a share of property price and assume these remain constant over time. These shares are multiplied by the relevant property price (current property value for selling costs or reference price for buying costs) in our household dataset to estimate the value of this component of conveyancing cost.⁴⁴

Stamp duty is calculated by applying the relevant stamp duty rates that were in place in each quarter to the extrapolated reference house price. This approach therefore takes account of the stamp duty holiday during the pandemic and the subsequent staggered return to normal rates.

Forecast

Planned changes to stamp duty rates and thresholds (scheduled for April 2025) are factored into estimates of future stamp duty fees paid by prospective buyers over the forecast horizon. All other categories of moving costs were forecast to grow in line with CPI forecast from the GEM.

Maximum available mortgage**Extrapolation**

The Skipton Building Society provided historical data regarding the maximum mortgage loan that would be provided to households before the pandemic according to their gross household income, mortgage term, the number of adults and dependents in the household, and a stress coefficient. This information was used to calculate the maximum mortgage that every household in the WAS dataset could have expected to have received.

The relationships between those characteristics and the maximum available mortgage have changed at certain points in time to capture economic developments, such as the rise in mortgage rates in 2022 which led to changes in the stress coefficient. For each quarter in the extrapolation period, we use the relationships that were applied by the Skipton Building Society during that period.

⁴⁴ Current property value for sale conveyancing and reference house price for purchase conveyancing.

Forecast

We assume that the relationship between household characteristics (income and composition) and implied effective disposable income as provided by Skipton Building Society remains constant over the forecast horizon. This means that, for each household, their implied disposable income as a proportion of their gross household income remains constant.

A stress coefficient is then applied to convert effective disposable income into the maximum mortgage that could be provided to each household. Analysis of historic trends in this stress coefficient identified a relationship with the Bank of England base rate. This relationship was applied to forecasts of the Bank of England base rate to derive projections for the stress coefficient over the forecast horizon.

In each quarter in the forecast, the implied effective disposable income was calculated as a proportion of gross household income and then scaled by the relevant stress coefficient to estimate the maximum mortgage that each household might be expected to receive over the forecast period.

Reference house price**Extrapolation**

The reference house price for prospective first-time buyers is extrapolated using the average property price paid by first-time buyers in each quarter in the local authority where they live. These data are sourced from the ONS House Price Index.

The reference house price for owner-occupiers is estimated by multiplying the extrapolated value of their existing property by the additional bedroom uplift factor. This uplift factor was calculated using regional data from the ONS to estimate the increase in property price associated with an additional bedroom. These uplift factors are assumed to remain constant over time.

Forecast

The price of households' reference house is forecast to grow using the same methodology applied to forecast the value of homeowners' existing property discussed in this chapter.

PREDICTING LOCAL AUTHORITY AREA AFFORDABILITY SCORES

The WAS dataset that is publicly available only reports the location of households at the Government Office region⁴⁵ (e.g. North East of England and West Midlands). We have enhanced the framework to estimate home affordability at the local authority level and incorporated the latest census datasets using the following steps:

1. Update the national weights to be consistent with census data
2. Create a data structure that has households by LAD
3. Estimate LAD-specific weights for each household

⁴⁵ These regions are in-line with the NUTS1 / ITL1 geographic definition.

Step 1: Incorporating the latest census

Household weights are used to ensure the results are representative of the households in Great Britain. In the dataset, the household weights are initially derived from Round 7 of the WAS. These have since been revised to match the demographic distributions observed in Round 8, which reflect the most recent census data.⁴⁶ Where significant discrepancies with census data have been identified, and where these differences are important to the modelling, we have applied census demographic proportions⁴⁷.

Step 2: Data structure of household dataset

The WAS captures the Government Office Region (GOR) that each household resides in. The dataset duplicates each WAS household according to the number of LADs located within the GOR of that household. After this, each row within the dataset represents an individual household residing in a specific LAD.

This updated structure allows for a more precise reflection of LAD-specific trends in variables, such as rents and house prices. For instance, while house price growth was previously applied uniformly at the GOR level, it is now measured and applied at the more granular LAD level

Step 3: LAD-specific household weights

In the final step, we produce LAD-specific household weights to reflect the likelihood that each household resides in a given LAD based on its total household wealth and household demographics.⁴⁸ We combine these data with publicly available data at the local authority level (such as house prices) to estimate housing affordability scores for each local authority within Great Britain.

In analysis conducted separately to this research, Oxford estimated the distribution of wealth across each local authority based on sophisticated neural network models. To do this, we first combined information on wealth holdings from three core datasets: the Wealth and Assets Survey (WAS), the Census (2021 for England and Wales, 2011 for Scotland⁴⁹), and the Land Registry's Price Paid datasets.

The models identify a set of relevant characteristics (known as covariates) that can theoretically explain variation in household wealth. These include information on property equity, education level, age, marital status, socio-economic status, and housing tenure. These indicators are used to train a suite of artificial neural network models at the NUTS1 level, allowing us to make predictions of wealth based on the set of household characteristics.

The relationships from these models are combined with the Census data and Land Registry's Price Paid datasets to predict household wealth according to the characteristics within each local authority. The wealth variables modelled include property and land, physical, financial and pension wealth which

⁴⁶ Household weights at the national level have been updated to incorporate the latest data from the 2021 England and Wales Census and the 2022 Scottish Census.

⁴⁷ . In particular, census figures were used to improve the representation of social and private renters, as well as household composition, given that the Round 7 and Round 8 WAS weights differed notably from the census benchmarks.

⁴⁸ The sum of the household-specific weights across all LADs matches the national totals, ensuring consistency between the national and local results.

⁴⁹ The 2011 Census for Scotland was the most recent census with available micro-data at the time the modelling was undertaken.

collectively comprise total household wealth. Through repeated sampling, not only is the mean household wealth within each local authority estimated, but also the distribution of household wealth.

In addition, demographic data relating to each local authority from the Census, such as age, tenure and socio-economic status, are also used to estimate the local authority weights.⁵⁰ Through an iterative process, the model adjusts the local authority weights until the implied wealth distributions and demographic compositions in our household dataset closely align with the publicly available data mentioned above.

When categorising results by homeownership along with income quartile, age groups, and household composition, a cap on extreme values has been included.⁵¹

OXFORD ECONOMICS GLOBAL ECONOMIC MODEL (GEM)

Oxford Economics' Global Economic Model provides a rigorous and consistent structure for forecasting and testing scenarios. The GEM is a globally integrated economic model covering 85 countries, it can be used to address questions on a wide range of economic topics such as the impact of oil price changes, or the effects of slower economic growth. Furthermore, individual country models are fully linked through global assumptions about trade volume and prices, competitiveness, capital flows, interest and exchange rates, and commodity prices. It provides all the key macroeconomic variables needed for the Index's forecasts and scenarios.

⁵⁰ Demographic totals are underpinned by the 2021 for England and Wales, 2022 for Scotland.

⁵¹ This is impacting the proportion who can purchase their reference home and the proportion of households with housing costs over 45%. The proportion who can purchase their reference home and the proportion who spend over 45% of their income on housing costs has been capped at 95% for a local authority. The affordability to buy score has been capped at 95 for a local authority.

4. ADDITIONAL ANALYSIS

ADULTS LIVING WITH PARENTS

In the September 2025 publication, we include analysis of the buying and living affordability of adults living with parents, as well as the potential benefits of downsizing for the parents who have adult children living in their home. The following section provides more detail on the methodological approach to the analysis.

Adults living with parents' methodology

The analysis is based on a survey commissioned by the Skipton Group of 2,000 adults living with parents—defined for this research as individuals 18 or over living with their parents that are not students, unemployed due to their ill-health or carers for their parents. Respondents were asked about their financial status (including their income and value of their savings) as well as their perceptions and experience of living with their parents. Responses were weighted by age, gender and region using 2021 England and Wales census data to ensure that the analysis was representative of all adults living with parents in the UK. The weighted survey data were used to estimate the ability of adults living with their parents to purchase a property and their ability to afford living in a property of their own (whether that be as a renter or as an owner-occupier).

Buying affordability

We calculate the maximum property value each survey respondent could afford by combining their estimated maximum achievable mortgage with the value of their deposit.

- The maximum achievable mortgage was calculated by combining their income with insights from Skipton's approach to credit risk modelling.
- The value of their deposit takes the value of their savings and subtracts moving costs (such as stamp duty and conveyancing) and a "rainy day" fund equivalent to 3 months of essential housing spending (such as mortgage payments, council charges, utility bills, property maintenance and property repairs). Individual savings are based on the survey response, while moving costs and essential household costs are based on the Skipton Group Home Affordability Index dataset.

We compare the maximum property value each survey respondent can afford to the price of a reference property, which is either the average first-time buyer home in their local authority or the average flat in their local authority. House price data were sourced from the ONS UK House Price Index release and updated to reflect expected house price trends during the first half of 2025. The reference property is deemed affordable if the buying power exceeds the reference property price. This calculation was conducted for all survey respondents and weighted to provide an overall estimate of the proportion of adults living with their parents who can afford to get onto the property ladder.

Living affordability

We estimate the housing costs a survey respondent would face if they moved into a property of their own. These costs include mortgage or rent payments, along with essential household expenses (such as council tax and utilities). Essential housing costs are taken from the Skipton Group Home

Affordability Index dataset, with further details available in the Home Affordability Index Methodology. To calculate mortgage or rent payments, we consider three scenarios for each respondent: (i) purchasing the average first-time buyer (FTB) home in their local authority, (ii) purchasing the average flat in their local authority, and (iii) renting the average one-bedroom property in their local authority. Below, we outline the approach to calculating the mortgage or rental payments of each.

- **FTB home and flat:** We calculate the implied annual mortgage payments assuming a 32-year mortgage term and 5% interest rate. The required mortgage amount is calculated as the difference between the average FTB property or flat price in the respondent's local authority and their available deposit (their remaining savings after subtracting moving costs and essential housing expenses).
- **Rent:** The average rent for a one-bedroom property in their local authority is sourced from the ONS Price Index of Private Rents and updated to reflect expected rental price trends during the first half of 2025.

For each of the three cases, housing costs are compared to the gross income of each survey respondent. We deem housing costs to be unaffordable if they account for more than 45% of gross income. This calculation was repeated for each survey respondent and weighted to provide an overall estimate of the proportion of adults living with their parents who would face unaffordable living costs were they to move into a property of their own.

Parents who have adult children living in their home methodology

In the September 2025 report, we assess the equity release and rental savings parents would experience if they downsized to a property with one fewer bedroom than their current home. The Home Affordability Index dataset underpins this analysis, and we identify households that have adult children living at home and the tenure of the parent. For these households, we apply the following methodology:

- **Parents who are homeowners:** Equity release is based on the reduction in house value if the parents were to move to a property with one fewer bedroom, after accounting for anticipated moving costs (including Stamp Duty). The figures represent the median equity that would be released through downsizing across this group. The value of parents' homes and the homes they would downsize into are based on data from the Wealth and Asset Survey and the average price differential (in percentage terms) realised when downsizing to a smaller home in their local area.
- **Parents who are renters:** We estimate rental savings for households by applying the proportional change in rent when moving to a smaller property, using data from the ONS Price Index of Private Rents. To assess improvements in living affordability, we recalculate each household's total housing costs—combining the updated rent with other essential expenses, such as utility bills—and compare this to their gross income.⁵²

⁵² The NUTS2-level rental savings data in the heat maps combine estimates from both the Skipton Group Home Affordability Index dataset and the ONS Price Index of Private Rents. To do this, we align the regional rental savings from the ONS with the overall median savings observed in the dataset for renting parents with adult children who live with them.

EVOLUTION OF FIRST-TIME BUYERS AND FIRST-TIME BUYER HOMES

In the March 2026 publication, we include analysis of how the characteristics of first-time buyers and of the homes they purchase have changed over time and how they differ across regions. This analysis is underpinned by the English Housing Survey and Scottish Household Survey. The following section provides more detail on the methodological approach to the analysis.

Data sources

The analysis for England is underpinned by the English Housing Survey (EHS) which collects detailed information about people's housing circumstances and the condition of the housing stock in England.⁵³ The survey consists of two main elements: an initial survey about housing and related topics and a physical inspection of a random sample of properties designed to assess their condition and energy performance. Around 13,000 household interviews and 6,000 physical inspections are conducted each year.⁵⁴

Data on recent first-time buyers in Scotland are sourced from the Scottish Household Survey but are more limited. This means we are unable to report on some characteristics of recent first-time buyers and their homes in Scotland. There is currently no dataset for Wales that collects information about first-time buyers and the characteristics of properties they purchase. Our analysis is therefore limited to England and Scotland.

Methodology

In keeping with published EHS documentation, recent first-time buyers are defined as households that have purchased their first property in the last three years.⁵⁵ For each buyer characteristic and property characteristic, the weighted average value is calculated using the respective weights provided in the dataset for each year. This ensures the estimated means and proportions in the report are nationally representative.⁵⁶ In the report, a three-period average is used for certain data series to smooth volatility between years and more clearly present the underlying trends in buyer and property characteristics. It is clearly stated in the March 2026 report where this practice is employed.

Over the years the EHS has been running, there have been questions added to or removed from the survey which mean that some variables are available for a shorter time period than others. There have also been changes to the response options for certain questions. Where possible, response options have been grouped to ensure consistency over time.

⁵³ ONS, [Information and publications on the English Housing Survey](#).

⁵⁴ For more detail see, Ministry of Housing, Communities and Local Government, [English Housing Survey technical report, 2023-24](#)

⁵⁵ Gov.uk, [Housing statistics and English Housing Survey glossary](#)

⁵⁶ The mean is presented for continuous variables while proportions are presented for categorical variables.

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