

Article

# First-time buyer housing affordability in England and Wales: 2017

Analysis of house prices and earnings for prospective first-time buyers, as well as purchase prices and incomes of previous first-time buyers.

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Release date:  
25 July 2018

Next release:  
To be announced

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# 1 . Main points

- Prospective first-time home buyers in London in 2017 could expect to spend 13 times their earnings on property, compared with 5.5 times in the North East.
- London was the least affordable region for prospective first-time buyers in 14 of the last 19 years, with the North East the most affordable for 18 of the last 19 years.
- Housing became less affordable for those who bought their first house in 78% of local authorities in 2017 compared with the previous year.

## 2 . Introduction

Interest in housing affordability has been widespread in recent years and [statistics showing affordability ratios](#) have been used to shed light on this issue. Less is known about housing affordability for first-time buyers, including affordability for people looking to purchase a residential property for the first time, as well as those who have been able to purchase a residential property for the first time, and how these two groups differ. The industry group UK Finance showed that [2017 saw the highest number of first-time buyer mortgages since 2006](#), but questions have continued to be raised about first-time buyer affordability and how it has changed in recent years.

This article explores data from the [Annual Survey of Hours and Earnings](#) (ASHE), [House Price Statistics for Small Areas](#) (HPSSA) and [UK Finance](#) (previously the Council of Mortgage Lenders) to provide insights into the affordability of first-time buyer homes in recent years.

## 3 . Things you need to know about this release

The first measure of first-time buyer housing affordability uses lower quartile price paid for residential properties, based on the assumption that first-time buyers are likely to purchase properties towards the lower end of prices in the housing market. Lower quartile house prices are then divided by median gross annual workplace-based earnings for full-time workers aged 22 to 29 years to create an estimated first-time buyer affordability ratio. The industry group UK Finance estimates [the average age of first-time buyers to be around 30 years old](#), and so many of those saving to purchase a house for the first time are likely to be in the 22 to 29 age group. We refer to this measure as prospective first-time buyer affordability.

Earnings data are used in the calculation of prospective first-time buyer affordability because these are available for a range of subnational geographies, including local authority districts, although earnings do not account for all possible sources of income. Earnings data are from the [Annual Survey of Hours and Earnings](#) and refer to median gross earnings of full-time employees aged 22 to 29 years, drawn from a sample of HM Revenue and Customs Pay As You Earn (PAYE) records. This means that income recorded through Self-Assessment (including income received from self-employment, property rental and investments) and earnings from part-time workers are not included in this measure of affordability.

Workplace-based earnings refer to the earnings recorded for the area in which the employee works, as opposed to residence-based earnings, which refer to the area in which the employee lives. Residence-based earnings by age group are not available, so only workplace-based earnings are used in the calculation of prospective first-time buyer affordability ratios. For a discussion on the effect of both workplace-based and residence-based earnings on housing affordability, see our [Housing affordability in England and Wales: 2016 publication](#).

A limitation to this method of calculating prospective first-time buyer affordability is that not all first-time buyers are aged between 22 and 29 years, and lower quartile house prices do not reflect the actual purchase price paid by all first-time buyers. Furthermore, this affordability measure is only an indication of an individual's affordability and so does not apply to those who purchase a property with other people.

The second measure of first-time buyer housing affordability explored in this article uses a subset of mortgages data from UK Finance. It is calculated by dividing the median price paid for a residential property by first-time buyers purchasing with a mortgage, by the median gross annual income of the mortgage applicants. This measure provides an indication of the house purchase affordability for first-time buyers who have been able to purchase a property either individually or jointly, but it does not include first-time buyers who purchased a property without a mortgage. We refer to this measure as first-time buyer purchase affordability.

The statistical datasets we have produced using UK Finance data are not published alongside this article because our agreement with UK Finance does not currently permit this.

The first-time buyer indicator in the UK Finance data is a self-identified label and the definition of this may vary between banks and building societies.

## **4 . Increasing regional affordability gap for prospective first-time buyers**

By making some assumptions about the age and house prices for prospective first-time buyers, we can analyse affordability for people who may want to buy a house. We obtain an affordability ratio for prospective first-time buyers by dividing lower quartile house prices by median gross annual workplace-based earnings for full-time workers aged 22 to 29 years. We refer to this measure as prospective first-time buyer affordability.

Prospective first-time buyers could expect to spend 13 times their workplace-based annual earnings to purchase a property in London in 2017, compared with 5.5 times their earnings to purchase a property in the North East (the least and most affordable regions respectively).

Figure 1 shows prospective first-time buyer affordability for English regions and Wales in 2017. Regions with a lower affordability ratio are more affordable for prospective first-time buyers, while higher affordability ratios indicate less affordable regions. The South West, East, South East and London had a higher prospective first-time buyer affordability ratio than the rest of the English regions and Wales.

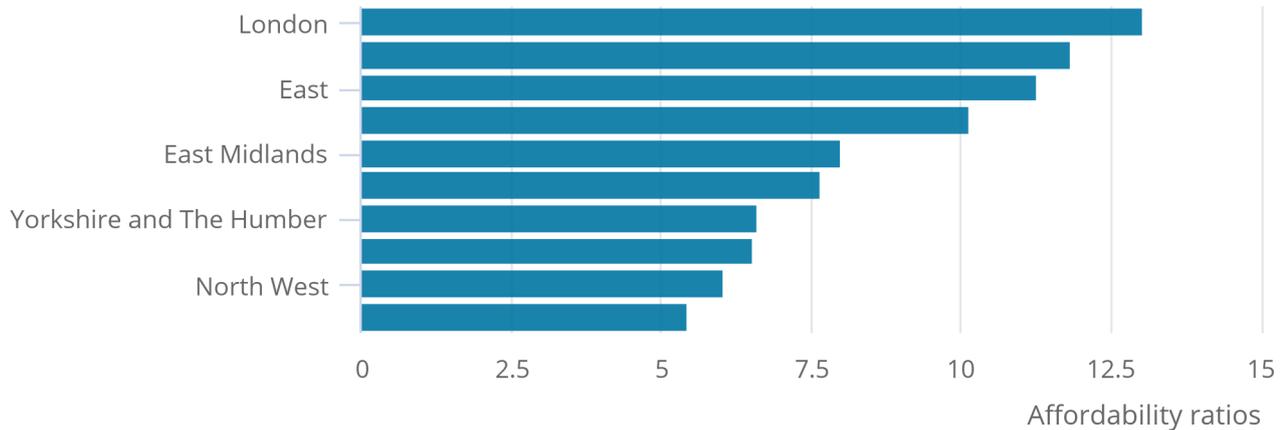
Out of all the English regions and Wales, the third most affordable for prospective first-time buyers was Wales, with a prospective affordability ratio of 6.5. Amongst English regions, there is a noticeable geographical divide, with regions in the north and midlands ranging from 5.5 (North East) to 8.0 (East Midlands) and those in the greater South East and South West ranging from 10.1 (South West) to 13.0 (London).

## Figure 1: Prospective first-time buyer affordability ratios, by region

England and Wales, 2017

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England and Wales, 2017



Source: House Price Statistics for Small Areas and Annual Survey of Hours and Earnings, Office for National Statistics

#### Notes:

1. Prospective affordability ratios were calculated by dividing lower quartile house prices by median gross annual workplace-based earnings for full-time workers aged 22 to 29 years.

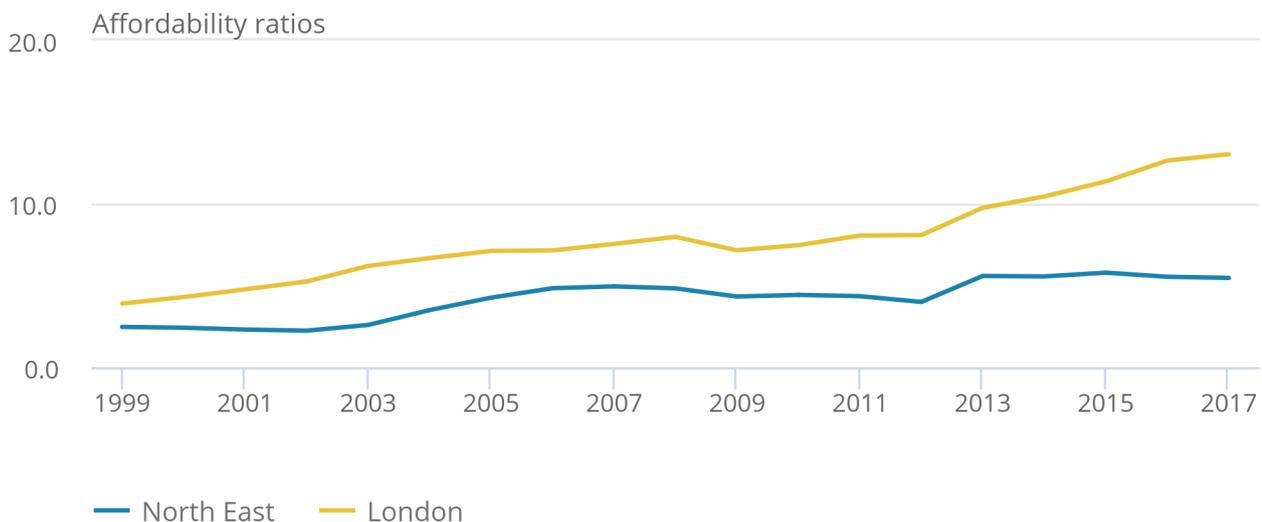
London was the least affordable region for prospective first-time buyers in 14 of the last 19 years. The North East was the most affordable region for 18 of the last 19 years. Figure 2 shows that between 1999 and 2017, prospective first-time buyer affordability ratios have increased faster in London than in the North East. Since 1999, the prospective first-time buyer affordability ratio in London has increased by 235% (from 3.89 to 13.03 last year). In the North East, the ratio has increased by 122% since 1999 (from 2.46 to 5.46 last year). The larger increases for affordability ratios in London were driven by increases between 2013 and 2017, while the North East had relatively smaller increases.

**Figure 2: Prospective first-time buyer affordability ratios**

London and North East, 1999 to 2017

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London and North East, 1999 to 2017



Source: House Price Statistics for Small Areas and Annual Survey of Hours and Earnings, Office for National Statistics

**Notes:**

1. Prospective affordability ratios were calculated by dividing lower quartile house prices by median gross annual workplace-based earnings for full-time workers aged 22 to 29 years.

## 5 . Increasing prospective affordability ratios in London driven by lower quartile house prices

Figure 3 shows indices of lower quartile price paid for residential properties and median gross annual workplace-based earnings for full-time workers aged 22 to 29 years in London between 1999 and 2017. These are the measures used to calculate the first-time buyer affordability ratio. The increase in the prospective first-time buyer affordability ratio in London has for the most part been driven by increases in lower quartile house prices.

Median gross annual earnings for full-time employees aged 22 to 29 years remained relatively unchanged and even decreased slightly between 2012 and 2013. Lower quartile house prices in London increased proportionately more than earnings in 17 of the last 18 years, which contributed to the worsening of prospective first-time buyer housing affordability.

### Figure 3: Indices of prospective first-time buyer house prices and gross annual earnings

London, 1999 to 2017

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London, 1999 to 2017



Source: House Price Statistics for Small Areas and Annual Survey of Hours and Earnings, Office for National Statistics

#### Notes:

1. Prospective affordability ratios were calculated by dividing lower quartile house prices by median gross annual workplace-based earnings for full-time workers aged 22 to 29 years.

Figure 4 shows that the comparatively slow increase in prospective affordability ratios in the North East was caused by relatively stable lower quartile house prices for residential properties and median gross annual workplace-based earnings for those aged 22 to 29 years. Following an increase in lower quartile house prices between 2003 and 2008, there has been very little increase in the lower quartile house prices in the North East. A decrease in median gross annual earnings between 2012 and 2013 means that the median gross annual earnings in 2017 were roughly the same as they were in 2006.

**Figure 4: Indices of prospective first-time buyer house prices and gross annual earnings**

North East, 1999 to 2017

## Figure 4: Indices of prospective first-time buyer house prices and gross annual earnings

North East, 1999 to 2017



Source: House Price Statistics for Small Areas and Annual Survey of Hours and Earnings, Office for National Statistics

**Notes:**

1. Prospective affordability ratios were calculated by dividing lower quartile house prices by median gross annual workplace-based earnings for full-time workers aged 22 to 29 years.

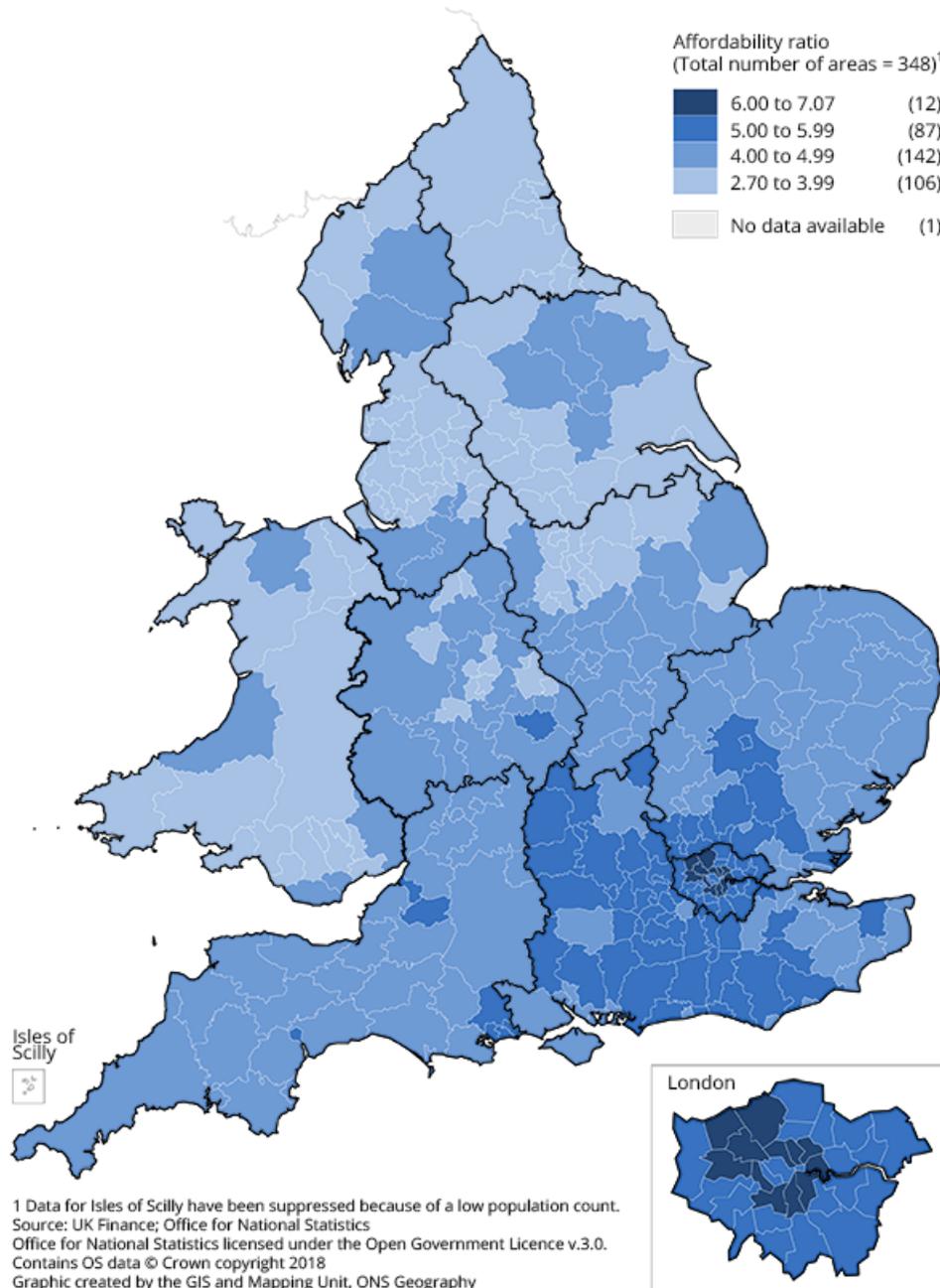
## 6 . Regional affordability gap for actual first-time buyers

The prospective first-time buyer affordability ratios used so far have looked at those people who could be looking to purchase a residential property for the first time. Using the median price paid for a residential property by those who became first-time buyers, divided by the median gross annual income of those buyers, demonstrates housing affordability for people who were able to purchase a property. We refer to this as first-time buyer purchase affordability.

In 2017, those who became first-time buyers in England and Wales spent on average 4.3 times their gross annual income purchasing a property with a mortgage, up from 4.2 in 2016. Figure 5 shows that first-time buyer purchase affordability ratios in 2017 were lowest in local authorities in Wales and in northern parts of England. Local authorities in London, the South East and parts of the East of England had the highest first-time buyer purchase affordability ratios. There were 12 local authorities in which first-time buyers spent more than six times their income on buying a property with a mortgage, all of which were in London.

**Figure 5: First-time buyer purchase affordability ratios from UK Finance, by local authority**

England and Wales, 2017



Source: UK Finance

**Notes:**

1. First-time buyer purchase affordability ratios were calculated by dividing median price paid for a residential property by first-time buyers purchasing with a mortgage, by the median gross annual income of the mortgage applicants.
2. The statistics in this chart were produced using UK Finance data, which are not published alongside this article because our agreement with UK Finance does not currently permit this. Therefore it is not possible to provide the statistics for the individual areas shown on the chart.

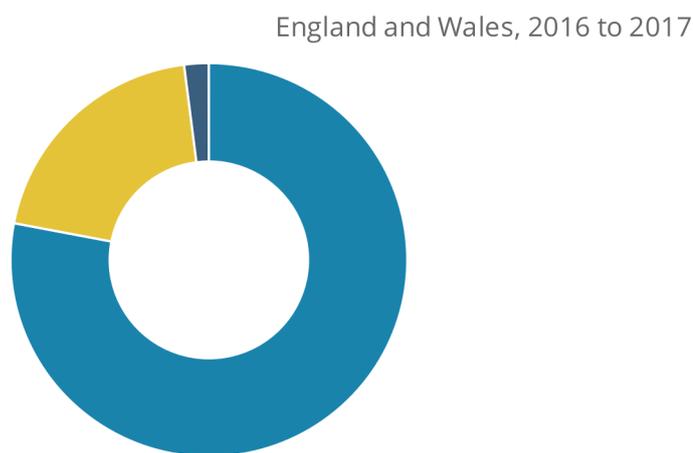
Between 2016 and 2017, the largest proportional increase in first-time buyer purchase affordability ratios occurred in Conwy, Wales (15%), while the second-largest increase was in Camden, London (14%). First-time buyer purchase affordability ratios decreased substantially in City of London between 2016 and 2017, with a decrease of 43%, although there are unlikely to be many mortgages to first-time buyers here.

Figure 6 shows that between 2016 and 2017, first-time buyer purchase affordability ratios increased in the majority of local authorities in England and Wales, while only 22% of local authorities either decreased or stayed the same.

**Figure 6: Percentage of local authorities in which first-time buyer purchase affordability increased, decreased or stayed the same**

England and Wales, 2016 to 2017

Figure 6: Percentage of local authorities in which first-time buyer purchase affordability increased, decreased or stayed the same



Source: UK Finance

Notes:

1. First-time buyer purchase affordability ratios were calculated by dividing median price paid for a residential property by first-time buyers purchasing with a mortgage, by the median gross annual income of the mortgage applicants.
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However, these first-time buyer house purchase affordability ratios do not indicate the ongoing costs of owning a house for the first time after its purchase. For example, they do not show whether the percentage of income spent on mortgage payments is lower in the north of England and Wales, and so it is not clear whether there is a geographical divide in overall home-ownership affordability as well as house purchase affordability.

## **7 . Affordability for prospective buyers worsening faster than for actual first-time buyers**

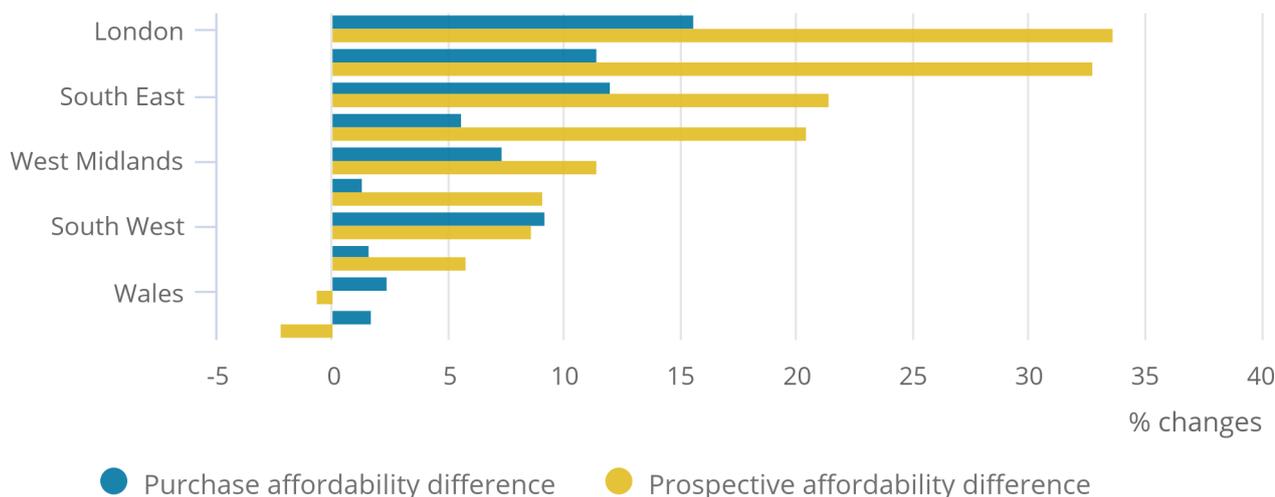
Figure 7 shows that, in general, prospective first-time buyer affordability ratios increased more than first-time buyer purchase affordability ratios in English regions between 2013 and 2017. Increases in prospective first-time buyer affordability ratios were much higher than the increases in first-time buyer purchase affordability ratios in the least affordable regions (London, East, South East). The only areas where changes in prospective first-time buyer affordability ratios were less than the changes in first-time buyer purchase affordability ratios were the North East and Wales, where prospective first-time buyer affordability ratios decreased between 2013 and 2017.

**Figure 7: Percentage change in first-time buyer purchase affordability ratios and prospective first-time buyer affordability ratios, by region**

England and Wales, 2013 to 2017

Figure 7: Percentage change in first-time buyer purchase affordability ratios and prospective first-time buyer affordability ratios, by region

England and Wales, 2013 to 2017



Source: UK Finance, House price statistics for Small Areas and Annual Survey of Hours and Earnings, Office for National Statistics

**Notes:**

1. First-time buyer purchase affordability ratios have been calculated by dividing median price paid for a residential property by first-time buyers purchasing with a mortgage, by the median gross annual income of the mortgage applicants.
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