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The Nation's Property Hotspots Unveiled for First-Time Buyers

5 September 2005

- The Royal Bank of Scotland First-Time Buyer (FTB) Property Index ranks Britain's postcodes by desirability and potential of return on investment, to reveal the top 20 areas with most potential for first-time buyers**
- Openshaw, in East Manchester, on the verge of major regeneration, tops the list, offering a combination of exceptionally low house prices, around £130,000 below the national average, and excellent prospects for growth**
- The study reveals five key factors in determining a likely property hotspot, the most important of which is a below average ratio of house prices to local earnings**
- The other four factors, found in all of the top 20 housing hotspots, are strong growth in house prices, urban regeneration, good transport links and a young demographic**
- Optimism is on the rise for first-time buyers, with a slight fall in interest rates and earnings growing healthily**
- 3,000 free CD-Roms containing details of the report, tips on how to find potential hotspot areas plus a guide to buying, are publicly available by calling RBS on 0800 068 5340**

The Royal Bank of Scotland First-Time Buyer Property Index, launched today, reveals Britain's most promising property hotspots. The Index identifies the critical factors that help determine both the desirability of an area and its potential to offer a return on investment. It applies these factors to try to identify the possible housing hotspots of today.

RBS gives first-time buyers optimism with property treasure trail

The RBS study, conducted across Britain's 2,800 postcode districts¹, uses property data analysis and external experts (including 300 chartered surveyors and local estate agents) to examine a wide range of factors affecting potential future house price growth, together with current desirability for first-time buyers. All of the factors, when weighted and combined, provide an overall scoring for each area, allowing them to be ranked. The national top 20 table details the top two districts from each of the ten regional tables compiled. The regional tables consist of the top 10 areas in each region across Britain. Buying in an up-and-coming property hotspot, can help first-time buyers climb the ladder faster to their ideal property or location in the future.

The Index reveals that for savvy house hunters, the most crucial aspects determining future return on investment are the low house price to high income ratio and the recent house price growth rate of the area, alongside any regeneration prospects. The main factors determining the current attractiveness of an area are the quality of transport links and the area's demographic (especially the age of the population).

For first-time buyers, all roads lead to Manchester

The RBS FTB Property Index reveals that Openshaw, on the outskirts of Manchester, is the property hotspot for the coming year and is the ideal place for today's first-time buyers to invest. Openshaw, on the verge of urban renewal, offers some of the lowest average property prices in the Index at £52,690, which is much lower than the national average of £183,199. Openshaw is benefiting greatly from a recent regeneration scheme and the building of a new major hypermarket. The area has also seen 14 per cent growth in house prices over

the past 12 months, which is nearly double the national average of 7.3 per cent².

Housing Hotspots Index

By analysing all of the factors affecting attractiveness and return on investment, RBS has, for the first time, identified Britain's top 20 most desirable property hotspots for first-time buyers³:

The full table of university towns, ranked by The Royal Bank's Student Living Index, is as follows¹:

	Area	Postcode	Area	Postcode
1	Openshaw, Manchester	(M11)	11 Newtown, Birmingham	(B19)
2	Middlesbrough, Teesside	(TS1)	12 Thurrock West	(RM19)
3	Ardwick, Manchester	(M12)	13 Hackney, London	(E3)
4	Falkirk, Scotland	(FK1)	14 Thurrock East	(RM20)
5	Ferndale, South Wales	(CF43)	15 Pennycross, Plymouth	(PL2)
6	Kingston-upon-Hull, Hull	(HU3)	16 City Centre, Plymouth	(PL4)
7	Blaenrhondda, South Wales	(CF42)	17 City Centre, Gloucester	(GL1)
8	Stratford, London	(E15)	18 Boston, Lincolnshire	(PE21)
9	North Central Stoke-on-Trent	(ST1)	19 Fengate, Peterborough	(PE1)
10	Leven, Scotland	(KY8)	20 Reading Centre, Reading	(RG1)

Top Five Factors to Follow

While there are many factors that affect the suitability of an area and its potential for financial reward, the study defines five key trends in the top 20 hotspots that can be easily identified by all first-time buyers looking for a sound investment. These trends provide a template which can be applied to any area, to help find the best springboard for longer-term property dreams.

Price/ Earnings

The price/earnings ratio⁴ of a local area compared to the national average is the most influential factor to consider when predicting future return on investment. This ratio is the average price of properties within an area, divided by the average earnings of people within that area. A lower ratio is ideal. Not only will the area be more affordable, but historically, lower ratios increase over time, so this could lead to a better return on investment. All the hotspots identified have a price/earning ratio well below the national average of 8.7x. Openshaw, top of the league table, has a price/earnings ratio of 4.5x.

High growth rates means high rewards

House price growth within an area over the past 12 months (RSR Index)⁴ is another important indicator of investment potential. Higher rates of growth are more favourable, as research shows that this indicates good momentum in the local property market. For example, Middlesbrough, Teesside, ranks 2nd in the league table having experienced growth of 19 per cent over the past 12 months. This is more than double the national average of 7.3 per cent.

Property prices boosted by regeneration

Government funded regeneration schemes can contribute significantly to an area's overall property hotspot rating and potential for return on investment. The East Manchester Regeneration Scheme was a fundamental factor in Openshaw topping the national league table, as the area has benefited from 6,000 new jobs and £600 million of new investment.

The scale of regeneration investment will determine the impact on local property prices. Stratford's 8th position in the rankings is helped by the ongoing development of the Olympic park. This area of London will experience the most intensive regeneration and development in the country with the creation of 12,000 new jobs.

Transport: The road to property perfection

Transport links are also an essential consideration for first-time buyers when looking at the current attractiveness of an area. A strong public transport infrastructure will save first time buyers the expense of a car and free up money to be used for those all-important mortgage repayments. For example, North Stoke-on-Trent is boosted to 9th in the league table, thanks to the £15.4 million development of the Hanley Bentilee Link which provides good transport links into the centre of Hanley and has greatly improved accessibility by bus to the surrounding housing areas.

Young towns head up the league table

A young population is a key influencing factor on the current desirability of an area. All the top 20 postcodes have a population with a high percentage of younger people, with the percentage of retired people well below the national average of 22 per cent. Retirees tend to compete for the same smaller, non-family properties as first-time buyers. This can mean there is more competition which tends to drive up house prices and could mean that first-time buyers are priced out of the area. Romford in Essex, featured in our Home Counties top 10, is the youngest area in the rankings; only 2.2 per cent of its population are retired. Peterborough has the

highest retired population in the Index at 5.5 per cent, although this is still well below the national average.

Paul Jeffrey, Head of Mortgage Products for The Royal Bank of Scotland, comments: "The FTB Property Index and comment from the RBS Economics Unit shows that there is cause for renewed optimism among buyers seeking that first step onto the property ladder. The Index looks to highlight how smart investing now can help first-time buyers skip a few rungs within a few years. Buying your first home can seem daunting, but we aim to responsibly make it easier to understand and an attainable goal. Our specific first-time buyer deals, offered across a flexible range of mortgages, can provide a helping hand every step of the way."

What the experts say ? Comment from RBS Economics Unit

With house prices having risen so strongly in recent years, many potential first-time buyers are wondering how they will ever get a foot onto the housing ladder. However, there are key reasons for first-time buyers to adopt an optimistic outlook. With a slight fall in interest rates and earnings growing healthily, affordability problems are likely to subside somewhat over the next couple of years.

August's interest rate cut, from 4.75% to 4.5%, not only marks a first step in improving affordability but also has an important confidence-boosting impact. Confidence in the housing market is of particular importance to first-time buyers, who have less equity on which to rely if anything were to happen to house prices. Fairly strong expected earnings growth of around 4.5% in 2005 and 2006 will also improve affordability and allow first time buyers to save for deposits, while sluggish house prices may also reduce competition from buy-to-let investors. Nevertheless, now remains a time when first time buyers need even more guidance than usual in navigating the housing market.

Notes to Editors:

¹ In-depth analytical research was conducted on behalf of The Royal Bank of Scotland by mouseprice.com of an initial list of 2,800 Postcode Districts. Mouseprice.com also surveyed 300 Individual Estate Agents and Chartered Valuation Surveyors.

² The Mouseprice.com RSR Indices apply index creation methodology using the repeat sales regression method. With this method house price growth is measured by observing selling prices of houses that have been sold more than once.

³ The ranking of the top 20 postcode districts was based on a scoring system. This scoring system allocates points to each postcode district across a set of various criteria. The top twenty national list includes the top two districts from each of the main UK regions.

⁴ The price/earnings ratio is the average price of properties within an area divided by the average earnings of people within that area. This resulting value shows house prices as a multiple of earnings; for example a P/E ratio of 8.7x means that prices are 8.7 times earnings.

■ The Royal Bank of Scotland offers deals specifically attractive to FTBs across a range of fixed, discounted or variable rate products. These options, alongside specific Professional and Guarantor mortgages, all aim to responsibly facilitate that first step onto the property ladder.

■ Specific first time buyer mortgages include the following key benefits: ability to borrow up to 100% of the value of the property, no valuation fee and 0.5% cash back on completion.

■ To request one of 3,000 free CD-ROMs containing full details of the report, top tips on what to look for when choosing an area and a guide to buying please call RBS on 0800 063 5340.

■ **Available for interview:** Paul Jeffrey, Head of Mortgage Products, The Royal Bank of Scotland

■ **Case studies and full report available on request.** These include detailed regional breakdowns and top tips on what to look for in an area.

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