Borrowers in urban areas struggle the most to meet their mortgage, study shows

August 4 2022

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Mortgage holders living in cities and other urban areas are more likely to struggle with their monthly repayments than those residing in rural locations, a new study has found.

Research by Nottingham Trent University has revealed that borrowers in urban areas spend on average 38% of their monthly income on their mortgage payments.

This contrasts to 26% for people in rural areas, leaving them with the potential for more disposal income.

The data—taken from an analysis of 30,000 U.K. households over an eight-year period—also show that only 38% of borrowers in urban areas have fixed-rate mortgages, compared to 62% of those in rural locations.

Fixed-rate mortgages usually yield lower interest rates for borrowers, making mortgage payments more affordable. But only those with the highest amounts of equity in their homes can access the lowest fixed-rate mortgages on the market.

The study also found that average loan-to-value ratios (LTV) in urban areas is 84%, by contrast to 68% in rural areas, which shows that people in rural areas on average have twice as much equity in their homes as their city-dwelling counterparts.

Dr. Alla Koblyakova, an expert in mortgage finance from Nottingham Trent University, who led the study, said: "This research shows that there is a clear asymmetric distribution of risk within the U.K. mortgage market, which policymakers may need to consider when formulating mortgage policy decisions.

"The HomeOwners Alliance recommends that no more than 35% of post-tax income should go on mortgage payments—so it is concerning that the average rate for U.K. households in urban areas is already above this, while interest rates remain at historically low levels.

"These numbers show us that living in urban areas leads to a greater indebtedness and increases the likelihood of homeowners being on riskier variable-rate mortgages, which are subject to interest rate hikes.

"By contrast, people residing in more rural locations are more likely to be on lower interest fixed-rate deals which do not fluctuate with changes to the Bank of England base rate.

"So, any changes to monetary policy decisions could have a disproportionate impact on people living in cities and other urban areas, when compared to those in rural locations."

The study also found that an increase in new-build homes resulted in the housing market experiencing worsening mortgage affordability, possibly due to higher prices for newly built homes and a relaxation of lending conditions, leading to an increase in house prices overall.

The data—which comprises 50,000 individuals—was taken from the Understanding Society Survey and the findings will be presented at the American Real Estate and Urban Economics Conference on 5 August 2022.

Dr. Koblyakova added: "This research shows that variations in people's incomes, house prices and mortgage lending conditions may have created different patterns in the U.K. mortgage landscape.

"A major concern is the increasing deviation between housing expenses and income, as this has a negative impact on young people and low-to-middle income household groups.

"Future income shocks—such as increases to the Bank of England base rate—will have a diverse impact on households and their ability to repay their mortgage, leading to an asymmetric response to monetary policy changes nationally."

Provided by Nottingham Trent University

Citation: Borrowers in urban areas struggle the most to meet their mortgage, study shows (2022, August 4) retrieved 27 April 2024 from https://phys.org/news/2022-08-urban-areas-struggle-mortgage.html