BuiltPlace

First-Time Buyers

Report for The Building Societies Association

05/03/2024

Building Societies Association

A forthcoming report for the Building Societies Association will provide a comprehensive review of first-time buyers while also offering potential policy solutions that can hopefully help prospective first-time buyers buy their own homes in the current housing market without compromising the prospects of future generations. This release provides an overview of some of the analysis and recommendations prior to publication next month.

What's The Problem?

Mortgaged home ownership has been in decline since the mid 2000's – and even earlier for younger age groups. The number of outstanding owner-occupier mortgages has fallen by over two million since its peak in 2002 (Fig 1) and is back around the levels last seen in the late 1980s. While some of the overall decline reflects the broader demographic trends of older and larger generations paying off their mortgage and moving into outright ownership, the affordability challenges facing prospective first-time buyers since the financial crisis have contributed to fewer people managing to buy their first home. However, as Fig 2 shows, the impact has not been felt equally. The biggest fall in first-time buyers has been seen amongst younger age groups, while those in their 30s and early 40s are actually above previous levels – though not by enough to offset the falls in other groups. This inequality of access is also found across other metrics – from wealth to income – thanks to the affordability challenges in the housing market, while the end of the Help to Buy equity loan scheme has made it more challenging for those buying new homes.

Fig 1 – No. of Outstanding Owner Occupier Mortgages
Source: CML, UK Finance

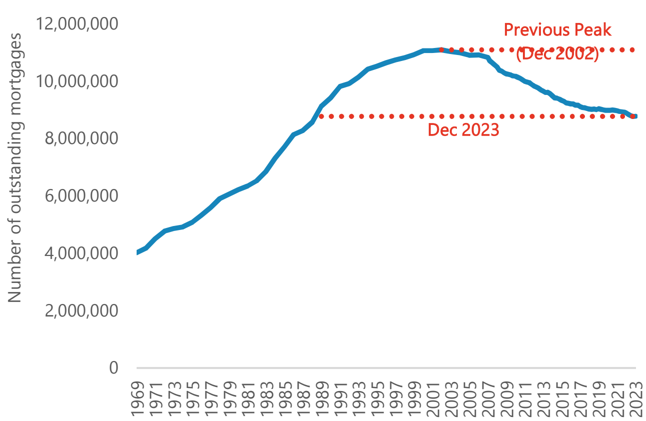
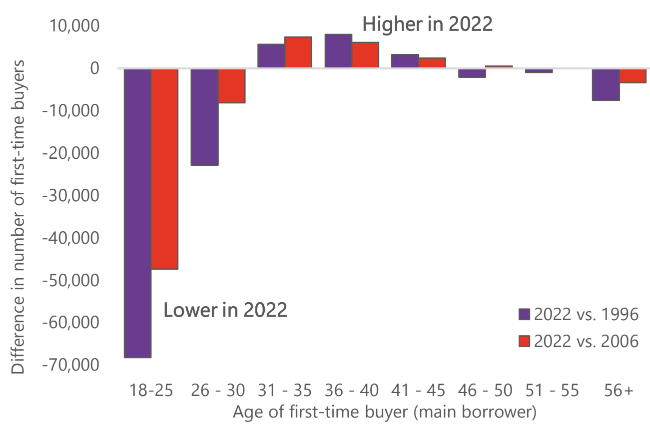
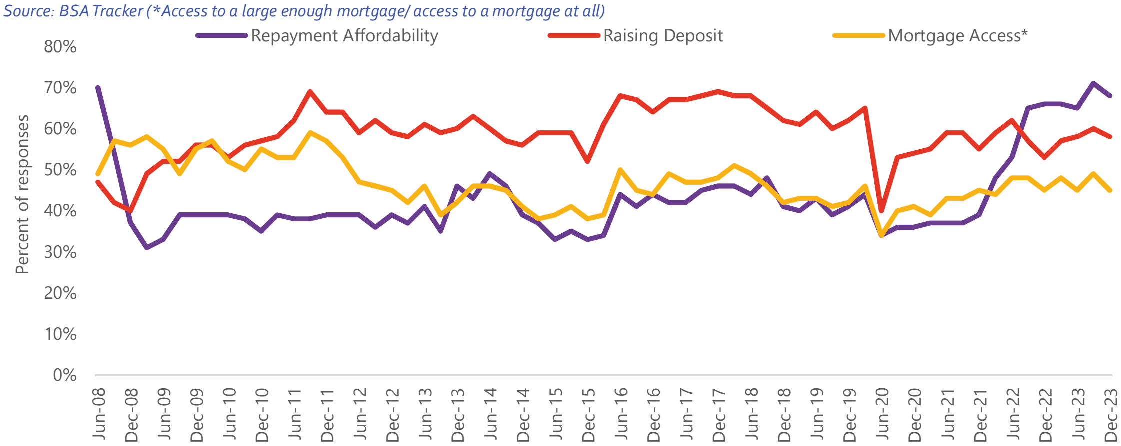


Fig 2 – Difference in Number of First-Time Buyers
Source: CML, UK Finance, FCA Product Sales Data



Becoming a first-time buyer is expensive, possibly the most expensive it has been over last seventy years. There are two distinct parts to measuring the affordability of becoming a first-time buyer. The first is the cost of buying, which is a massive barrier to many prospective first-time buyers as can easily be demonstrated by the sizable deposits and substantial help from family and friends that successful buyers now require. The second is the cost of owning. Until recently, ongoing costs were well within historically affordable levels for those able to buy. However, the rise in mortgage rates over the last couple of years means that this is no longer the case. As the BSA property tracker shows (Fig 3), the affordability of repayments has shot up to become the biggest barrier to purchase since September 2022. Prospective first-time buyers now find themselves in a very difficult situation, but many solutions which are proposed to help them are dependent on low rates and are no longer as effective – if they are viable at all.

Figure 3 – Major Barriers to Property Purchase
*Source: BSA Tracker (*Access to a large enough mortgage/ access to a mortgage at all)*



A Balancing Act

Before suggesting how to help prospective first-time buyers, it is critical to remember that they do not exist in a self-contained system. The number of first-time buyers - and the conditions under which they manage to buy - are closely linked to the state of the mortgage market, the housing market, and the wider economy. As such, there is an inevitable balance between any support given to first-time buyers and the effects of that support on the housing market and economy – both immediately and in the future. It also works in reverse with policies that impact on the housing market or economy having direct and indirect effects on first-time buyers. For example, low wage growth is a significant barrier for many.

An important balance, that has been a key feature of the mortgage market since the financial crisis, is the compromise between financial stability and first-time buyer numbers. The last decade has seen the balance tilted in favour of financial stability and that has had an inevitable cost, with many excluded from homeownership - particularly those with single incomes, lower than average incomes, or unstable incomes and with less wealth. Meanwhile, previous periods with high numbers of first-time buyers such as the late 1980s and 2000s saw widespread financial innovation and risk taking – but both ended poorly. There is no correct answer for the appropriate balance, but it needs honest debate about the costs and benefits.

How Building Societies Can Help

Building societies are well positioned to support more people to buy their first home. They are responsible for around one-third of mortgage completions by first-time buyers and are innovative in finding solutions that work within the existing regulatory framework. They have the potential to expand their lending to first-time buyers but are limited by the regulatory environment. We have identified three areas where there should be more flexibility:

- There should be a review of the Financial Policy Committee (FPC) flow limit to focus on first-time buyer support. While the 15% cap on lending above 4.5 times income may be less relevant today given high mortgage rates, an immediate review to assess whether it would be beneficial to target mortgages above the cap at first-time buyers is important.
- The use of a Mortgage Guarantee Scheme to improve the availability, and lower the cost, of high loan-to-value mortgages has been regularly suggested, including suggestions to increase it to enable deposits of as little as 1%. The market should not need to rely on short term government interventions and building societies continue to provide low deposit loans for first-time buyers without requiring a government guarantee. We propose a review of the relative costs and benefits of a stricter regulatory environment versus those of higher rates of homeownership should be undertaken to strike the right balance between financial stability and enabling access to home ownership.
- Given the recent increased short-term flexibility on repayments, regulation should also be reviewed to enable mortgages to be more flexible. This could include allowing more part-repayment, part-interest only lending - with the flexibility to shift between them over the life of the loan – and reviewing the current constraints for borrowers heading towards and into retirement by allowing them to borrow flexibly beyond retirement age.

Working With Government

The Government should commit to a package of housing policies that make homes more affordable, more available, and more appropriate to the needs of those living in them and the world we live in. We recognise that the above recommendations will not fix all the barriers facing prospective first-time buyers. We will listen to Chancellor’s speech on Wednesday and in the full report we will bring forward recommendations that address the important roles that new housing supply, the private rented sector, social housing, and taxation can all play in achieving these objectives.