



A report into the UK rental market combining research from Savills and Rightmove

Special Report **Renting vs buying**

Summer 2012

Home Economics
A review of the relative costs of buying vs renting your home



savills.co.uk/research
rightmove.co.uk

Special Report Renting vs buying



According to our latest research, Renters are initially £2,000 a year better off but could miss out on lower lifetime housing costs...

Introduction

Renting is cheaper than buying across all but two of the UK's 376 boroughs despite strong rental growth and historically low bank base rates. This is especially true in the new era where interest only mortgages are rare and come at a high price, particularly for first time buyers.

The new findings show that on a capital repayment basis and taking into account the initial costs of buying, the common perception that it is cheaper to buy than rent held by the majority of existing and aspiring home owners is actually misplaced.

It now costs on average 21 per cent or £2,068 more in the first year of ownership to buy than to rent the average two bedroom property for those with a 75% loan to value, rising to almost £7,400 in inner London after capital repayments have been taken into account.

While most households understand the long term financial benefits of home ownership, such as wealth generation and lower lifetime

housing costs, these benefits have become less attainable; as the costs associated with the early years of home ownership trap more people in the private rented sector.

Punitive short term costs of buying:

Over half (51%) of renters and homeowners wrongly believe it is cheaper to buy than rent in the short term. This view is particularly marked in London and the South East where rents are rising the most strongly but the costs of buying are still higher. Two-thirds (68%) are of the view that it is cheaper to own in the long-term.

The new analysis shows that:

■ After capital repayments it is 21% (or £2,068 a year) more expensive to buy than rent the average two bedroom property in the UK and over a third more expensive to buy than rent in one in four locations across England and Wales (based on a 25% deposit).

■ It is 50% (or £5,006 a year) more expensive for a first time buyer with a deposit of just 10% to buy than rent the same two bedroom property. →

SUMMARY

The report's key findings

- After capital repayments it is 21% (or £2,068 a year) more expensive to buy than rent the average two bedroom property in the UK.
- The wealth gap is widening between those unable to access home ownership and those who can enjoy the increased wealth that can be accumulated via house price growth.
- A recent Rightmove survey found that 56% of renters are 'trapped', wanting to buy but unable to afford to.
- Savills Research estimates that over the past 25 years house price growth has meant that owning a two-bedroom property has added an average £3,500 to a buyer's overall wealth in the first year of ownership.



Lucian Cook
 Savills



Miles Shippside
 Rightmove



➔ ■ In the first quarter of this year just 11% of homeowners with a mortgage were on interest only terms, a figure that falls to 3% for first time buyers.

■ It is more expensive to buy than rent across practically all Local Authority Districts in England and Wales once ownership costs are taken into account. The only exceptions are the London Boroughs of Newham and Greenwich.

Renters miss out emotionally and financially

■ A Rightmove survey found over three-quarters (78%) of consumers view property primarily as 'a place to live and over half say 'owning their property when they are older' is the single most important reason to buy rather than rent.

■ But the wealth gap is widening between those unable to access home ownership and those who can enjoy the increased wealth that can be accumulated via house price growth.

■ While there is now an opportunity to buy at or close to the bottom of the market in the next two years, the short term impact of higher buying costs is likely to prevent first time buyers taking advantage of that opportunity.

■ A recent Rightmove survey found that 56% of renters are 'trapped', wanting to buy but unable to afford to, with raising sufficient deposit the single biggest challenge for 33% of those looking to get on the housing ladder.

Highlighting the affordability challenge of getting onto the housing ladder, 58% of intending first-time buyers are of the view that property prices in their area are above what is 'fair and reasonable'.

■ Savills Research estimates that over the past 25 years house price growth has meant that owning a two-bedroom property has added an average £3,500 to a buyer's overall wealth in the first year of ownership.

"Much analysis of the relative cost of buying compared to renting does not take account of the costs of capital repayments," says Lucian Cook, director of Savills Global Research.

"In the current lending environment a calculation on the basis of interest only borrowing – which makes a renting appear around 11% cheaper is largely irrelevant."

"Even for those lucky enough to have accumulated a sufficient deposit to allow them to buy in theory, in practice the additional annual cost will leave some would be first time buyers frozen out of home ownership," says Cook.

Yet there remains a perception among the majority of aspiring and existing owner-occupiers that rent is, in the words of Miles Shipside, Director of Rightmove 'dead money'. "What continues to come across is that people still want to own the place they live, bring up their family and grow old in. They also understand home ownership offers lower lifetime housing costs.

"But there is a lack of understanding about the relative costs of buying v renting in the short term. One in five in our survey admitted they did not know how to work this out. Given the shortage of rental accommodation in many parts of the UK, it's understandable that more than half of people wrongly believe buying is the cheaper option to renting even in the short term."

Cook adds, "In reality aspiring homeowners need to work out whether they are able and prepared to incur the short term additional costs of buying to put themselves in a position to benefit from the longer term gains and avoid the losses associated with lifetime renting.

"Buying has traditionally acted as both a hedge against rental inflation and a

"Aspiring homeowners need to be prepared to incur the short term additional costs of buying to benefit from longer term gains."

means of minimising housing costs in retirement. These issues will stored up for increasing numbers of households confined to the private rented sector."

Supplementary findings

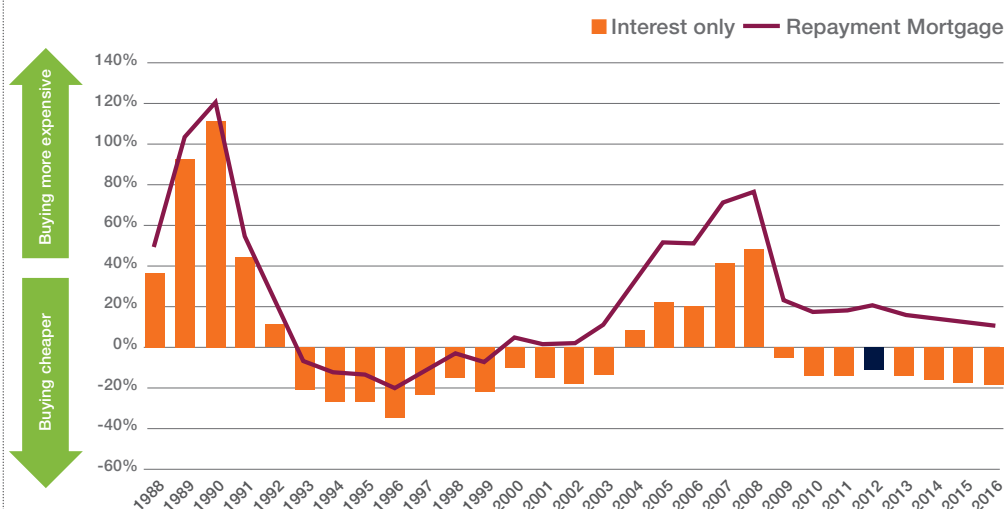
The cost of capital repayments, that ballooned as house prices rose in the 10 years to 2007, mean that on average it is 21% more expensive to buy than rent an average two-bedroom property.

The cost of capital repayments have become an increasing burden on would be home owners.

Assuming a 25-year repayment term, the cost of capital repayments in the first year of a mortgage term account for an average 7.5% of earnings up from 4.2% in 2000. Putting this into perspective, today's total cost of servicing a mortgage at 18.6% of the average salary is broadly in line with the average for the past 15 years, despite the current low interest rate environment.

Without capital repayment requirements buying is 11% cheaper ➔

GRAPH 1 **Costs of Buying v Renting an average 2 bedroom property**



Graph source: Savills using CLG & CML data

→ than renting, a position similar to that between 1993 and 2003 when buying was on average 21% cheaper than renting on an interest only mortgage.

The position is most acute for deposit starved prospective first time buyers illustrating the gap between generations.

Younger households, who are more exposed to the pressure on household incomes, are more likely to 'price in' the equity, which they put into a house purchase, having regard to the income it could produce if it were invested elsewhere.

In contrast older generations are more able to take a view on their equity having benefited from historic house price growth.

Even in the first year of ownership the increase in personal wealth from house price growth is usually sufficient to warrant home ownership.

Over the past 25 years house price growth has meant that owning a two-bedroom property has added an average £3,500 to a buyer's overall

GRAPH 2 **First-time buyers' single biggest concerns** Rightmove Consumer Confidence Survey (April 2012)

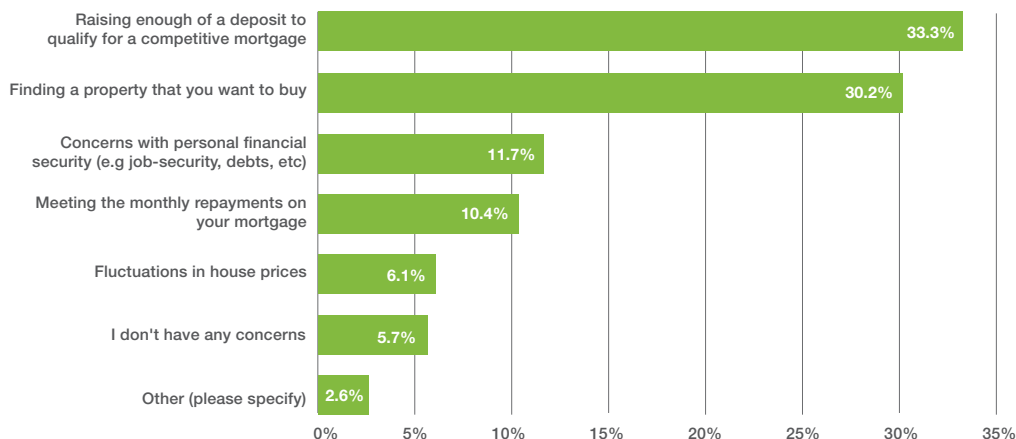


Table source: Rightmove/Savills

wealth in the first year of ownership. There has only been five years during this period, when this has not been the case.

This means the gap is widening between those, who are affected by the additional costs of ownership and those who can enjoy the increased equity that can come from it. →

"Even in the first year of ownership the increase in personal wealth from house price growth is sufficient to warrant home ownership"

TABLE 1 **Public sentiment towards home-ownership: Rightmove Consumer Survey (July 2012)**

Assuming buying with a capital repayment mortgage and including repair and other owner costs, do you think in the short term it is currently cheaper to...?										
	UK	East Anglia	East Midlands	Greater London	Scotland	South East	South West	Wales	West Midlands	Yorkshire
Buy	51%	48%	47%	51%	51%	54%	47%	47%	48%	50%
Rent	23%	25%	30%	26%	35%	22%	22%	28%	27%	29%
I don't know	26%	27%	23%	23%	14%	24%	31%	25%	25%	20%
Assuming buying with a capital repayment mortgage and including repair and other owner costs, do you think in the long term it is currently cheaper to...?										
	UK	East Anglia	East Midlands	Greater London	Scotland	South East	South West	Wales	West Midlands	Yorkshire
Buy	68%	66%	63%	75%	74%	69%	62%	67%	68%	68%
Rent	12%	13%	15%	8%	12%	12%	11%	11%	11%	16%
I don't know	19%	21%	22%	17%	14%	19%	27%	22%	21%	17%
Grand Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Table source: Rightmove/Savills

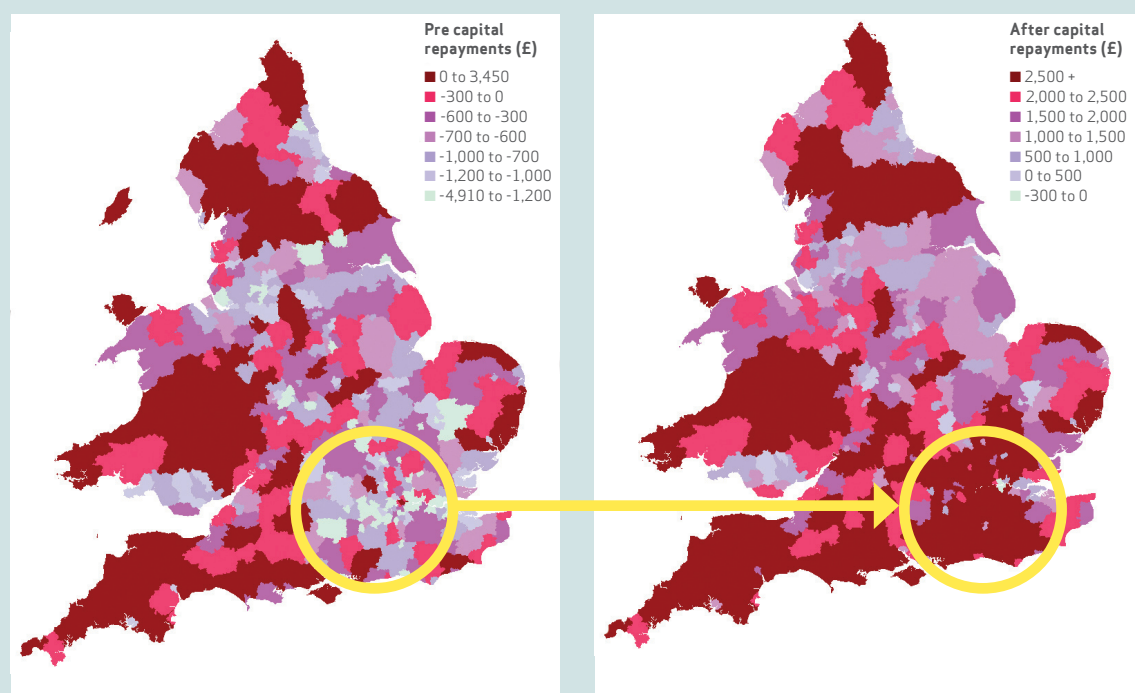
The Regional Story

There are a number of Local Authorities within 90 minutes from London affected by the cost of capital repayments. This additional cost means, relative to the cost of renting, they shift from being some of the least expensive areas to buy on an interest only mortgage to some of the most expensive on a capital repayment mortgage.

For example, in the Local Authority of Windsor and Maidenhead the capital repayment costs mean it is £3,500 per annum more expensive to own a two-bedroom property than it is to rent, whereas under an interest only mortgage it would be £1,700 cheaper.

MAP 1

Additional costs of buying a 2 bedroom property on an interest only and capital repayment mortgage Negative figures indicate it is cheaper to buy



Map source: Rightmove/Savills

TABLE 2

Additional costs of buying by region (Year 1 including capital repayments)

Region	Year 1 after capital repayments	
	£	% of rent
South West	2,361	30%
Inner London	7,384	28%
Outer London	3,441	25%
East of England	2,070	24%
South East	2,282	23%
East Midlands	1,365	22%
Wales	1,246	19%
Yorkshire and The Humber	1,089	17%
West Midlands	1,125	17%
North East	861	15%
North West	818	12%
UK	2,068	21%

Table source: Rightmove/Savills

→ TABLE 3 **Variation in the additional cost of buying by region** (Year 1 including capital repayments)

Local Authority	Region	Year 1 after capital repayments	
		£	% of rent
City of Nottingham	East Midlands	68	1%
Derbyshire Dales	East Midlands	4,003	59%
City of Peterborough	East of England	796	12%
St Albans	East of England	4,540	37%
Newham	London	-258	-2%
Kensington and Chelsea	London	22,224	46%
Middlesbrough	North East	510	9%
Berwick-upon-Tweed	North East	4,737	88%
Salford	North West	290	4%
South Lakeland	North West	4,244	61%
Milton Keynes	South East	63	1%
Chiltern	South East	4,834	40%
City of Plymouth	South West	1,094	15%
Christchurch	South West	4,573	51%
Blaenau Gwent	Wales	163	4%
Powys	Wales	3,838	67%
Coventry	West Midlands	275	4%
Stratford-on-Avon	West Midlands	3,280	37%
City of Kingston upon Hull	Yorkshire and The Humber	93	2%
Richmondshire	Yorkshire and The Humber	4,084	66%



→ **Additional note**

Our calculations compare the current annual rent paid for an average two bedroom property against the costs of ownership in the first year of purchase. These ownership costs are made up of :

- Mortgage repayments (unless otherwise stated assuming a capital repayment mortgage for a 75% LTV mortgage at the prevailing mortgage interest rate);

- The investment returns that would otherwise be received on the pot of capital that is applied to a mortgage deposit and associated buying costs;

- Other costs, such as property repairs and buildings insurance, that would be borne by an owner occupiers but not a tenant, spreading the initial costs of purchase across the mortgage period.

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Savills Research Team



Lucian Cook
 Residential markets
 020 7016 3837
 lcook@savills.com



Louise Rose
 Savills Press Office
 07967 555 817
 lrose@savills.com

Savills plc

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Rightmove Research Team



Miles Shippide
 Commercial Director
 020 7087 0700
 miles.shipside@rightmove.co.uk



Tom McGuigan
 PR & Comms
 020 7087 0605
 tom.mcguigan@rightmove.co.uk

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