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## First-Timers better off buying than renting

- Annual savings of £865 for buying rather renting, up from £760 in 2014
- Saving gap between buying and renting more than doubles over last five years
- South East the only region where renting is the cheaper option

**First-time buyers in the UK are on average £865 (10%) a year better off with their own home compared to those who rent, according to research by Lloyds Bank.** The average monthly buying cost (including mortgage payments<sup>1</sup>) associated with a first-time buyer purchasing a three bedroom house stood at £672<sup>2</sup> in December 2015; £72 (or 10%) lower than the typical monthly rent of £744<sup>3</sup> paid on the same property type.

This represents an increase of £105 over the past year compared with the annual saving associated with buying a home instead of renting of £760 in 2014. The difference has grown as average monthly rents have increased more steeply (by £24 – a 3% increase) when compared to a £15 (2%) increase in monthly buying costs.

### Gap grows significantly in past five years

The current financial gap between buying and renting of £865 is more than double the annual saving of £397 in 2010. Over this period, the average rent has grown by 23% (£139 a month) from £605 whilst average buying costs have increased by 17% (£100 a month) from £572. Buying has consistently been the cheaper option since 2009, when the average monthly payment was £561 for renting compared with £575 for buying. (See Table 1)

### Buying more affordable than renting in all regions except the South East

Average monthly buying costs (£965) in the South East are higher (£65) than average monthly rental costs (£900) – the only UK region where renting is the cheaper option. On the other hand, buying is most affordable compared to renting in cash terms in the North West, where the typical first-time buyer is paying £133 a month less than the average renter (£525 against £658); followed by Scotland (£525 against £645, a saving of £120), and Wales (£471 against £574, a saving of £103). (See Table 2)

### Number of first-time buyers in the housing market

The number of first-time buyers is estimated<sup>4</sup> to have totalled 310,000 in 2015; largely unchanged from 311,700 in 2014. This represents an increase of almost two-thirds (60%) since the number of first-time buyers fell to a recent low of 193,700 in 2011.

## MEDIA CONTACTS

Mike McPartlin  
07795 316090  
[michael.mcpartlin@lloydsbanking.com](mailto:michael.mcpartlin@lloydsbanking.com)

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The number of first-time buyers accounted for 46%<sup>5</sup> of all house purchases made with a mortgage in 2015. This share has grown from 36% at the start of the housing downturn in 2007.

**Mike Songer, Mortgage Director, Lloyds Bank said:**

"We've seen a significant shift over the past five years, with people consistently paying less on average per month when owning their property as opposed to renting. In 2015 this gap widened by over £100 to an annual saving of £865.

"This has been helped by record low mortgage rates and rising private rents, making owning a home a much more attractive proposition than renting.

"This steady improvement in the costs of buying compared to renting has helped to boost the number of first-time buyers over the past few years, who now account for 46% of all home sales in 2015 – up from 36% in 2006. Official government schemes, such as Help to Buy have also played a part in helping first-time buyers as have improving economic conditions."

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

Year	Average monthly buying costs	Average monthly rental payment	% difference	£ difference	£ Annual Savings
December 2010	£572	£605	-5%	-£33	-£397
December 2011	£571	£653	-12%	-£81	-£977
December 2012	£587	£661	-11%	-£75	-£895
December 2013	£610	£692	-12%	-£81	-£973
December 2014	£657	£720	-9%	-£63	-£760
<b>December 2015</b>	<b>£672</b>	<b>£744</b>	<b>-10%</b>	<b>-£72</b>	<b>-£865</b>

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

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

Region	Average monthly buying costs	Average monthly rental costs	% difference	£ difference	£ Annual Savings
North	£460	£508	-10%	-£49	-£585
North West	£525	£658	-20%	-£133	-£1,598
Yorkshire & the Humber	£502	£525	-4%	-£23	-£275

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West Midlands	£556	£603	-8%	-£46	-£554
East Midlands	£539	£564	-4%	-£25	-£297
East Anglia	£671	£713	-6%	-£43	-£513
South East	£965	£900	7%	£65	£776
Greater London	£1,355	£1,444	-6%	-£89	-£1,073
South West	£703	£791	-11%	-£88	-£1,062
Scotland	£525	£645	-19%	-£120	-£1,440
Wales	£471	£574	-18%	-£103	-£1,232
Northern Ireland	£390	£475	-18%	-£85	-£1,014
<b>UK</b>	<b>£672</b>	<b>£744</b>	<b>-10%</b>	<b>-£72</b>	<b>-£865</b>

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

## Editor's notes:

The **Lloyds Bank Buying vs. Renting Review** tracks the costs of buying and renting a three bedroom property faced by a typical **first time buyer** (FTB) across the UK. **Average buying costs include mortgage payments, income lost by funding a deposit rather than saving, spending on household maintenance and repair and insurance costs.** They do not include one-off costs, such as stamp duty, valuation and legal fees. The review is based on data from the Lloyds Banking Group housing statistics database, BM Solutions, the Bank of England, and the Office for National Statistics (ONS).

### <sup>1</sup> **Mortgage payments:**

Mortgage payments are the weighted average of repayment (capital and interest) and interest-only mortgage payments. They refer to the average first-time buyer with average advance data from the Council of Mortgage Lenders. Weights have been constructed using FCA regulated mortgage statistics on advances by mortgage type. Average mortgage payments (both repayment and interest-only) have been calculated using house price data from the Lloyds Banking Group's (LBG) own extensive housing statistics database and Bank of England series on the average of UK resident banks' sterling weighted average interest rate loans secured on dwellings to households for new borrowers only.

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

### <sup>2</sup> **Average buying costs:**

Average buying costs include mortgage payments (weighted average of repayment and interest-only mortgage payments), household maintenance, repair, minor alterations and insurance costs and income lost by funding a deposit rather than saving.

Mortgage payments are calculated from average advances made to first time buyers for each region and year published by the Council of Mortgage Lenders. The average advance for 2015 varies from 75% in London to 85% in the northern regions; the UK average is 83%. Figures relate to the first year of purchase.

### <sup>3</sup> **Rental payments:**

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

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East Midlands and West Midlands are estimates.

<sup>4</sup> Estimate of FTBs buying with a mortgage

<sup>5</sup> Estimate of total house purchases

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

It is assumed that there is a cost involved in funding a deposit which for this analysis is the monthly interest income lost from paying a deposit instead of saving it in an interest bearing account. This has been calculated using house price data from the Halifax's housing statistics database and the interest gained from an average of Bank of England quoted savings rates on instant access, notice, ISA and fixed rate bond accounts. For example, the average deposit required to buy a three bed home (£31,101) in the UK would generate an average monthly income of just over £26. If used to fund a deposit, the income from the interest would be lost and is therefore included as a cost within the average monthly buying costs measure.

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

Estimated maintenance repair, minor alterations and insurance costs associated with owning a home have been sourced from the ONS Family Spending Survey for 2014. Estimates for 2010 to 2013 and 2015 have been calculated using the 2014 survey data and adjusted using the CPI series on regular maintenance and repair of dwellings.

Housing Economics Helpline No: 08456 045404

Email: [housingeconomics@lloydsbanking.com](mailto:housingeconomics@lloydsbanking.com)

#### **For further information, please contact:**

Mike McPartlin

07795 316090

[michael.mcpartlin@lloydsbanking.com](mailto:michael.mcpartlin@lloydsbanking.com)

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Mike McPartlin

07795 316090

[michael.mcpartlin@lloydsbanking.com](mailto:michael.mcpartlin@lloydsbanking.com)