The mortgage affordability paradox: The picture in 2025

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Executive summary

- **In November 2021, IMLA published *The mortgage affordability paradox*, highlighting that mortgage payments relative to earnings were close to their all-time lows despite a record house price to earnings ratio of 8.2.** This reflected the record low mortgages rates that prevailed at the time. In June 2024, we updated this analysis to understand the impact of higher interest rates and we are updating it again now as mortgage rates ease back.

- **After more than a decade (2009-2022) when mortgage interest costs as a proportion of average borrower income were below their long-term average, 2023 and 2024 have seen them return to this average.** At the low point in 2020, new home purchasers were spending only 7.1% of their income on mortgage interest. This figure had more than doubled by 2024 to 15.2%.

- **The house price to earnings ratio eased back to 7.2% by the end of 2024.** Higher mortgage rates reduce the maximum amount people can borrow so, unsurprisingly, the period since 2022 has seen the house price to earnings ratio fall back but this has been achieved through rising wages rather than falling house prices.

- **Rental costs are below mortgage interest costs in most regions.** In September 2021, when interest rates were low, average private sector rents exceeded mortgage interest costs on the full price of a first-time buyer property in every region. Now the picture is more mixed but buying is still cheap in Scotland, Northern Ireland, the North West and the East of England.

- **At 330,000, first-time buyer numbers held up well in 2024, due in part to pent-up demand from the estimated 3.5 million households that would have been expected to buy since the financial crisis but have not.** The resilience of the housing market in the face of higher interest rates since 2022 is perhaps best illustrated by the number of first-time buyers, which in 2024 was well above the average of the last 17 years.

- **We welcome the government's commitment to reduce regulations in financial services but believe more can be done to reduce barriers for first-time buyers.** In particular, we believe that the loan-to-income (LTI) flow limit, which restricts lenders to advancing no more than 15% of their new loans at or above an LTI of 4.5 times is keeping many prudent borrowers out of homeownership.

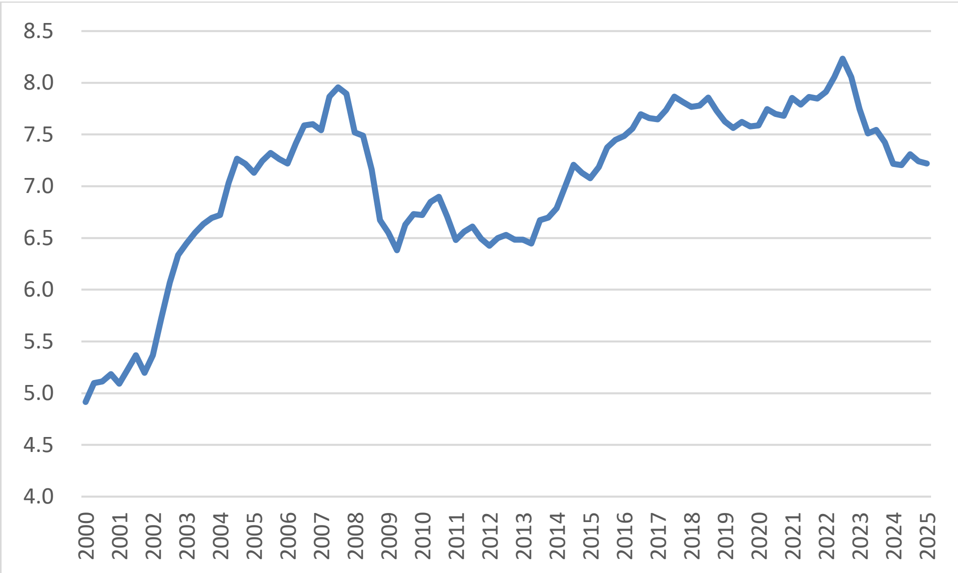
1. Measuring housing affordability

1.1 House price earnings ratio

In late 2022, IMLA published a report entitled *The mortgage affordability paradox*, which contrasted the high level of house prices relative to earnings with the low level of mortgage payments borrowers were making thanks to record low mortgage rates. We updated that paper last year to show the impact that rising mortgage rates was having on affordability. We update it again now, to take account of the latest trends including the fall in mortgage rates since late 2023 and the rise in earnings.

One of the most widely used measures of housing affordability is the house price to earnings ratio. By comparing wages to house prices, it is the most basic gauge of affordability but one that takes no account of the cost of financing the purchase, either in the form of mortgage interest or forgone interest on savings.

Chart 1 – UK house price to average earnings ratio



Source: ONS

As Chart 1 shows, on this measure, affordability has been stretched since the early 2000s compared to earlier periods, when a ratio of 3-4 was more normal and mortgage rates were typically much higher. But since the financial crisis of 2008-9, the trend in the house price to earnings ratio has no longer been upwards. Indeed, since its peak of 8.2 times in 2022, which came in the wake of large injections of cash by the government during the Covid pandemic, the ratio has fallen back to 7.2 times, the lowest ratio since 2015.

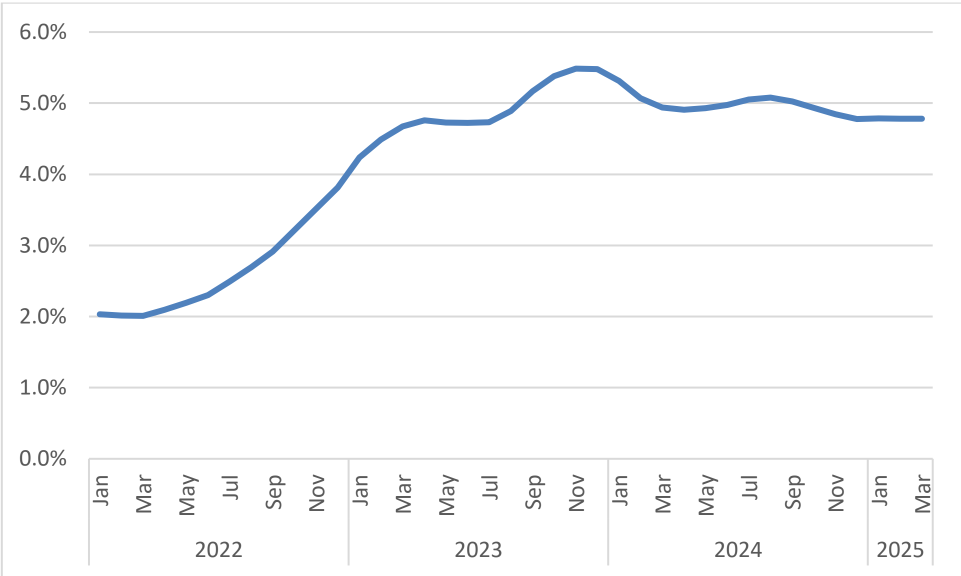
As with any market, price is a product of the forces shaping supply and demand. As housebuilding has been for many years between 0.5% and 1% of the housing stock in the UK, for every 200 existing dwellings we have been adding only between 1 and 2 new units a year. In other words, in the short term supply is all but fixed and this means that we must look to demand to explain most of the fluctuation in prices.

Between the third quarter of 2022, when the house price to earnings ratio peaked, and the first quarter of 2025, house prices rose only 2%, with a fall in 2023 followed by a modest recovery. But over the same period wages rose by 16%, driving the fall in the house price to earnings ratio. The largest factor behind this shift has been the rise in mortgage rates since 2022, which went from the lowest rates on record during 2020-22 (an average on new lending of 2.2% in 2020) to the highest since the financial crisis by late 2023 (2024 averaged 5.0%, fractionally above the 2023 figure, although rates were trending down over the course of 2024).

1.2 Interest payments as a percentage of income

Chart 2 illustrates the scale of the change in interest rates for the average home purchaser since the start of 2022. But after peaking in late 2023 at 5.5%, rates have eased significantly, averaging 4.8% in recent months.

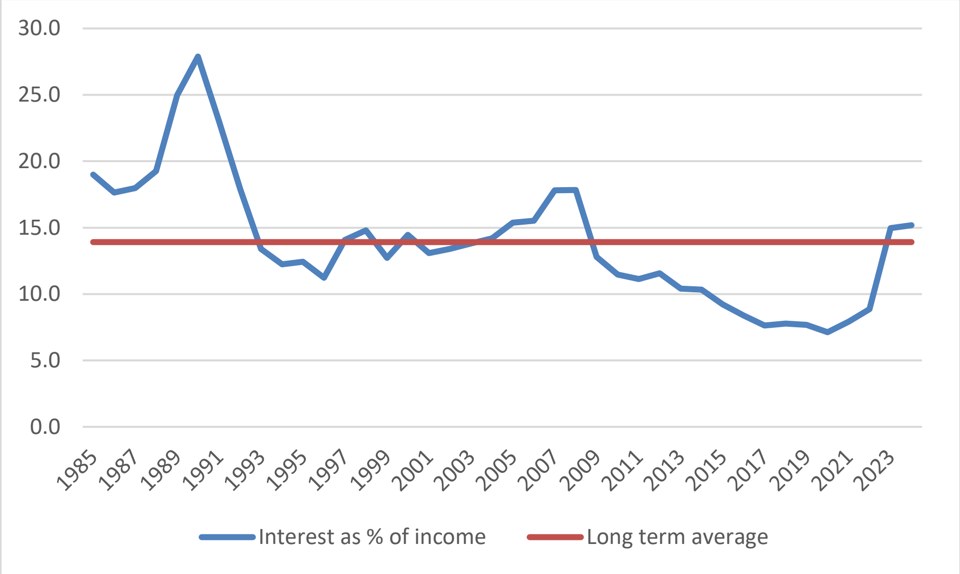
Chart 2 – Average purchaser mortgage rate



Source: UK Finance

Using annual data, Chart 3 shows the impact of these recent changes in mortgage rates on borrower affordability, placing it in its longer-term context. The percentage of income new home purchasers are paying on mortgage interest remained largely unchanged between 2023 and 2024 at around 15%, taking it back to levels last seen in the financial crisis of 2008-9 and to its long-term average. It is this rise in mortgage costs that explains the fall in the house price to earnings ratio: buyers are more stretched so they cannot afford to offer as much relative to their income as they did just a few years ago.

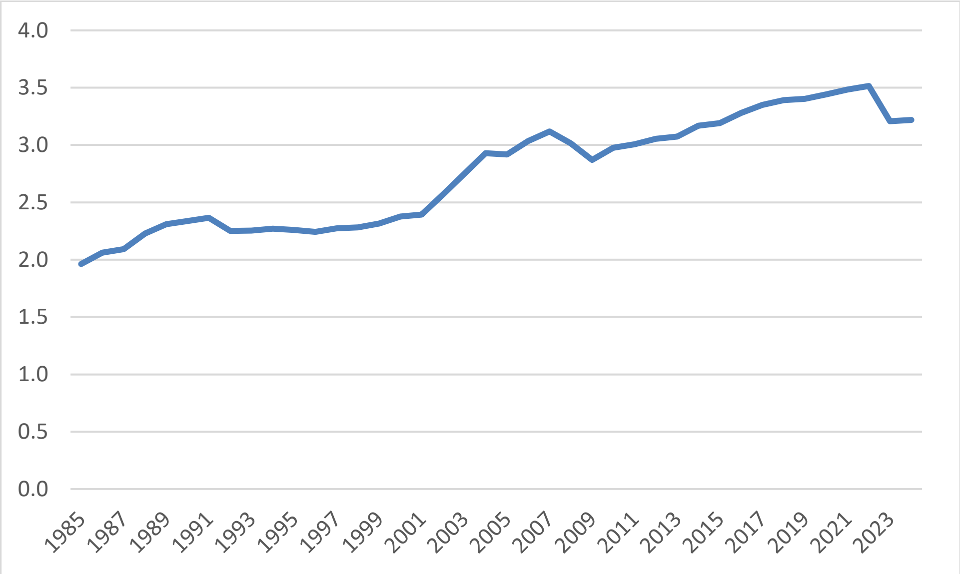
Chart 3 – Mortgage interest as % of income (all home purchasers)



Source: UK Finance

The Financial Conduct Authority (FCA) affordability requirements have reinforced this inverse relationship between Charts 1 and 3, by creating a closer link between the level of mortgage interest and the maximum amount a purchaser is allowed to borrow. So, as mortgage rates have risen since 2022, purchasers have found the constraint on what they can borrow has tightened.

Chart 4 – Ratio of mortgage loan to income (all home purchasers)

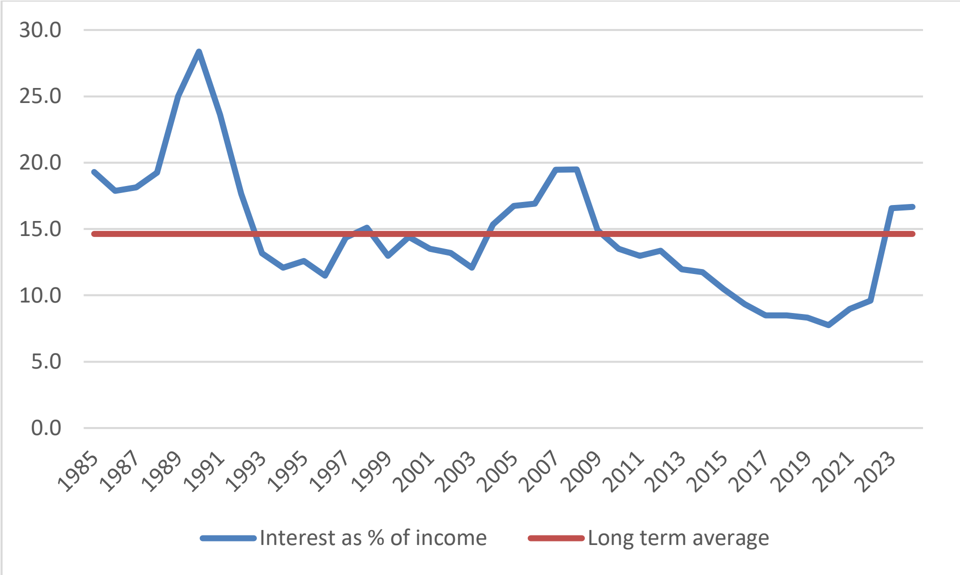


Source: UK Finance

This can be seen directly in Chart 4, which shows the size of the average new mortgage relative to the income of the purchaser. After a long period, from 2009 to 2022, when loan size relative to income was consistently rising, we saw a sharp fall from 3.5 in 2022 to 3.2 times in 2023, with 2024 recording a similar figure.

A similar pattern of affordability can be seen for first-time buyers, as illustrated by Chart 5. In 2020, the average new first-time buyer spent only 7.8% of their income on mortgage interest, a record low, despite the sense that first-time buyers were finding it increasingly difficult to get on the property ladder. Since then, payments have jumped to 16.6% of income in 2023 and 16.7% in 2024. In contrast to home movers, this is now above its long-term average, showing the increased pressure facing first-time buyers.

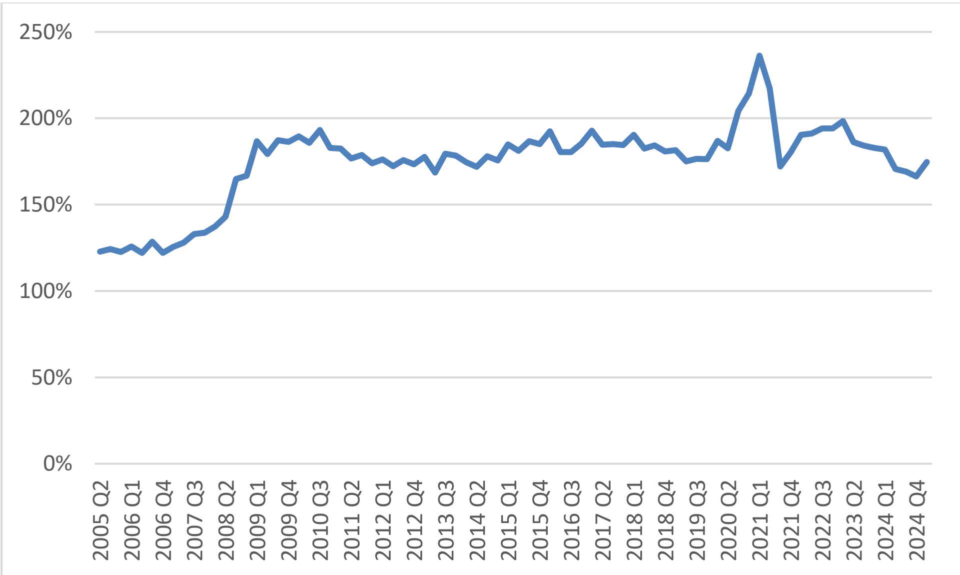
Chart 5 – Mortgage interest as % of income (first-time buyers)



Source: UK Finance

We can also see to what extent first-time buyers have been able to offset affordability pressures by putting down larger deposits. Chart 6 expresses the average first-time buyer deposit as a percentage of average earnings and it shows that there has been broadly no change in the relative size of deposits since the financial crisis.

Chart 6 – Average first-time buyer deposit as % of annual UK earnings



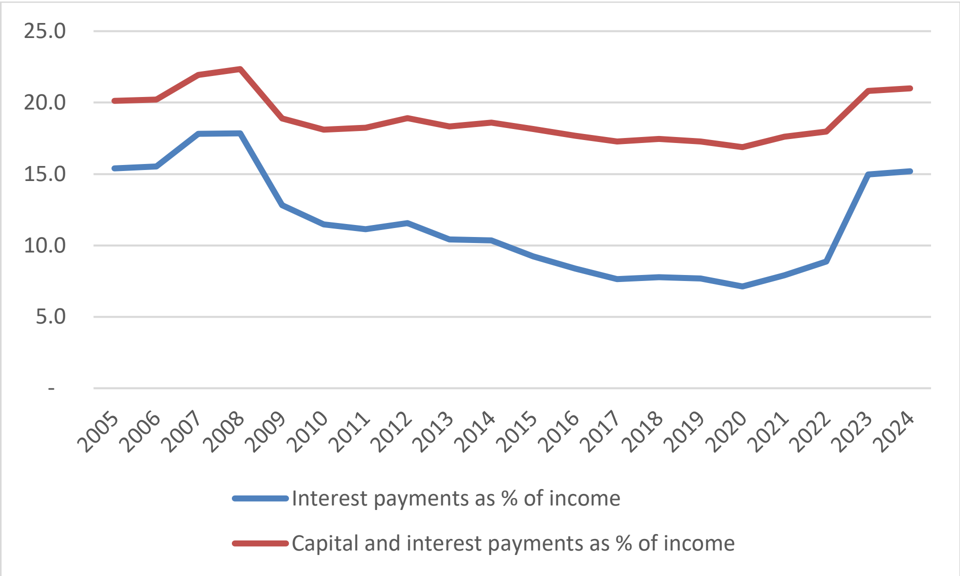
Source: ONS, UK Finance

On average, since the start of 2009, first-time buyers have put down a deposit equal to 184% of UK earnings. By the first quarter of 2025, this had actually fallen to 175% after a spike in 2022 and 2023, which may have been driven by a combination of higher house prices and mortgage rates.

1.3 Factoring in capital repayments

It is important to factor in the impact of capital repayment mortgages, as most borrowers take out these products. As capital repaid moves inversely to the mortgage rate, it has the effect of dampening the impact of interest rate changes (see Chart 7). For example, while the average monthly interest for all home purchasers rose from £520 in 2022 to £970 in 2024, an 87% increase, total repayments rose from £1,050 to £1,340, a much more modest 27% rise. As borrowers only see the total monthly payment, this may account for why housing activity has held up well since 2022 despite higher interest rates and may also account for why the buy-to-let market, where interest-only loans are the norm, has performed worse.

Chart 7 – Mortgage payments as % of income (all home purchasers)

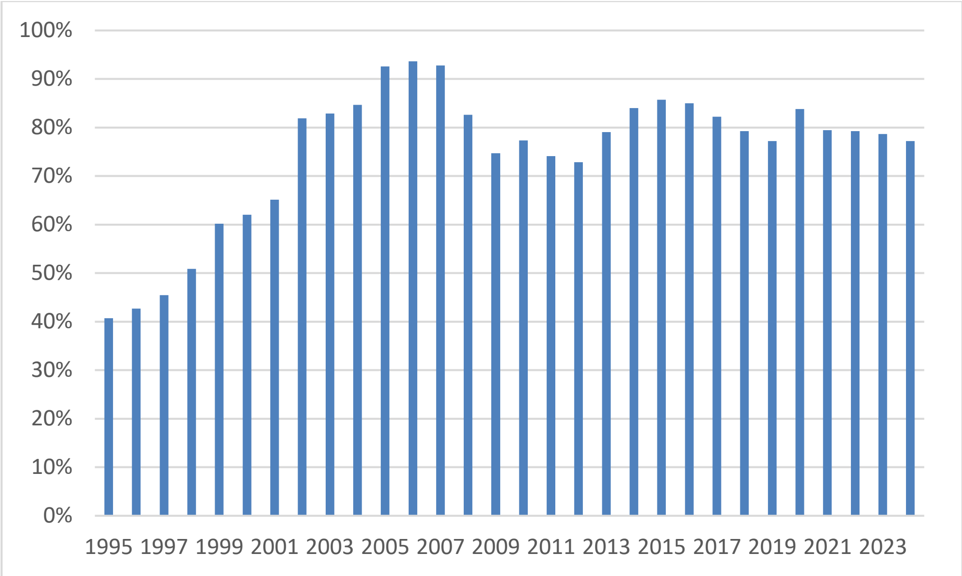


Source: UK Finance

1.4 Adjusting for non-purchasers

The measures of affordability used in Sections 1.2 and 1.3 above are based on data from those who actually transacted. So they may not paint an accurate picture of how affordable property is to the average household. Indeed, in Section 3 below we show that many households appear to have been locked out of homeownership, meaning those who actually managed to buy may not be representative of the wider public.

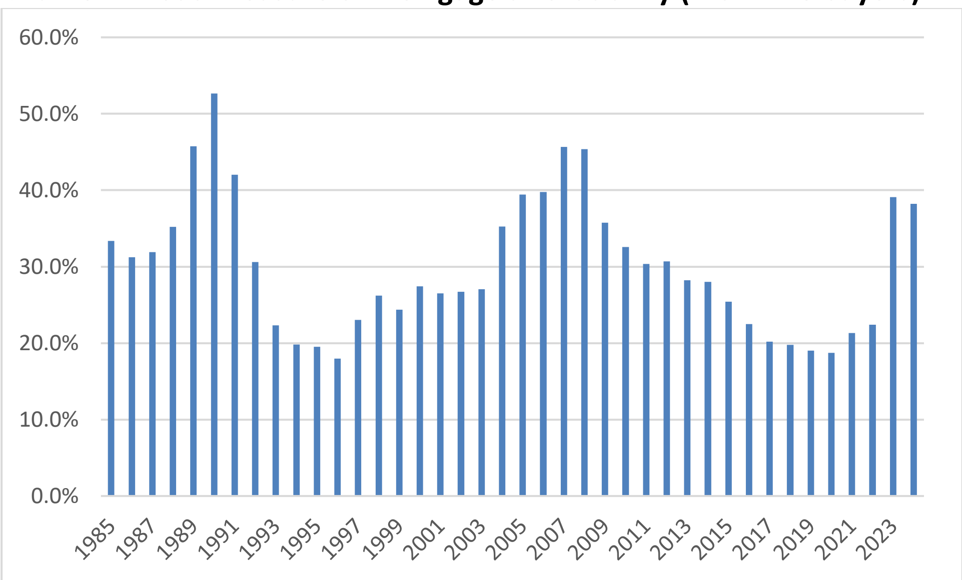
Chart 8 – Premium of first-time buyer income to average UK earnings



Source: ONS, UK Finance

However, we can check to see whether first-time buyers are becoming a less representative group by comparing their average incomes to that of the wider population. Chart 8 shows that there was indeed a sharp increase in first-time buyer incomes relative to UK average earnings from the mid-1990s up to the financial crisis. But perhaps surprisingly since then there has been no upward trend, with first-time buyer incomes averaging around 180% of the wider populace and falling in recent years to 177% by 2024 (first-time buyer figures include dual incomes so it is unsurprising they tend to be higher). And as we saw in Chart 6, the size of deposit relative to average earnings has also been stable since 2009. So while the post-financial crisis period has undoubtedly been more challenging for those trying to get on the housing ladder than earlier periods, it does not appear that first-time buyers have become any more unrepresentative over the past 15 or so years.

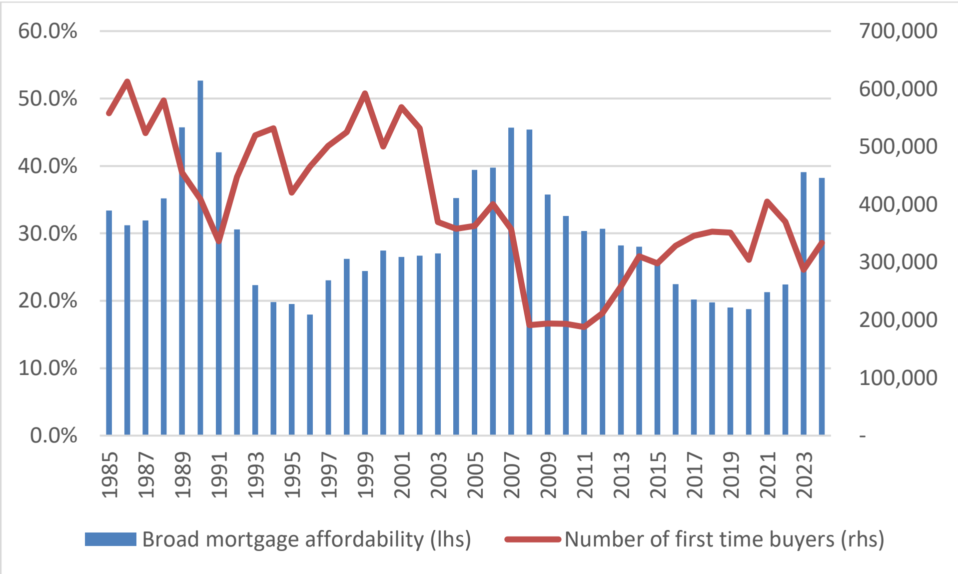
Chart 9 – Broad measure of mortgage affordability (first-time buyers)



Source: ONS, UK Finance

But we can go a stage further by taking first-time buyer house prices and mortgage rates and calculating what percentage of average UK earnings it would take to purchase the property in full. This strips away distortions created by changing relative deposit sizes and changes in the income of actual first-time buyers relative to other workers. The results, which we term the broad measure of mortgage affordability, are shown in Chart 9. This confirms that the rise in mortgage rates since 2020 has significantly worsened affordability, although there was a modest improvement between 2023 and 2024 thanks to a 5.4% rise in earnings.

Chart 10 – Affordability and first-time buyer numbers (annual)



Source: ONS, UK Finance

Chart 10 shows the number of first-time buyers plotted against broad affordability. As you would expect, it shows an inverse relationship between the number of first-time buyers entering the market and the percentage of average earnings required to service the cost of buying the average property. But the number of first-time buyers has held up well in the face of higher mortgage rates and 2024's figure of 330,000 was 15% above the 2008-24 average of 290,000. This may point to pent-up demand as a result of the shortfall in new buyers since the financial crisis, as discussed in more depth in Section 3.

2. Regional housing affordability

2.1 House prices no longer outpacing earnings

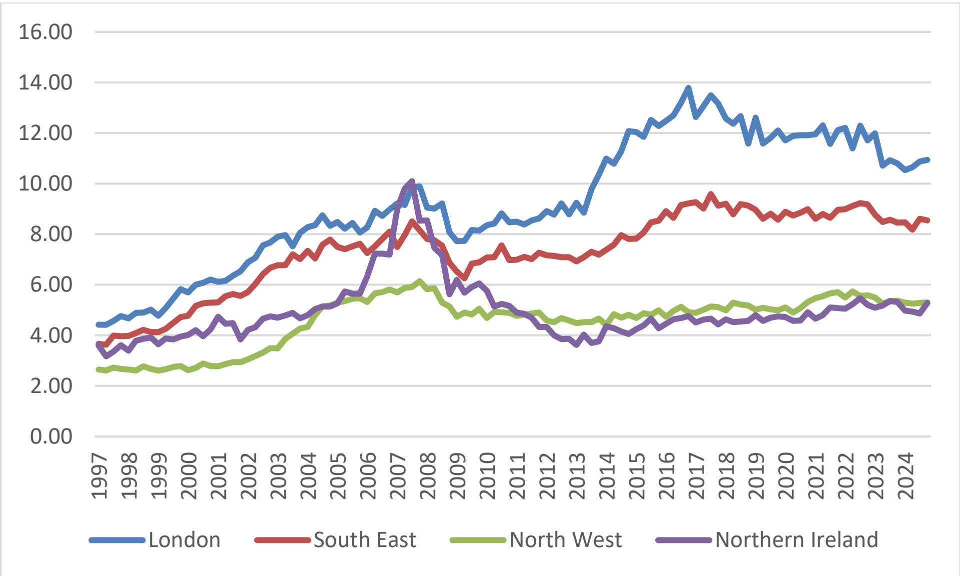
Table 1 – House price to earnings ratios

	Q1 1997	Q4 2007	Q4 2024	2007/1997	2024/2007
Northern	2.52	5.83	4.34	131%	-25%
North West	2.65	6.14	5.30	132%	-14%
Yorks and The Humber	2.75	6.18	5.24	124%	-15%
East Midlands	2.87	6.30	6.40	119%	2%
West Midlands	3.09	6.57	5.92	112%	-10%
East of England	3.26	7.61	7.55	134%	-1%
London	4.42	9.89	10.94	124%	11%
South East	3.67	8.15	8.55	122%	5%
South West	3.26	8.46	7.78	160%	-8%
Wales	2.73	6.37	5.99	133%	-6%
Scotland	2.62	5.30	4.75	102%	-10%
Northern Ireland	3.59	8.54	5.28	138%	-38%

Source: ONS

Table 1 outlines how our basic measure of affordability, the house price to earnings ratio, evolved at a regional level in the decade leading up to the financial crisis and how it has developed since. The period from 1997 to 2007 was one of substantially deteriorating affordability, with every region seeing this ratio at least double (see second to last column). But since then, the house price to earnings ratio has fallen back in every region excluding London, the South East and East Midlands.

Chart 11 – House price earnings ratio for selected regions

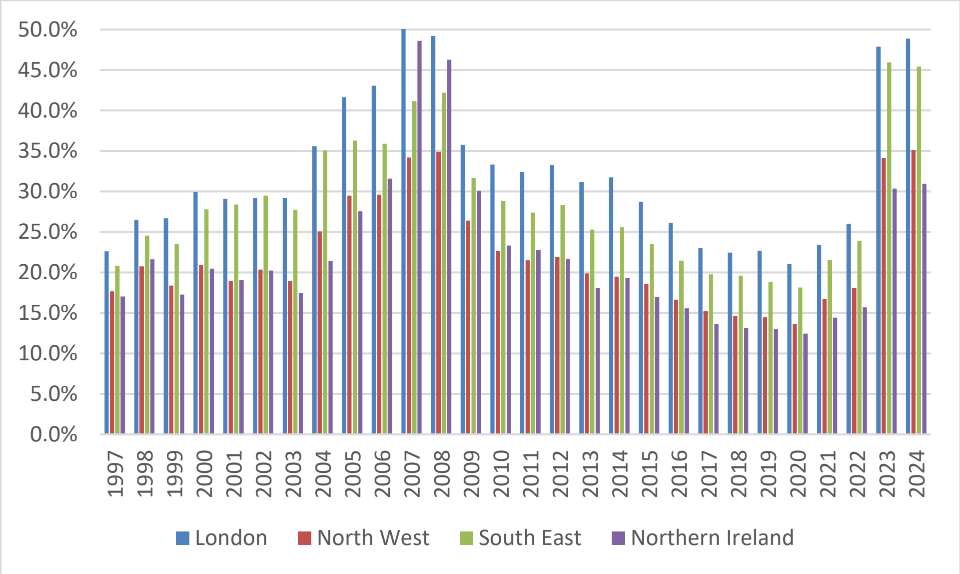


Source: ONS

Chart 11, shows the ratio for selected regions. It shows that London's deteriorating affordability after the financial crisis was the result of a surge in prices in 2014-16, fueled by low interest rates. Since the end of 2016, affordability has improved markedly in London, with average wages rising 38% against a 10% gain for house prices. Despite this, the house price earnings ratio remained close to 11 at the end of 2024, so an average worker with a 50% deposit would still need to borrow 5.5 times their income to buy the average property. This illustrates the challenge imposed by the LTI flow limit, which restricts the proportion of loans lenders can advance at 4.5 times income or above.

2.2 The impact of higher mortgage rates on regional affordability

Chart 12 – Broad affordability (selected regions)



Source: ONS, UK Finance

We can get a more accurate picture of affordability if, as explained in Section 1.4 above, we compare the cost of financing the average first-time buyer property entirely with debt and comparing this to average UK full-time wages. This removes any distortions caused by the size of deposits or by first-time buyers' incomes being unrepresentative of the wider population.

The results for selected regions are shown in Chart 12. All regions saw a marked deterioration in affordability between 2022 and 2023 as a result of rising mortgage rates and most regions saw a modest further rise in 2024. Chart 12 shows that the challenges facing first-time buyers have increased across the country but are particularly acute in London and South East, where an average worker would need to devote more than 45% of their income to paying mortgage interest assuming no deposit.

3. Affordability of owning versus renting

3.1 Cost comparison of buying and renting narrows

We now turn to the relative cost of buying compared to renting in the private rented sector as, for most households, these are the two choices they face. Table 2 shows the average annual rent in each region and country of the UK according to Homelet. This can be compared to the interest cost of buying, which we calculate on the entire first-time buyer price to avoid distortions caused by the size of deposit. We use the average 95% LTV mortgage rate, which was 5.32% in April 2025. The homeowner will be faced with some costs that do not fall on private tenants, such as repairs and maintenance and buildings insurance, but this is at least partially offset as first-time buyer properties are likely to be of somewhat higher quality on average than rented properties.

Table 2 – Mortgage interest costs versus average rent (April 2025)

	Average rent	First time buyer house price	Mortgage interest cost	Rent premium to mortgage interest cost	Rent premium in September 2021
Northern	8,124	179,928	9,572	-15%	43%
North West	12,744	232,430	12,365	3%	65%
Yorks and The Humber	10,884	210,851	11,217	-3%	54%
East Midlands	10,872	243,989	12,980	-16%	36%
West Midlands	12,204	257,305	13,689	-11%	43%
East of England	15,588	291,496	15,508	1%	51%
London	24,972	497,371	26,460	-6%	33%
South East	17,088	370,566	19,714	-13%	33%
South West	14,352	297,425	15,823	-9%	44%
Wales	10,584	202,232	10,759	-2%	59%
Scotland	11,304	184,859	9,834	15%	76%
Northern Ireland	11,088	198,990	10,586	5%	70%
UK	15,576	316,544	16,840	-8%	57%

Source: Bank of England, UK Finance, HomeLet. House prices are for March.

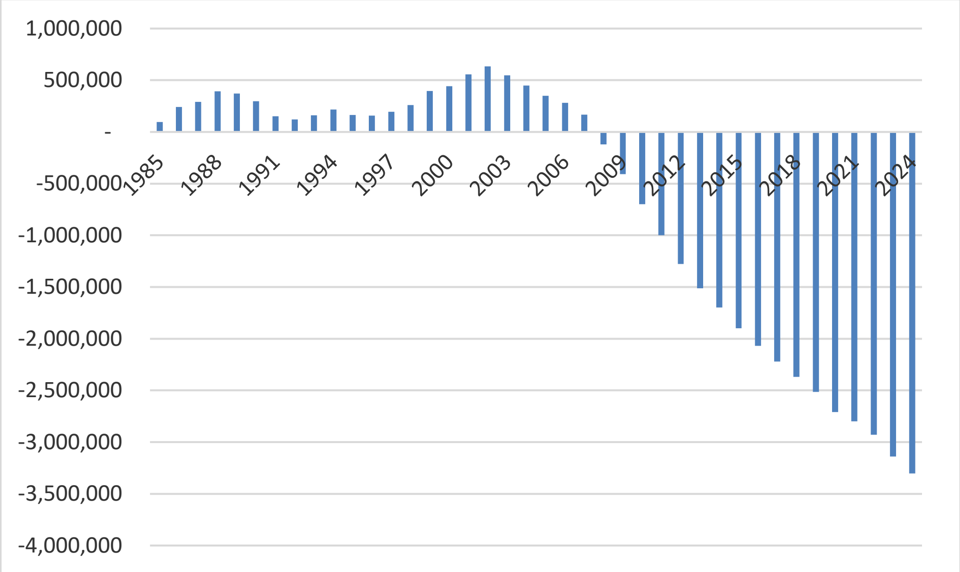
The final two columns of Table 2 show the premium that private tenants paid relative to owning for April 2025 and for September 2021, when 95% LTV mortgage rates were only 3.21%. When rates were low, owning was significantly cheaper in every region. By April 2025, the picture was more mixed, with renting working out cheaper in most regions but still more expensive in Scotland, Northern Ireland, the North West and East of England.

These numbers only provide a broad guide because they take no account of the size of deposit or the capital repayment element of a capital and interest mortgage. Nonetheless, they do indicate that at current levels of house prices and mortgage rates, the financing cost of buying is not much more expensive than renting, the gap at the national level being only 8%.

3.2 Where are the first-time buyers?

The number of first-time buyers held up surprisingly well in 2023 and 2024 considering the scale of the rise in mortgage rates. While the average first-time buyer in 2022 started homeownership with a mortgage rate of 2.2%, those buying in 2023 and 2024 faced 5.1%. You might have expected this to lead to a collapse in new buyers, but a fall of 22% in 2023 was followed in 2024 by a rebound of 16% to 330,000, well above the 2008-2024 average.

Chart 13 – Cumulative shortfall in actual versus expected first time buyers



Source: ONS, UK Finance

One possible explanation for this relatively strong performance can be found in Chart 13. It shows the cumulative shortfall in first-time buyers compared to the predicted total based on the propensity to buy in each age group in the base period of 1981-84. Had the percentage of people buying in each age group remained the same each year the actual and predicted numbers would be the same. What we actually find is that, adding up the years from 1985 to 2007, the number of first-time buyers exceeded the expected total by 170,000. But as Chart 13 illustrates, since the financial crisis there has been a cumulative shortfall that reached 3.5 million households who would have been expected to buy, but have not done so.

As aspiration to own a home remains the norm, the data behind Chart 13 suggests that there is substantial pent-up demand from people who have delayed their first home purchase but not given up on the idea of owning. With private rents having risen by 22% on average between December 2021 and April 2025 according to Homelet, more private renters may now see ownership as a means to better control future housing costs, as borrowers can fix their rate for 5, 10 or even more years, to provide a degree of certainty over their regular monthly outgoings that eludes them in the rented sector.

We welcome the government’s call for reduced regulation in financial services but believe more can be done to help future first-time buyers by examining remaining regulatory barriers to ownership. We believe that it would be beneficial for consumers if government were to establish a framework for regulators where the interests of future first-time buyers are more explicitly recognized, with affordability regulations reassessed accordingly. Particular attention should be paid to the LTI flow limit, under which lenders are restricted to offering no more than 15% of their mortgages at or above 4.5 times income, as this seems at odds with the rest of the affordability regime.

4. Conclusion and outlook

It is now 2½ years since interest rates moved sharply higher in the UK and stabilised at around 4-5%, so we are now in a position to gauge the full impact. What we have seen is a remarkably resilient housing and mortgage market. House prices have remained at broadly the same level while mortgage lending has recovered from an initial dip. First-time buyer numbers, at 330,000 in 2024, were well above the average of the past 15 years and mortgage arrears are falling again.

When we published *The mortgage affordability paradox* in November 2021, thanks to record low mortgage rates, new home purchasers were spending the lowest proportion of their income on mortgage interest on record despite a high house price to earnings ratio. This was the paradox to which the paper referred. Since then, higher interest rates have worsened affordability but increased wage growth has aided households' ability to absorb higher mortgage payments.

We seem to have returned to an economic environment more like the early 2000s, when both earnings growth and mortgage rates were higher than we have been used to over the past decade and a half. But this earlier period was a positive one for the housing and mortgage markets. There is also pent-up demand for homeownership amongst the millions of households who, since 2008, would have been expected to buy based on past propensities for each age group, but have failed to do so, and who number some 3.5 million by our calculation.

With an uncertain international economic outlook, it seems likely that interest rates will continue to fall but not return to the levels seen before 2023. This, coupled with continued healthy wage growth, is likely to bolster affordability in the coming months and years. Lenders have also been innovating to make it easier for first-time buyers without access to the bank of mum and dad to get onto the housing ladder. We also welcome government efforts to reduce regulation in the financial services sector and call on regulators to re-examine the current configuration of rules and in particular, to ask themselves whether the LTI flow limit should remain in its current form given its disproportionate impact on first-time buyers.

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About IMLA

The Intermediary Mortgage Lenders Association (IMLA) is the trade association that represents mortgage lenders who lend to UK consumers and businesses wholly or predominantly via the broker channel. Its membership of 56 banks, building societies and specialist lenders include 18 of the 20 largest UK mortgage lenders (measured by gross lending) and account for approximately 93% of gross mortgage lending.

IMLA provides a unique, democratic forum where intermediary lenders can work together with industry, regulators and government on initiatives to support a stable and inclusive mortgage market.

Originally founded in 1988, IMLA has close working relationships with key stakeholders including the Association of Mortgage Intermediaries (AMI), Building Societies Association, UK Finance and the Financial Conduct Authority (FCA).

Visit www.imla.org.uk to view the full list of IMLA members and associate members and learn more about IMLA's work.

About the author

Rob Thomas is a Director of Research at Instinctif Partners. He previously served as an economist at the Bank of England (1989-1994), a high-profile analyst at the investment bank UBS (1994-2001) and as senior policy adviser to the Council of Mortgage Lenders (2005-12). He was also the project originator and manager at the European Mortgage Finance Agency project (2001-05) and created the blueprint for the government's NewBuy mortgage scheme and Deposit Unlock.