First-Time Buyers

Age-old problems, modern solutions
A roadmap for change

April 2024

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Key Highlights

Outstanding owner-occupier mortgages have fallen by over two million since its peak in 2002

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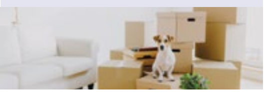

First-time buyers face two affordability issues – cost of buying and cost of owning

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Many are excluded from homeownership and are stuck in the private rented sector

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Government should make homes more affordable, more available and more appropriate for those living in them

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Building societies have the potential to help more first-time buyers but are limited by regulation

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Executive Summary and Recommendations

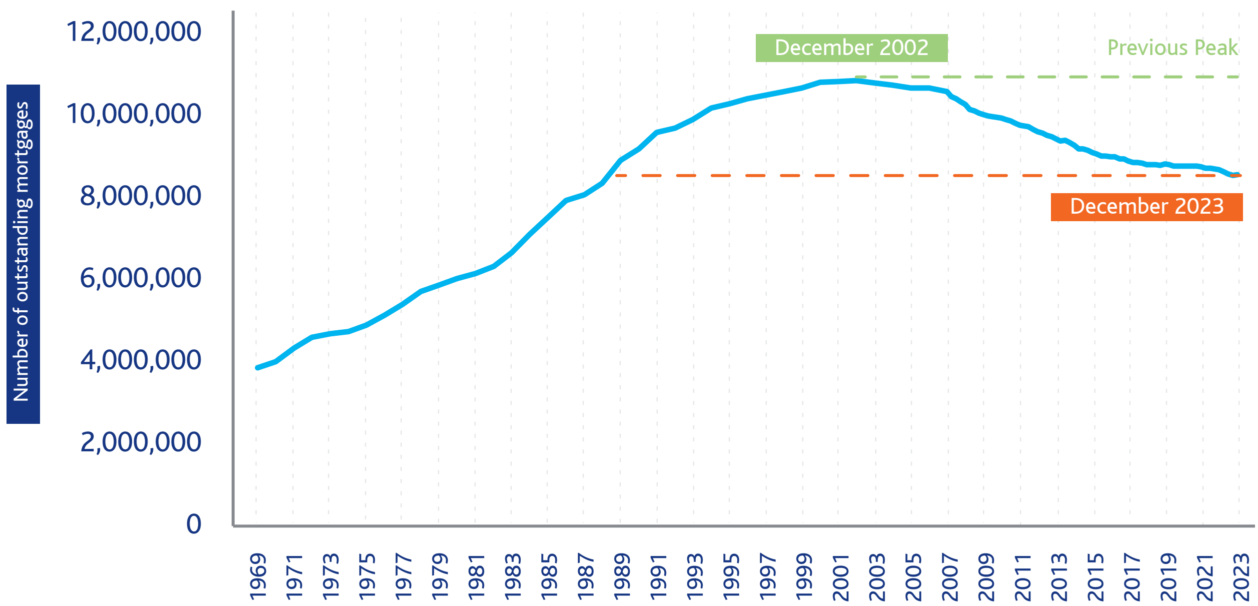
This report for the Building Societies Association (BSA) provides a comprehensive review of first-time buyers offering potential policy solutions that can hopefully help prospective first-time buyers buy their own home in the current housing market, without compromising the prospects of future generations.

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 (Figure 1) and is back around the levels last seen in the late 1980s. While some of the overall decline reflects 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, the impact has not been felt equally. Those with single incomes, lower than average incomes, or unstable incomes, and with less wealth have struggled to buy their own home and found themselves stuck in the private rented sector. Increasing the number of first-time buyers is important because it is the primary route into home ownership. And home ownership is the preferred housing tenure not just because of its cultural, social, security, tax, and historical financial benefits, but also because it allows households and Government to protect themselves against future rises in housing costs during retirement.

Figure 1: No. of Outstanding Owner Occupier Mortgages

Source: CML, UK Finance

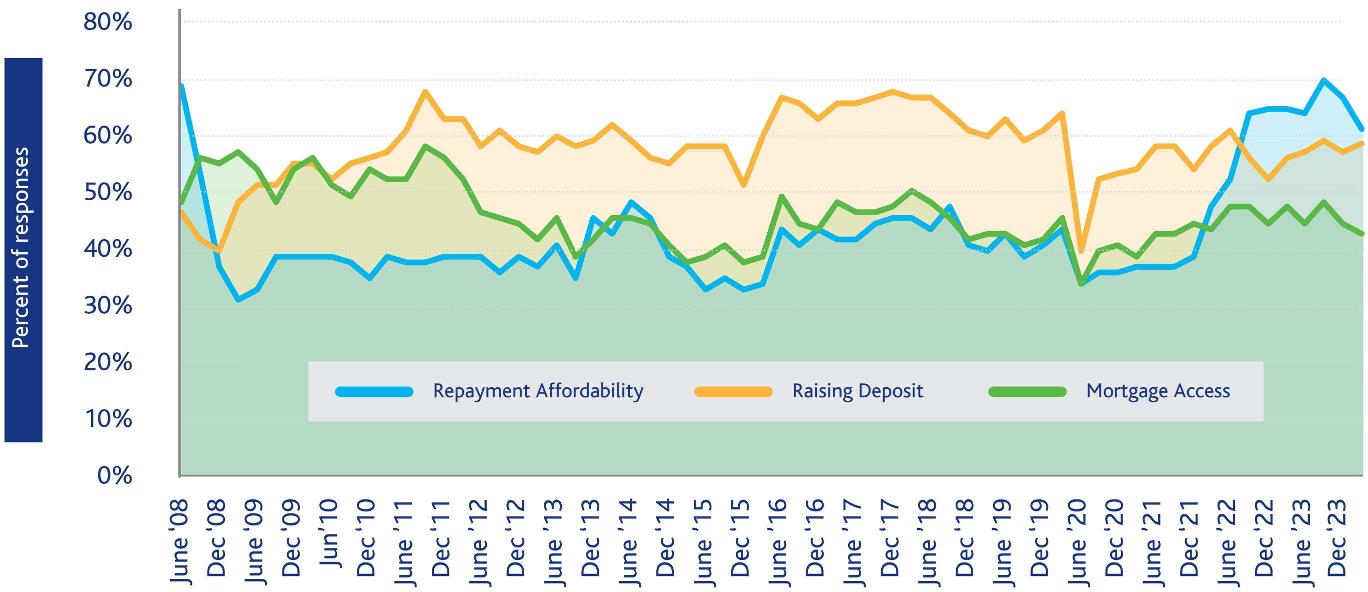


The Costs of Buying & Owning

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. The second is the cost of owning, which as the BSA's property tracker shows (Figure 2), affordability of mortgage repayments has become the biggest barrier to purchase. Prospective first-time buyers now find themselves in a very difficult situation but, unfortunately, many of the proposed solutions to help them that were dependent on low mortgage rates are no longer as effective or even viable.

Figure 2: Major Barriers to Property Purchase

Source: BSA Tracker (Access to a large enough mortgage/access to a mortgage at all)



Inequality & Long-Term Costs

It is also important to understand the possible lifetime costs of buying and owning a property, and how they compare to previous generations. This helps our understanding of how the housing market works and the implications that has for potential policy solutions. For example, comparisons across generations raise questions about long-held assumptions such as whether the housing ladder still exists. Given the substantial deposit barrier, the ability to become a first-time buyer is increasingly dependent on the so-called Bank of Mum and Dad, while successful first-time buyers increasingly need to have two incomes that are higher than the average. Meanwhile, those without family help or on single and lower incomes have been excluded from home ownership.

A Balancing Act

The number of first-time buyers is closely linked to the state of the mortgage market, housing market, and wider economy. As such, there is an inevitable balance between 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 the housing market or economy having direct and indirect effects on first-time buyers.

An important balance is the compromise between financial stability and first-time buyer numbers. The last decade has seen the balance tilted in favour of financial stability with the inevitable cost of many being excluded from home ownership. It is now time to debate the costs and benefits of the current approach.

Recommendations

Government should identify what a successful housing market looks like and commit to a package of housing policies and reforms that can achieve it. Working together with lenders, the wider housing market industry, and the public, they should aim to make homes more affordable, more available, and more appropriate to the needs of those living in them and the world we live in.

There is no single solution to increasing the number of first-time buyers and helping everyone that wants to become a homeowner in the current high price-to-income housing market. But some things can be done to help more of those on the fringes to buy their own home.

Our recommendations are:

Housing Policy

- Government should commission an independent review of the first-time buyer market, regulation, and Government intervention, which would deliver a clear starting point for action. The objective should be to increase the number of true non-returner first-time buyers, both now and in the future.
- Government should also commit to putting in place all the tools at its disposal to help ensure that - while house prices still rise in nominal terms - they do not rise faster than earnings over the long-term, leading to a fall in the house price to earnings ratio. To achieve this, Government should:
    - Prioritise improving the supply of both existing and new homes including increased delivery of affordable homes.
    - Revise the planning system with a greater focus on strategic planning and less focus on development control.
    - Reform property taxation to increase market liquidity and encourage the more efficient use of existing homes. However, the lessons of using Stamp Duty Land Tax to favour first-time buyers should not be lost and any new tax should continue to favour them above other buyers.
    - Commit to improving the quality, security, and affordability of the private rented sector given its importance to most prospective first-time buyers.

Regulation

- There are specific areas of regulation where building societies need more flexibility to help them to support more first-time buyers, for example:
    - A review of the relative costs and benefits of a stricter regulatory environment versus the social benefits of higher rates of homeownership should be undertaken to strike the right balance between financial stability and enabling access to home ownership. Since the pandemic, lenders have been much more likely to support borrowers in place and, while the risk of negative equity still exists, the impact it has should be less than seen previously. Despite this, it may be worth considering mortgage products that allow households to move home if trapped by negative equity.
    - The 15% cap on lending above 4.5 times income has limited the use of higher loan-to-value mortgages in more expensive housing markets. 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 higher mortgage rates, an immediate review should be undertaken to assess whether it would be beneficial to adjust the limit and to target mortgages above the cap at first-time buyers.
    - There are currently thresholds that prevent many households from optimising their finances immediately prior to retirement, while the post-retirement mortgage market offers alternatives not available to younger borrowers. Given the increase in longer mortgage terms and the ageing population, a review of the pre and post-retirement mortgage lending market is required.
    - Change the FCA's MCOB rules to more easily allow part-repayment and part-interest only lending during the course of a mortgage, and the flexibility to shift between them as a borrower's needs change.
    - To support those with lower incomes and less wealth, along with other disadvantaged groups that have lower than average rates of home ownership, lenders should be allowed to offer a greater diversity of mortgage products and, in turn, increase the diversity of the people they help to become first-time buyers.

Building Societies Working with Government

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.

An election is due within the next year and a new Government, committed to helping prospective first-time buyers, might start by acknowledging the challenges younger generations face not just in housing but more generally. We have written a speech (see page 39) that a new Prime Minister might make on this topic before putting into action the necessary steps to achieve their objectives on first-time buyers and home ownership.

Introduction

Most reports on first-time buyers start by noting that the challenges facing those looking to buy their first home have been well documented. Unfortunately, despite the large volume of reports and analysis, the challenges prospective first-time buyers face are still frequently misunderstood. Many of the proposed policy solutions fail to reflect the reality and complexity of the problem. Attempts to explain the challenges to older - typically home owning - generations can still end up with responses along the lines of: "rates were higher in my day", "you just need to save", or even "eat less avocado toast". Meanwhile, policy prescriptions still frequently fall into the trap of just helping the current generation of first-time buyers and fail to understand the wider or longer-term impact of the policy decisions. This report provides a comprehensive review of first-time buyers while also offering potential policy solutions that can hopefully help prospective first-time buyers in the current housing market without compromising the prospects of future generations.

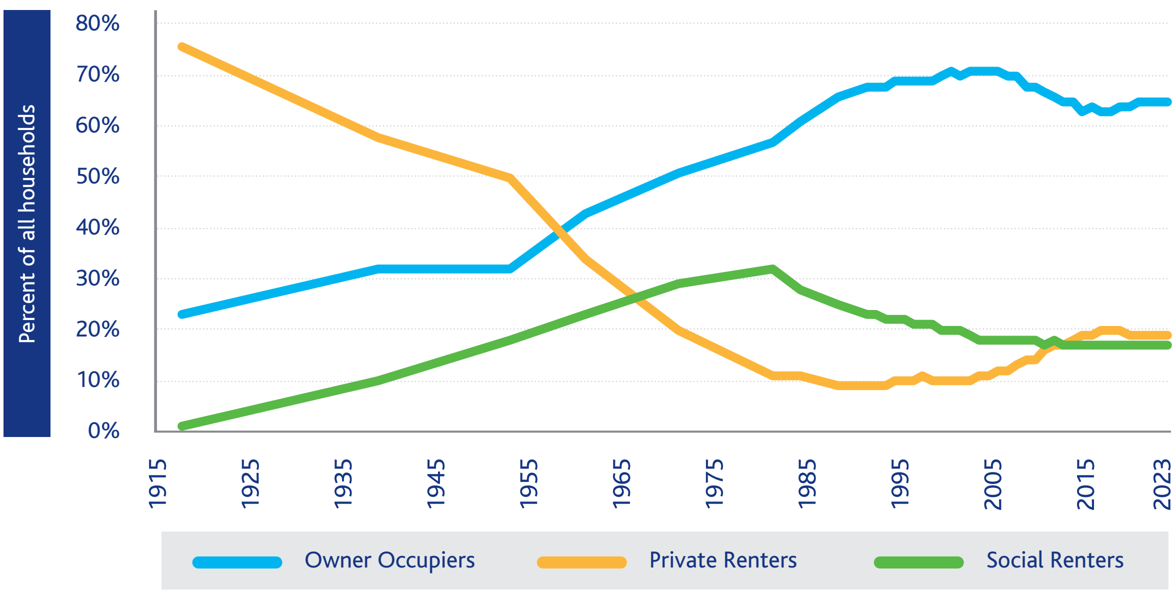
The Preference for Home Ownership

Increasing the number of first-time buyers via the mortgage market is vital because it is the most important route into home ownership. And home ownership has been the preferred and majority housing tenure of the UK's post-war housing market, despite recent falls in its share of households (Figure 3). Surveys repeatedly show that households, irrespective of age or existing tenure, would prefer to own their own home. Unfortunately, a recent YouGov survey for the Building Societies Association shows an increase in the proportion of respondents that want to buy their own home but don't think they will be able to – from 25% in March 2020 to 32% in March 2024.

Households' preference for home ownership is driven by a combination of factors, including the cultural, social, security, tax, and historical financial benefits of the tenure – especially when compared to private renting. Successive governments have also viewed the tenure as priority. While the financial returns of recent decades and a fear of missing out or being left behind by future price rises are a key driver of the desire for home ownership, perhaps the most important financial feature of the tenure is that it offers certainty about future housing costs. This is true not just for the owners in question, but also for Government as an increasing number of private renters entering retirement will mean an increased cost of housing subsidy that rises further in the future.

Figure 3: Housing Tenure by Proportion of Households

Source: DLUHC English Housing Survey



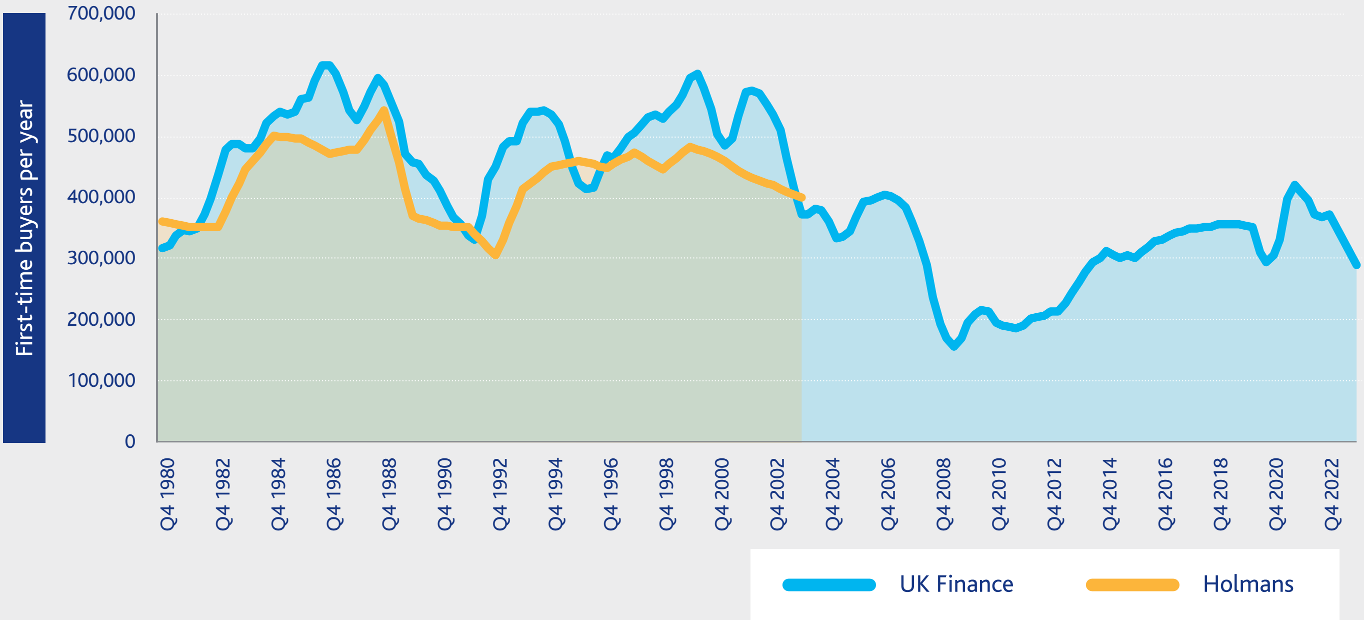
Who Is a First-Time Buyer?

Identifying who is a first-time buyer is not always simple. Most analysis and commentary rely on mortgage market data, as we largely have in this report, but this is not always the most accurate measure. Not all first-time buyers are dependent on a mortgage, with the English Housing Survey suggesting around 6% of recent first-time buyers bought outright - with a 100% deposit. We also know that historic data on mortgaged first-time buyers may not be representative thanks to the presence of "returners" – older, wealthier buyers returning to the market. The late Dr Alan Holmans revised pre-2004 data as per Figure 4, thanks to a range of sources, shows that the data for 2000-05 is particularly compromised by this issue.

More recent analysis[1] by Bob Pannell shows there may still be some issues with first-time buyer numbers. Comparing headline mortgage numbers with the actual number of first-time buyers claiming tax relief shows around 10-20% did not claim. There are some explanations for the difference such as those buying a home worth £500,000 or above and sub-market sales, but this result suggests not all those classified as first-time buyers in the mortgage market data are actually buying for the first-time. While we need to help people return to home ownership when faced by changing circumstances such as divorce or separation, Government policies targeting first-time buyers should be focussed on true non-returners buying for the first-time as this group is the most important and faces far bigger barriers to home ownership than returners.

Figure 4: Number of First-Time Buyers

Source: UK Finance, FCA Product Sales Data, AE Holmans



[1]https://www.ukhousingreview.org.uk/ukhr22/docs/UKHR-Briefing-2022.pdf

The Costs of Buying and Owning

Becoming a first-time buyer is expensive, possibly the most expensive it has been over at least the last seventy years. But assessing how expensive and comparing it to previous periods is not as simple as just comparing house-price-to-earnings ratios or some other single measure.

To make it easier to understand just how expensive buying your first home now is, we have to split the costs into two distinct parts:

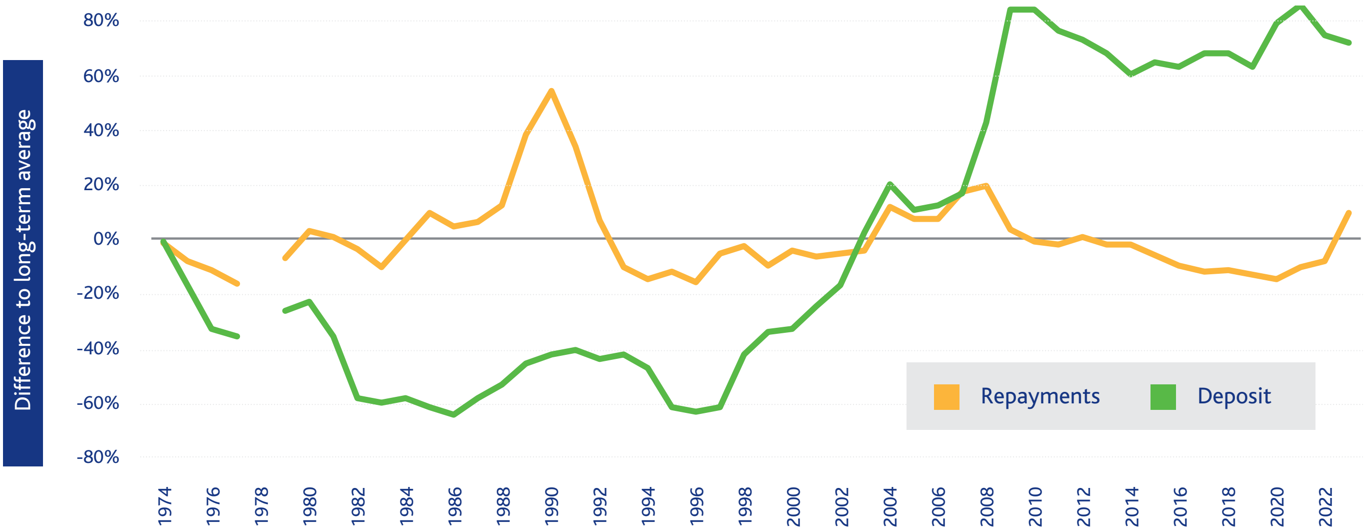
1. There's the **cost of buying**, which is the upfront payments a first-time buyer needs to actually buy their home – mostly the deposit but it also includes other costs such as solicitor's fees, moving costs, and potentially stamp duty.
2. Once moved in, first-time buyers are then faced with the **cost of ownership**. This is primarily their mortgage repayments but can also include other ongoing costs such as insurance along with repairs and maintenance. Historically it has also needed to include the impact of tax.

Since the expansion of home ownership began in the 20th century, the relative balance between the costs of buying and ownership for first-time buyers has fluctuated. On rare occasions the two costs have been relatively affordable for some lucky generations, such as in the early 1980s and mid-1990s (Figure 5). At other times, the cost of buying has been relatively low compared to the historic average, but the cost of ownership was a problem thanks to high mortgage rates - at least in the short term. The late 1980s and early 1990s are an example of this. There have also been periods when the cost of ownership was relatively low but the cost of buying was higher – this includes the decade leading up to 2022.

Unfortunately, during some periods both the cost of buying and the cost of owning have been high. This is the situation that many prospective first-time buyers now find themselves in. The typical first-time buyer now needs a deposit equal to their gross household income while rising mortgage rates have increased repayments back up towards levels last seen during the period leading up to the financial crisis.

Figure 5: Deposit and Repayment Costs Compared to Long-Term Average

Source: BuiltPlace analysis of UK Finance data



> **"Becoming a first-time buyer is expensive, possibly the most expensive it has been over at least the last seventy years."**

The Worst of Both

Prospective first-time buyers now face the worst of both in terms of affordability. The cost of buying has been a barrier since the financial crisis and, as such, lots of policy responses have focussed on how to bring it down. However, the cost of owning has shot up in the last two years thanks to higher mortgage rates and is now a significant barrier to even those on higher-than-average incomes. It is no surprise that UK Finance reported the number of mortgaged first-time buyers fell 22.4% in 2023 compared to the previous calendar year. Unless mortgage rates fall or house prices ease further, successful first-time buyers will have to overcome both these barriers to achieve their aspirations for home ownership.

The Deposit Barrier

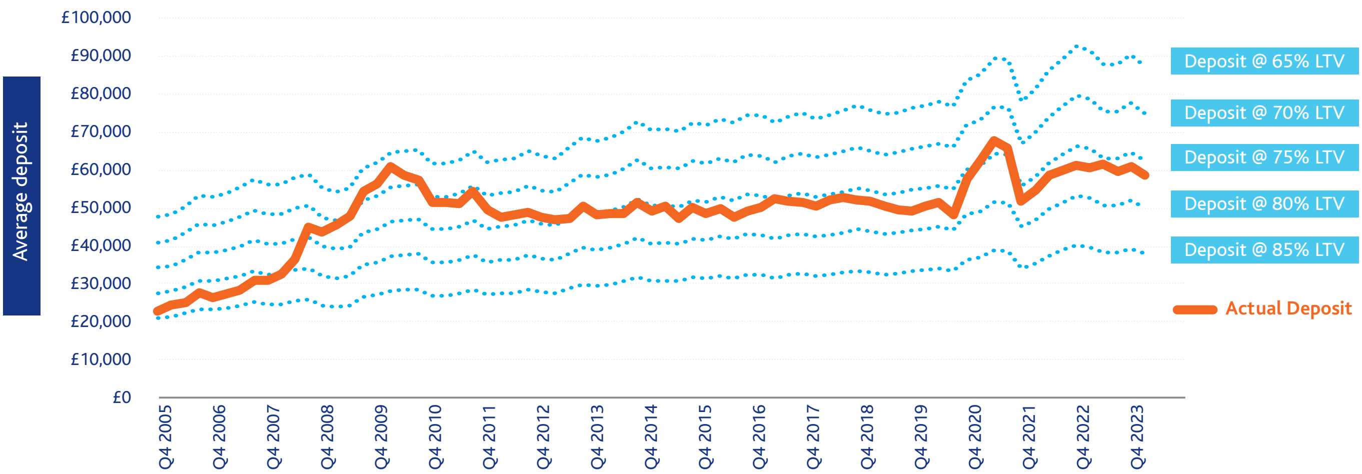
The cost of buying is a massive barrier to many prospective first-time buyers. This can easily be demonstrated by the sizable deposits and substantial help from family and friends that many successful buyers now require. For example, the typical successful first-time buyer now needs a deposit of around £60,000 across the UK but the average ranges from £27,000 in the North East of England to £144,000 in London – where support from family appears almost essential. The size of the deposit reflects three factors:

1. The underlying increase in house prices
2. The post-financial crisis regulation that has limited higher loan-to-value lending and made it more expensive
3. The cap on higher loan-to-income lending above 4.5 times income

The underlying increase in house prices relative to incomes over the last 20 years would have increased the size of the required deposit by over 80%, irrespective of changes in loan-to-value ratios. For example, the blue lines in Figure 6 show what the deposit would have been at any given point for different loan-to-value ratios. However, the fluctuating availability of higher loan-to-value mortgages over the period has also contributed with a 160% rise in the value of the average deposit since 2005. The chart shows that, immediately prior to the financial crisis, the typical first-time buyer deposit was close to the 85% loan-to-value ratio blue line - partly reflecting the availability of very high loan-to-value mortgages at 95% and above during this period. As the financial crisis hit, higher loan-to-value mortgages quickly disappeared and the average loan-to-value ratio rapidly fell towards the 65% blue line in early 2010 – as first-time buyer numbers collapsed and only those with very large deposits kept buying. There was then a recovery in loan-to-value ratios with the average sitting at just above the 75% loan-to-value ratio blue line over the last decade, but nowhere near pre-financial crisis levels.

Figure 6: Average First-Time Buyer Deposit Relative to Alternative Loan-to-Value Ratios

Source: Calculated using ONS RMS



The final factor is the cap on higher loan-to-income multiple lending. It does not have much effect on the national figures but is much more apparent in more expensive housing markets such as London. As a result, and despite being the most unaffordable of all regions or countries in the UK, the average loan-to-value ratio for successful first-time buyers in London is actually the lowest of all. A 95% loan-to-value mortgage, if available, would be unaffordable to all but the most income rich, equity poor first-time buyers in London.

> **"First-time buyers now face a much higher than historically normal cost of owning as well as the very high cost of buying."**

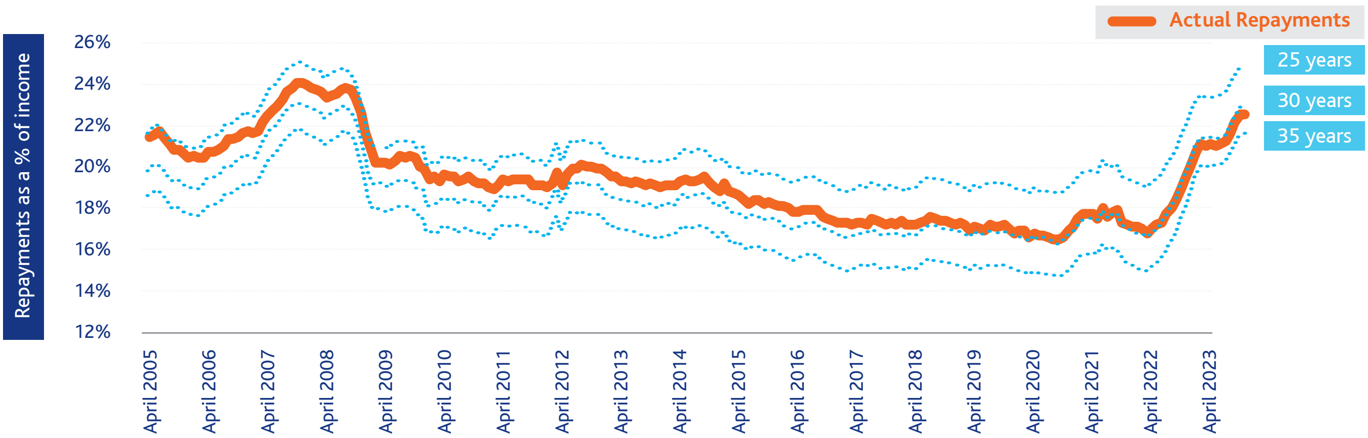
Stretched Repayments

Until recently, the cost of owning for those able to buy was well within historically affordable levels, but that is no longer the case. Record low mortgage rates helped make it extremely attractive for those that could manage to scrape together the cost of buying – especially when compared to the cost of private renting. Unfortunately, recent rises in mortgage rates have substantially altered the landscape. Our analysis of UK Finance data suggests the average mortgage rate for first-time buyers rose from 2.2% in March 2022 to 5.6% in November 2023 – a substantial increase though November possibly marks the peak in rates. However, many comparisons for the cost of owning focus too much on the headline mortgage rate and not the actual mortgage repayments nor how they change over time. The UK Finance data (Figure 7) shows the typical first-time buyer was paying 16.8% of their gross income on mortgage repayments in March 2022 but by November 2023 the figure had hit 22.5%. With repayments a third higher than just 18 months ago, it is now a big barrier to home ownership - though may still be a lower share of income than many private renters spend on housing costs.

Mortgage repayments are very dependent on the mortgage rate but also the mortgage term and loan-to-income multiple. As Figure 7 shows, increasing the mortgage term by five years can help reduce repayments by a couple of percentage points. However, the scale of the rise in rates is far too large to be offset by simply extending mortgage terms and the average mortgage term is still only 31 years for first-time buyers despite the big increase in those with terms of over 35 years over the last few years. It appears that successful first-time buyers in the current market have partially adjusted to current higher rates by taking out longer mortgage terms, but they now face a much higher than historically normal cost of owning as well as the already very high cost of buying.

Figure 7: First-Time Buyer Mortgage Repayments & Alternative Mortgage Term Scenarios

Source: UK Finance, ONS RMS (2023 based on Jan-Nov)



Generational Comparisons

Comparing housing affordability across generations is fraught with danger. The changing structure of the mortgage market including regulation, the tax system, and underlying economic conditions have all had varying impacts on different generations in the post-war housing market. For example, capital repayment mortgages are now the most common mortgage type for first-time buyers, but this has not always been the case with interest-only and endowment mortgages previously popular. Meanwhile, higher rates of university participation have probably contributed to fewer young first-time buyers since the mid-1990s and many now face student loan repayments alongside their mortgage repayments. At least women can now have their own bank account and get their own mortgage, unlike those in the immediate post-war expansion of home ownership, though the increased need for dual incomes undermines some of this progress.

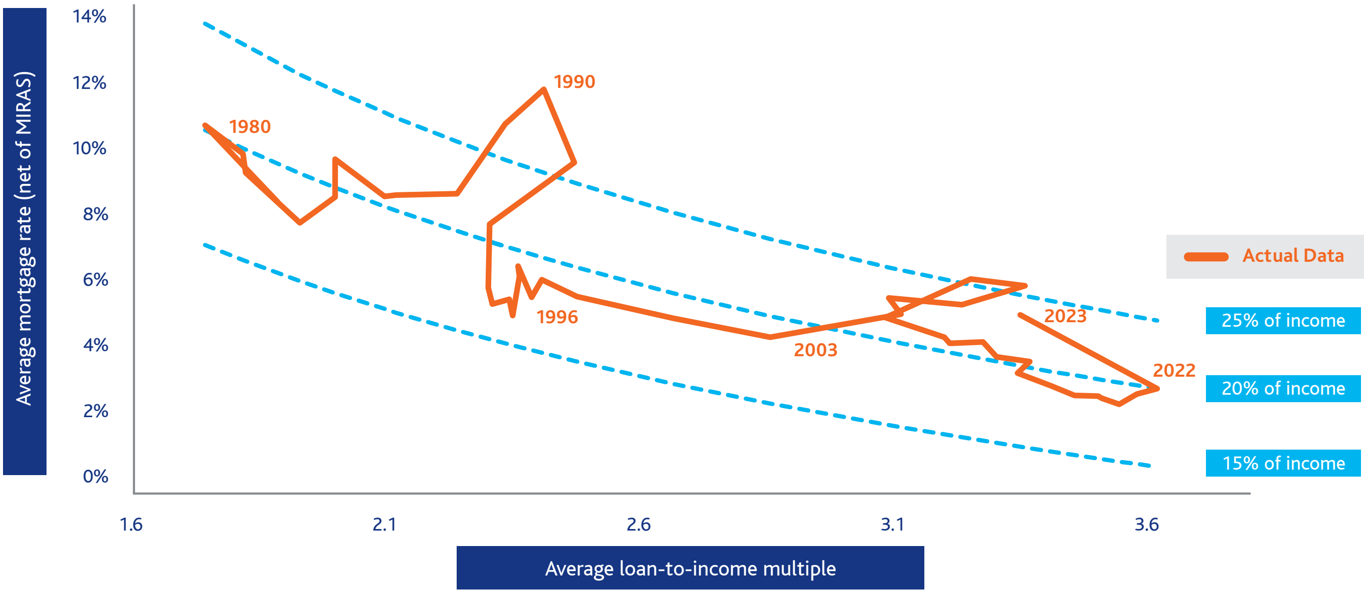
Perhaps the most contentious comparisons emerge when comparing mortgage rates. Mortgage rates are no longer in double digits as they were for some previous generations, but that doesn't make them any less painful. As mentioned previously, mortgage repayments are not just dependent on the rate but also the loan-to-income multiple and mortgage term. Recent generations of first-time buyers have needed to borrow much larger multiples of their income than previous generations. Those larger multiples then mean it only takes a smaller rise in mortgage rates (to a lower level) to take repayments back up to the high proportions of income that their parents or grandparents struggled with during periods of double-digit mortgage rates.

Figure 8 highlights the relationship between mortgage rates and loan-to-income multiples for first-time buyers over the last 40 years. As mortgage rates have fallen over the period, typical mortgage repayments have held around 20% of gross income (outside of bubbles) as borrowers used the lower mortgage rates to borrow more relative to their incomes rather than lower repayments.

While the actual mortgage repayment calculation is a bit more complicated than a simple multiplication, the issue can be demonstrated by the fact that 12% of 2 is the same as 6% of 4. Loan-to-income multiples have fallen since rates started rising but for those that first bought under the record low mortgage rate environment, the shock when they come to the end of their fixed-rate period could be as severe as the one faced by borrowers in the early 1990s.

Figure 8: The Relationship Between Loan-to-Income Multiples & Mortgage Rates

Source: BuiltPlace using UK Finance data – The blue lines indicate what repayments as a % of income would be assuming a 25 year term



> **"Recent generations of first-time buyers have needed to borrow much larger multiples of their income than previous generations."**

Regional Comparisons

It can be all too easy to fall into the trap of focussing on the parts of the UK where the challenges facing prospective first-time buyers are most extreme. Even just using national data on first-time buyers can present a misleading picture as it can be heavily weighted towards London and the south of England (Figure 9). Therefore, it is also important to consider how the challenges facing prospective first-time buyers vary across the country when designing policies. For example, a policy designed to just help someone get past the deposit barrier in a more expensive market might not be the best policy for someone struggling with lower or unstable income in a relatively more affordable market. However, there is a danger of creating regional caricatures and we should be aware that there are far too many people struggling due to low or unstable incomes in London, while the deposit barrier is still large in the North East.

In terms of regions and countries in the UK, London is clearly the outlier when it comes to first-time buyers (Figure 9). Based on data for the final quarter of 2023, the average first-time buyer needed a deposit equal to 150% of their gross annual income and borrowed 3.3 times their income – this figure is lower than the 3.8 times income recorded back in Q1 2022 due to higher mortgage rates. In the wider South East of England, the average first-time buyer required a deposit equal to their gross annual income and borrowed 3.4 times their income – actually higher than in London. Meanwhile, in the North East of England, the average first-time buyer needed a deposit equal to 60% of their gross income (still a large amount to save) and borrowed 2.7 times their income. As a result of these differences in affordability, the proportion of first-time buyers aged 30 and under was higher in the North East of England at 58% in 2022, compared to just 40% in London and 44% in the South East.

The recent rise in mortgage rates has hit more expensive regions in the south of England hardest. This is because first-time buyers in these markets need to borrow more relative to their incomes in order to buy and higher mortgage rates have reduced how much they can borrow. As a result, it is these regions that have seen a bigger fall in first-time buyer completions in recent quarters. Meanwhile, in Scotland where loan-to-income multiples and repayments as a proportion of income are lower, the fall in first-time buyer mortgage completions has been less severe.

Figure 9: Average First-Time Buyer Deposit & Mortgage Multiples by Region/Country

Source: ONS Regulated Mortgage Survey – Q4 2023

The Impact of Mortgage Stress Testing

The regulatory environment has been much tighter for lenders since the financial crisis. While the impact it has had on borrowers' deposit requirements is stark, the impact on their repayments has not been as clear because public data is limited and lenders' stress testing models are commercial secrets. However, we have undertaken new analysis using UK Finance and Bank of England data in an attempt to understand how the changes to the regulatory environment over the last decade might have affected how much first-time buyers could borrow and the impact on their repayments - including how that has changed during the recent shift to higher mortgage rates.

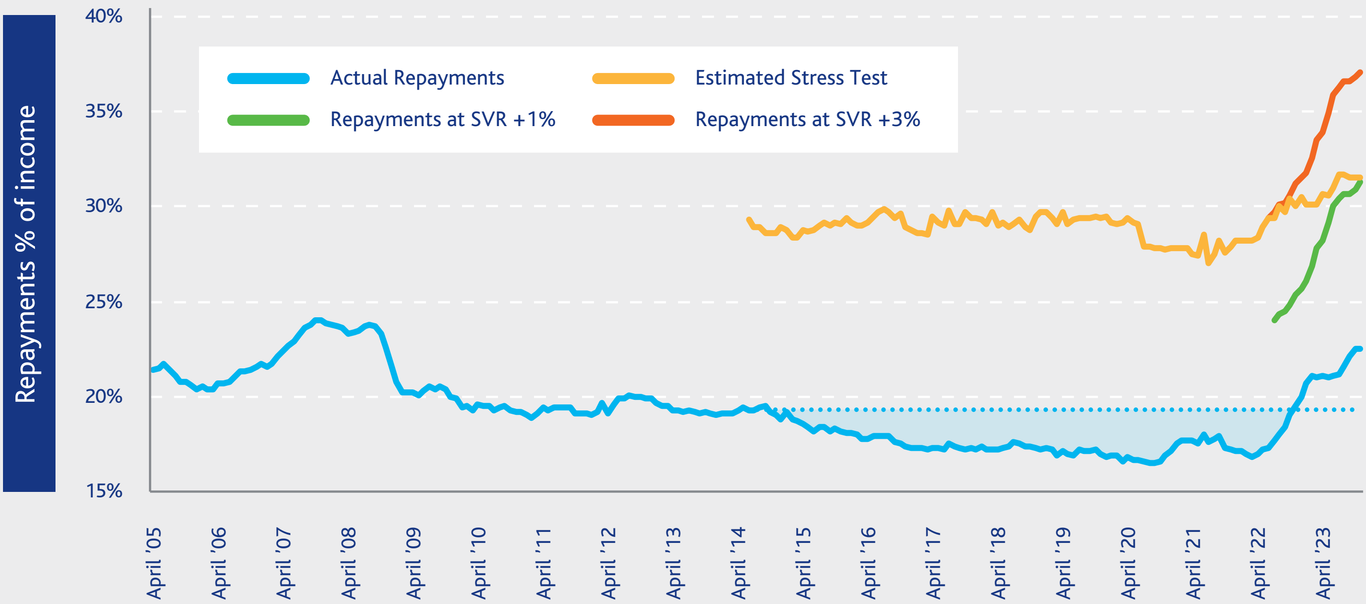
During the financial crisis, the average first-time buyer repayment fell from 24% to just under 20% of gross income as mortgage rates fell (Figure 10). It then remained around this level until late 2014. This turning point is important because it was in June 2014 that regulators introduced the following stress tests:

- the "LTI flow limit" where no more than 15% of the total number of new residential mortgages should be at or above a loan-to-income multiple of 4.5
- the "affordability test" where lenders apply a stress test rate at three percentage points higher than the prevailing rate at origination – normally taken to be the standard variable rate (SVR)

Following the introduction of these stress tests, we can see that the average first-time buyer's repayments actually fell during most of the last decade, hitting a low of 16.5% of income in September 2020. Using Bank of England data on mortgage rates, we can also model where first-time buyer repayments might have been stress-tested at. Our analysis suggests that the average first-time buyer was being stressed on the basis of repayments being just below 30% of gross income from the introduction of the three percentage point stress test rate. It also suggests that, while the fall in headline mortgage rates during the period largely fed through to higher loan-to-income multiples, the stress testing against the SVR helped offset some of the fall - resulting in lower repayments rather than higher multiples.

Figure 10: First-Time Buyer Repayment Affordability Stress Testing

Source: BuiltPlace analysis of UK Finance and Bank of England data (note the non-zero y-axis)

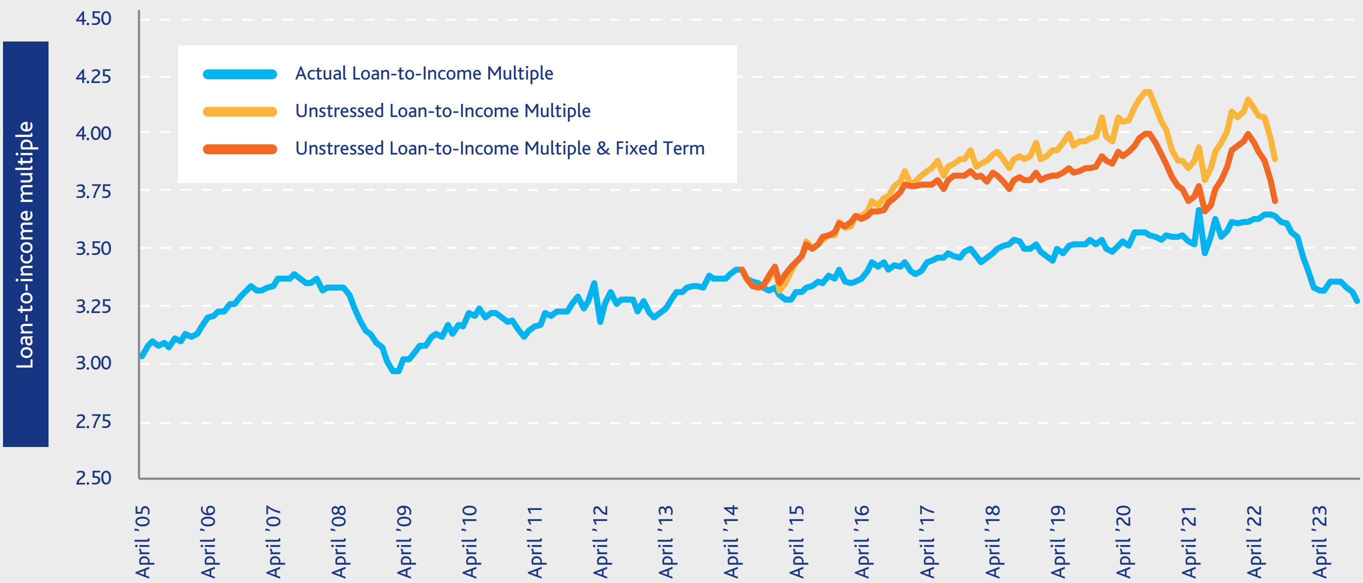


In July 2022, in recognition that interest rates were rising, the Bank of England removed their three percentage point stress test with the default falling back to the FCA MCOB rules of a one percentage point stress test. However, Bank of England data suggests the actual shift has been slower with lenders only gradually moving down to the lower stress test rate as underlying mortgage rates have risen. As a result, the typical first-time buyer now appears to be being stress tested at slightly above 30% compared to the 37% plus it might've been under the three percentage point regime. Over this time, actual repayments for first-time buyers have risen to 22.5% of income – still slightly lower than pre-financial crisis peak levels.

Based on our analysis, we can also model what might have happened to first-time buyer loan-to-income multiples in the absence of the stress testing regime (Figure 11). We assume that, in the absence of the stress testing regime, mortgage repayments would have remained around their June 2014 levels rather than falling – as they had for the five years previous. Based on this, the analysis suggests that average loan-to-income multiples for first-time buyers might have been around 15% higher during the period – though this finding is complicated by the existence of the cap on lending above 4.5 times income, the increased use of longer mortgage terms to improve affordability, and uncertainty on how lenders were actually stress testing borrowers. For example, if mortgage terms were fixed at June 2014 levels, then the increase in loan-to-income multiples might have been around 10% higher than the actual levels. More recently, the slow shift to the one percentage point stress test regime has helped offset some of the impact of higher mortgage rates. While average loan-to-income ratios have fallen by around 10% since June 2022, the fall could have been as large as 25% if the three percentage point stress test was still in place.

Figure 11: Loan-to-Income Multiple Scenarios

Source: BuiltPlace analysis of UK Finance and Bank of England data (note the non-zero y-axis)



Long-Term Cost of Owning

It is relatively easy to assess the cost of owning at the point of purchase, but it is much harder to calculate the cost over a lifetime of ownership. When the cost then extends into the future, it is even more difficult to compare to previous generations given the uncertainties involved. But understanding the possible lifetime costs and how they compare to previous generations is not only important to current first-time buyers but also to our understanding of how the housing market actually works and the implications that has for potential policy solutions. For example, comparisons across generations can raise questions about long-held assumptions such as whether the housing ladder still exists.

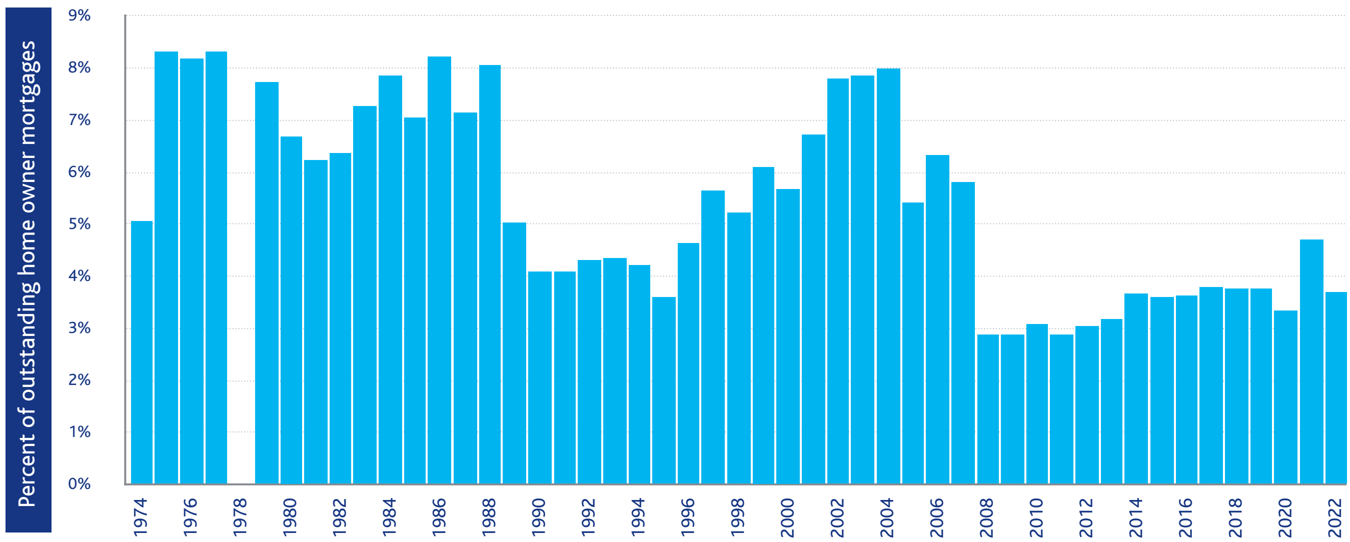
The Broken Housing Ladder

The housing ladder is a popular concept in the UK's housing market. Calls to help prospective first-time buyers regularly refer to "getting them on the first step of the ladder" while many older generations built substantial housing wealth and bought large homes on the back of it. A stylised example of the ladder might involve a couple first buying a flat or small terraced house in the city centre. As their needs change and children possibly arrive, they upgrade to a larger terraced or semi-detached house with more bedrooms and more outside space, perhaps further from the city centre. Then, as the children grow and need more space, they eventually move into a much larger semi or detached house in a more suburban or rural location, where they then continue living when the children have left home. While this is a clearly a gross simplification, the ladder is a popular perception that drives much of the narrative around first-time buyers. It also regularly comes with the suggestion that young people should compromise and buy a home quickly in order to maximise their prospects of climbing the ladder, irrespective of their longer-term housing needs.

What is less discussed is the economic and mortgage market conditions that allowed the housing ladder to function. The conditions of the last seventy years have allowed many first-time buyers to quickly build housing equity through leverage and rising prices, while falling interest rates helped erode the value of the outstanding mortgage relative to rising wages. This process was the underlying driver of the "housing ladder". Building equity and borrowing more thanks to rising wages and falling mortgage rates allowed successive generations to move into progressively bigger and more expensive homes over their lifetime – leading to higher rates of mortgaged movers (Figure 12). There were inevitably short periods of stress and financial pain, but the longer-term outcomes were largely positive for those who owned their own homes with a mortgage.

Figure 12: Mortgaged Movers As % of Outstanding Home Owner Mortgages

Source: UK Finance (no data is available for 1978)



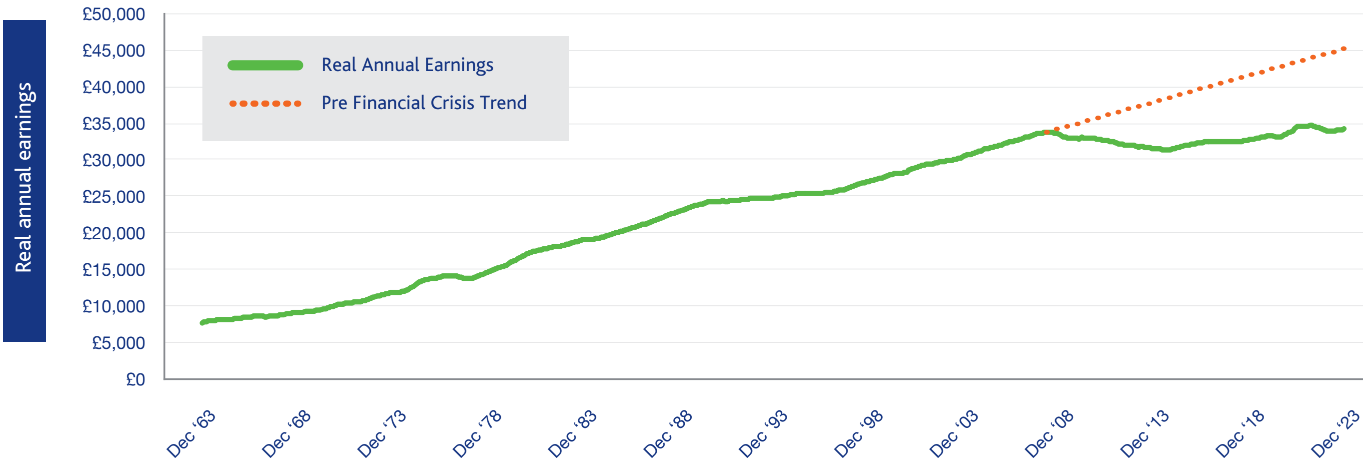
A Marathon Not a Sprint

Unfortunately, it appears the economic conditions that allowed a "housing ladder" might have been the exception rather than the norm. Economic conditions have been lacklustre over the last fifteen years, with real wages stagnating (Figure 13) and the forty year period of falling global interest rates has come to an end. It is also unlikely, and for the best, that we will not see another long period of rising house prices relative to earnings that boosted many homeowners' wealth. For many recent and future first-time buyers, it is quite likely that their mortgage will be a marathon rather than a sprint with the underlying economic climate working against them. The increase in loan-to-income multiples and longer mortgage terms doesn't help either, with higher interest payments rather than capital repayments in the early years of ownership further reducing any increase in equity in a low price growth housing market.

As a result of these economic and mortgage market conditions, many recent first-time buyers could be repaying their mortgage well into their twentieth or thirtieth year of ownership. This will lead to fewer opportunities to move up the "housing ladder" unless owners benefit from career progression, an inheritance, or can arbitrage between local housing markets with different rates of house price growth. This situation has severe consequence, from the type of homes first-time buyers should purchase, to the number of housing market transactions, and other related issues such as labour mobility and the ability to build savings or help their own children with a deposit. For example, many first-time buyers are now having to compromise on their choice of home given the affordability challenges of the current market. While they appear less likely to be hit by negative equity than some previous generations, they may not find it as easy to trade up in the future as their housing needs change.

Figure 13: Inflation Adjusted Average Weekly Earnings

Source: ONS – Based on 12 month rolling average of weekly earnings and CPIH



> "It appears the economic conditions that allowed a 'housing ladder' might have been the exception rather than the norm."

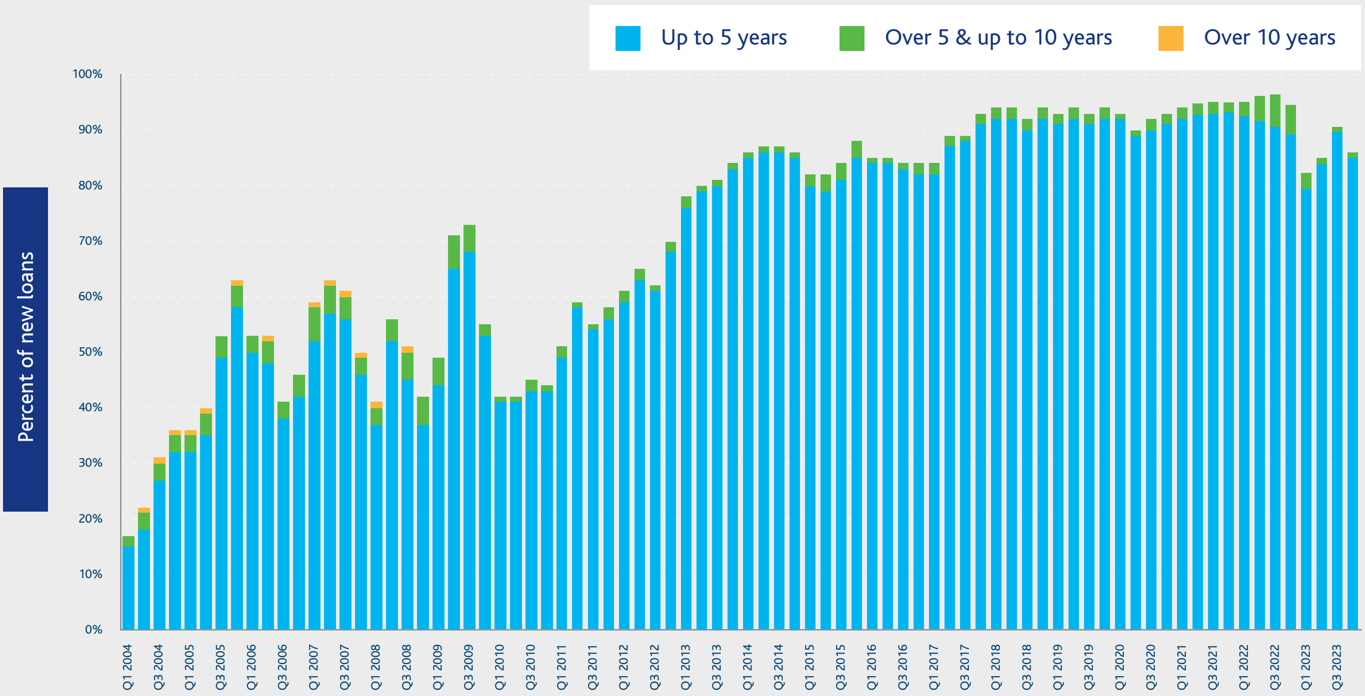
Long-Term Fixed Rate Mortgages

Long-term fixed-rate mortgages are a product that regularly appear as a solution to the challenges facing first-time buyers – and not just in recent years. A longer fixed rate period, of over 10 years but usually 25 years, offers a number of attractions including certainty on future mortgage repayments and the ability to use a lower rate for stress testing, as the stress test can be carried out on the rate the borrower will be on in five years' time rather than simply the SVR. However, that mortgage rate certainty tends to come at a cost with higher rates than for shorter fixed rate periods, and lenders need to be aware of conduct risk when guiding consumers towards particular mortgages. The rate certainty also creates a barrier to market liquidity as, in the absence of Government subsidy, the cost of moving prior to the end of the fixed-rate period might be too expensive for many despite any underlying changes in their housing needs.

A further complication is the British public's attitude towards home buying and fixed rate mortgages. As Figure 14 shows, it is only since the financial crisis that fixed-rate rather than variable-rate mortgages have become the dominant product for new lending. Though not shown, it was only in 2022 that five-year fixed rates became more popular than shorter fix periods. Meanwhile, longer fixed-rate periods have been a tiny fraction of the market. The proportion of new mortgages over five years but under 10 years peaked at 5.7% in Q3 2022 as interest rates started rising, while the proportion over 10 years was just 0.1%. With the idea of the housing ladder still firmly embedded and borrowers consistently expecting, though not always receiving, lower rates and higher incomes in the future, the benefits of a longer fixed-rate mortgage does not yet appear to outweigh their constraints for the majority of borrowers.

Figure 14: Share of New Mortgage Lending by Fixed Rate Period

Source: Bank of England (residual to 100% is variable rate lending)



A Fortunate Birth

Someone's ability to become a first-time buyer is again increasingly dependent on their good fortune in picking the correct family to be born into rather than their own success in life. There is an inequality in who can manage to buy a home thanks to the underlying unaffordability of very high house prices relative to incomes and the regulatory environment. The sizable deposit barrier has led to the rise of the so-called Bank of Mum and Dad, while successful first-time buyers increasingly need to have two incomes that are higher than the average. Meanwhile, those without family help or on single and lower incomes have been excluded from home ownership. Unfortunately, this outcome is no surprise given the underlying issues.

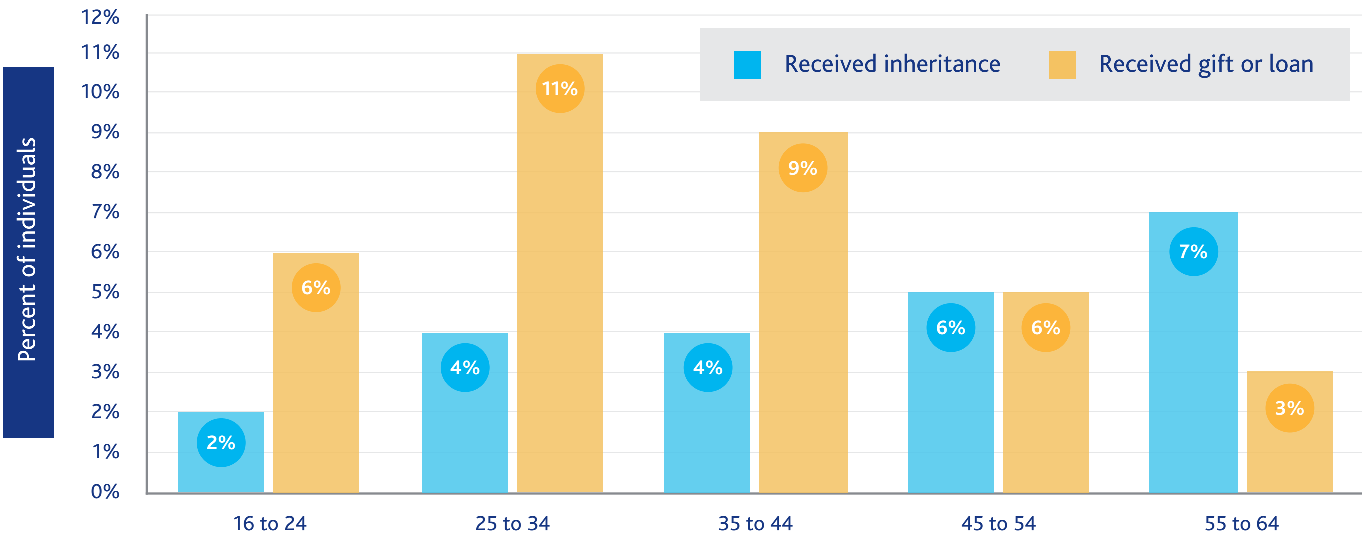
Generational Wealth Transfers

The scale of the deposit affordability barrier means many successful first-time buyers now need help from family and friends to save the substantial amounts required, especially in more expensive housing markets like London where the typical first-time buyer needs a deposit greater than their gross annual income. Help from family and friends, frequently referred to as the Bank of Mum and Dad, is widespread though the evidence on the exact magnitude is variable. For example, the most recent English Housing Survey shows that around one-third of recent first-time buyers had a gift or loan from family or friends. Unfortunately, the need for help from family reinforces existing regional and socio-economic divides. The scale of the deposit needed in more expensive parts of the country requires a much better funded "Bank". As a result, those able to buy in these markets are more likely to come from families with higher socio-economic status and able to afford larger transfers to their children.

A further driver of inequality in home ownership that is likely to rise in importance in coming years is inheritance. However, given longer lifespans, in the first instance this wealth will flow down to first-time buyers' parents rather than to them directly (Figure 15). It remains to be seen whether this wealth will be used by the parents to change their own housing conditions or if they will pass it down another generation to help their children buy. This could lead to family tensions in the situation of those parents that struggled to buy themselves and still find themselves compromised in the home they own, while their children are also looking for help. A further complication is that it is still not clear how this wealth will flow down through the generations as it depends not just on the scale of wealth but also how many dependents there are. The funding of the Bank of Mum and Dad might be increasingly reliant on the grandparents' legacy in coming decades, but exactly who ends up with it is far from certain.

Figure 15: Percentage of Individuals Who Received an Inheritance or Gift by Age

Source: ONS Wealth and Assets Survey – July 2014 to June 2016, Great Britain (inheritance of £1,000+ or gift of £500+)



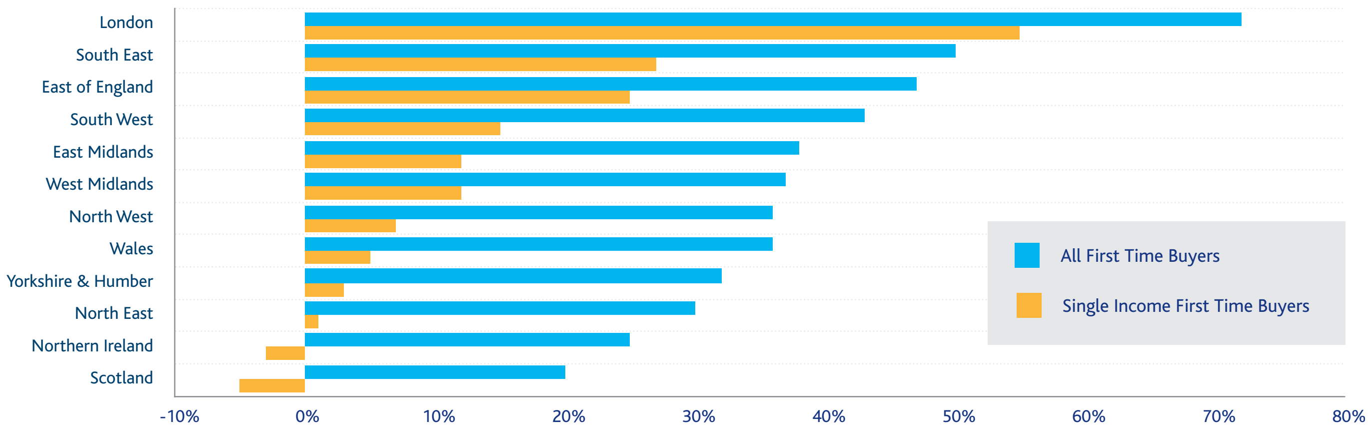
No Longer Average

Analysis of housing affordability often compares house prices or repayments to average earnings in the wider economy, but this can be misleading as the typical first-time buyer income is no longer average. Over the last couple of decades, becoming a first-time buyer has increasingly required both the wealth to bridge the cost of buying gap, and a higher than average income to afford enough to buy. For example, the income for a successful first-time buyer across the UK in Q4 2023 was £60,000 while in the North East of England it was £46,000 and in London it was £96,000. Even when accounting for joint income borrowing and the presence of "returners", this is above the average salary in many regions.

While a comparison of average first-time buyer incomes to regional earnings inevitably shows a premium given the need for dual incomes, recent analysis (Figure 16) by Nationwide shows that the typical income of single-income first-time buyers is higher than average regional earnings in many regions. For example, the typical income of a single-income first-time buyer in the West Midlands was 12% higher than average full-time earnings, while in the South East it was 27% higher, and in London it was 55% higher. It is still not clear what effect a greater reliance on dual income borrowing has had, especially for recent first-time buyers that have had children since they bought and are now faced with very expensive childcare costs alongside higher mortgage rates.

Figure 16: First-Time Buyer Household Incomes Compared to Average Full-Time Earnings

Source: ONS Regulated Mortgage Survey, ONS ASHE, Nationwide, UK Finance/Mortgage Clarity - 2023



Higher than average incomes also help explain how first-time buyers manage to keep buying in more expensive housing markets. The actual first-time buyers in local housing markets where prices are eight or more times earnings will still only be buying at around five times their income thanks to much higher than average incomes and the use of large deposits.

> **"Those without family help or on single and lower incomes have been excluded from home ownership."**

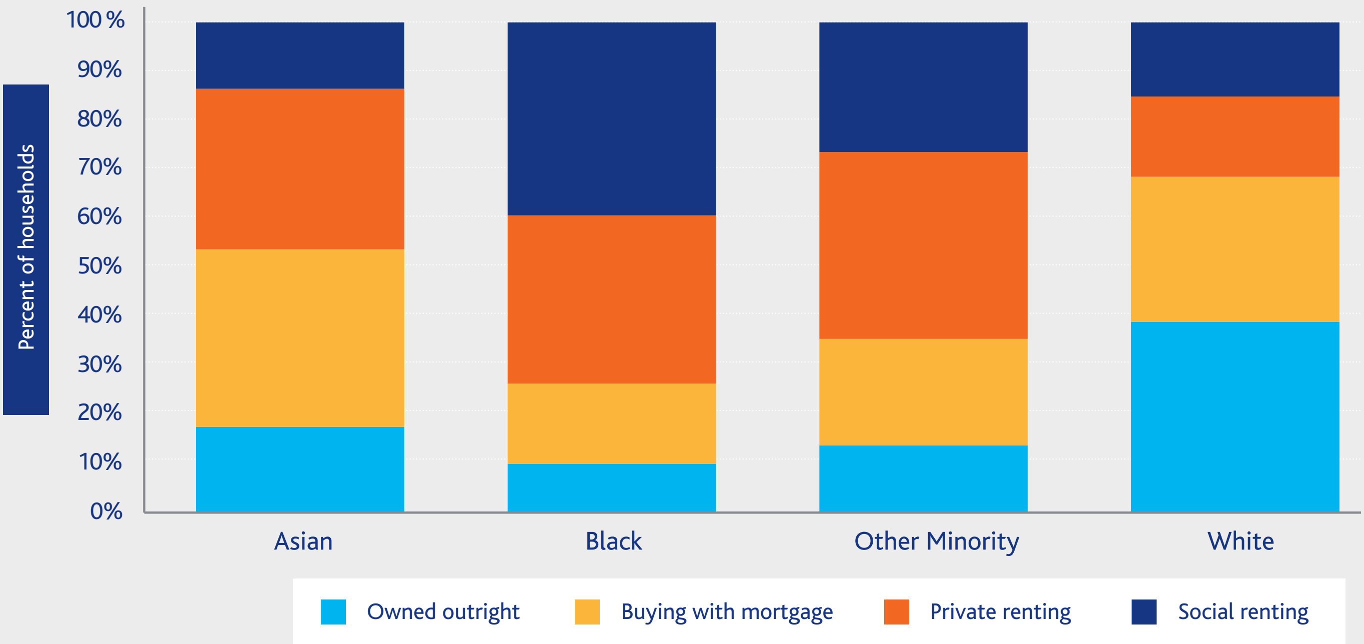
Diversity of People & Products

There are widespread inequalities in housing and access to home ownership as highlighted across this report. While many of those highlighted are related to age, income or wealth, there are other inequalities in housing that are less frequently discussed such as race, religion, and other protected characteristics. For example, the recent UK Housing Review[2] found "Minority-ethnic groups are more likely than the White British group to be living in housing disadvantage and deprivation" while a GLA report[3] highlighted "Black Londoners and those from most other minority ethnicity groups experience worse housing conditions, less tenure security, higher rates of housing need, worse affordability and lower wealth than White Londoners". Our analysis of housing tenure by ethnic group (Figure 17) shows that households headed by ethnic minorities are less likely to own their home and are more likely to live in the private rented sector while a JRF report[4] found "More than a quarter of BAME working adults spend over a third of their income on housing compared to just over 1 in 10 white workers". The situation is dire and more needs to be done.

There is a need to promote equality and fairness across housing and the mortgage market is no exception. Building societies and other lenders should ensure they support all disadvantaged groups that have lower than average rates of home ownership to buy their own homes by providing a diversity of products that meet the needs of different groups of people. This will involve engagement with disadvantaged groups and further detailed research, and may need consideration by the regulators.

Figure 17: Housing Tenure by Ethnicity of Household Reference Person

Source: DLUHC English Housing Survey - 2022-23



[2]CIH: 2024 UK Housing Review
[3]GLA: Housing and race equality in London, 2022
[4]JRF: What's causing structural racism in housing?, 2021

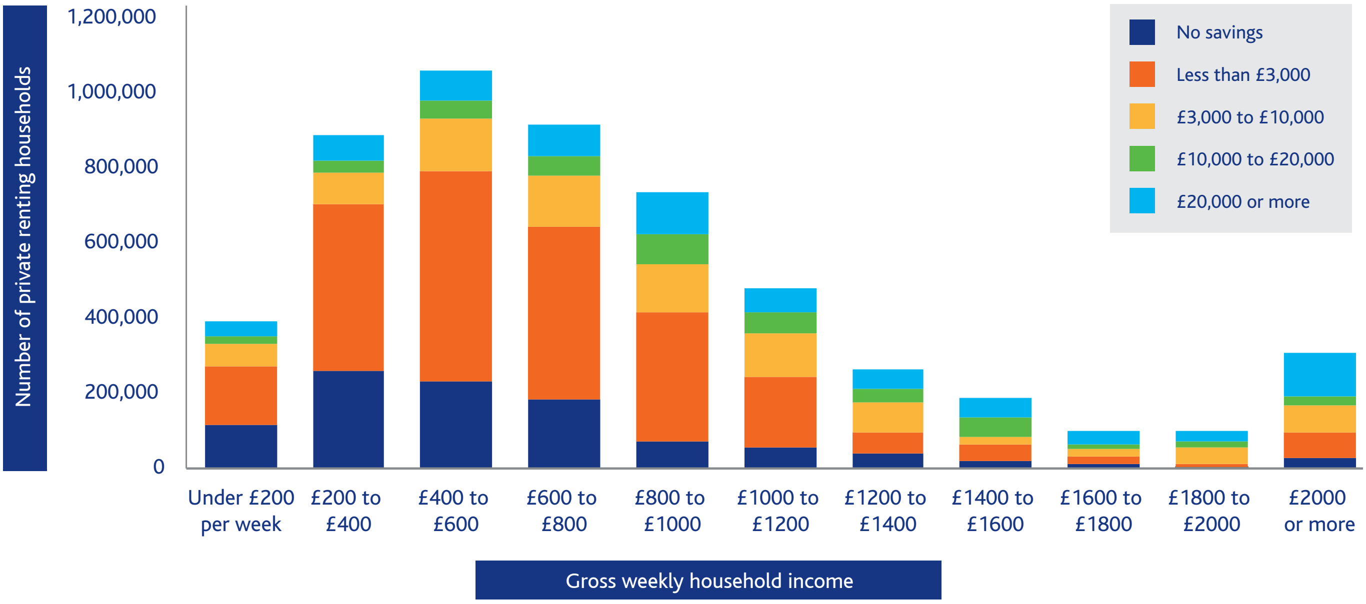
Low Income Households

Unfortunately, most first-time buyer statistics only tell us about those who successfully managed to buy their home. It is therefore also important to understand those who are unsuccessful or living in the rented sectors in order to better help them.

The challenges faced by those on average or low incomes when trying to access home ownership are significant. Suggestions that those on average earnings could save for a deposit over a period of a decade or more are probably misleading as most of those who are successful still manage to buy their first home in their late twenties or thirties. Given the deposit barrier, it is important to note that 18% of private renters have no savings, 44% have savings of less than £3,000, and a further 17% have savings of under £10,000 (Figure 18). Clearly saving for a deposit is a massive challenge, especially given the unaffordability of private rents. And even if they did manage to save or get lucky with some help from family or friends, it is quite likely that their lower-than-average income would still make it more difficult to borrow enough to buy. The situation is even more difficult for those with less secure or stable employment, or are self-employed, in the current mortgage lending environment.

Figure 18: Gross Income & Savings of Private Renting Households

Source: DWP Family Resource Survey 2021-22



> **"Given the deposit barrier, it is important to note that 18% of private renters have no savings and 44% have less than £3,000"**

Home Buying Potential of Private Renters

English Housing Survey data shows that around 70% of first-time buyers were previously residents in the private rented sector. As such, the housing conditions in the sector and the financial capacity of its residents are an important factor in assessing the potential for tenants to become owners. To understand this further, we have undertaken analysis of the incomes and savings of private renters using DWP's Family Resources Survey 2021-22. While this data doesn't necessarily reflect the household structure of those that buy given the greater propensity for renters to house share and live in over-crowded conditions, it provides a useful guide even if it probably overstates the proportion that could afford to buy.

The deposit barrier is substantial for many private renters, as Figure 18 shows. However, the deposit is just one part of the affordability challenge in the current high mortgage rate environment. We also need to consider how much they can afford to borrow. Based on recent average first-time buyer lending metrics – a 30 year term, 4.5% rate, and repayments at 22% of income – we have modelled what maximum house price a renting household could afford to buy in Figure 19. The results highlight the affordability challenge faced by many: 68% of private renters could only afford to buy a home worth up to £100,000 if a mortgage product existed at 100% loan-to-value and they didn't need a deposit. However, this situation is unrealistic and therefore if we filter the data for those that could afford a 5% deposit with a 95% loan-to-value mortgage, then just 19% of private renters could afford to buy a £100,000 home.

Looking further up the price distribution and the number that could afford to buy falls away. Further analysis shows many of the just 9% of the households that could afford up to a £250,000 home with a 95% loan-to-value are found in London and the South East – where house prices are much higher and this budget would the insufficient. The analysis clearly shows that both the deposit and borrowing constraints are a massive barrier to many private renters buying their first home, though the increased availability of higher loan-to-value mortgages would help some.

Figure 19: Max Affordable Price of Private Renters by Max Loan-to-Value Ratio

Source: BuiltPlace analysis using DWP Family Resources Survey 2021-22 – Assumes 30 year term, 4.5% mortgage rate, & repayments at 22% of income

Cheques and Balances

Perhaps the biggest challenge when trying to help first-time buyers is that they do not live 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, housing market, and 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. The housing market is a complex system and there are feedback loops.

A Blank Cheque

It would be relatively easy to help more first-time buyers, at least in the short term. Anything from a blank cheque to increasing the availability and subsidising the cost of very high loan-to-value and high loan-to-income mortgages on interest-only payment terms would quickly lead to an increase in the number of first-time buyers. However, this surge in buyer demand could quickly lead to an increase in house prices in this current supply-constrained market – one where the turnover of existing homes is very low and the responsiveness of new supply is poor. And the end result would be future generations of first-time buyers requiring even greater support.

A further complication is presented by the recent rise in mortgage rates and minimal falls in house prices. Policy solutions that might work more widely under an ultra-low mortgage rate environment have become less effective in the current interest rate climate. For example, our analysis in Figure 20 shows that making a 95% loan-to-value mortgage affordable for those looking to buy a home at six times their income would require a rate of 1.3% - and that is based on the more generous current elevated mortgage repayment levels rather than the lower repayment levels seen over the last decade. The situation is inevitably more extreme for 99% loan-to-value mortgages. For a 99% loan-to-value mortgage to be affordable in a market where house prices are four times income, the average mortgage rate would need to be 4% - almost achievable in the current environment. But for those buying a home at six times their income the mortgage rate would need to be 1% and it would need to be negative for those buying at eight times income. Higher mortgage rates have made it much more difficult to help first-time buyers irrespective of limits to loan-to-income ratios or affordability stress testing.

Figure 20:

Affordable Loan-to-Value Ratios Under Different House Price to Household Income Ratios

Source: Calculated by BuiltPlace – assumes 31 year mortgage term and repayments at 22.5% of income (as per UK Finance Nov 2023 data)

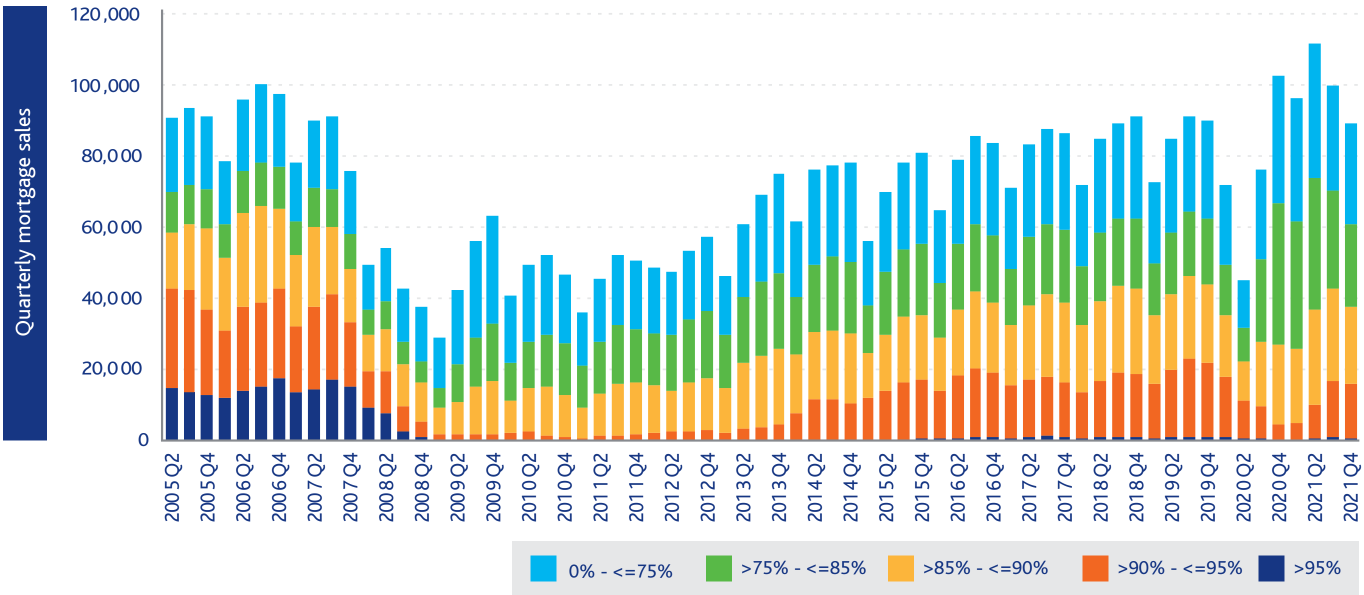
The Compromise

One important balance in the system has been a key feature of the mortgage market since the financial crisis: the compromise between financial stability and first-time buyer numbers. Greater financial stability inevitably leads to prospective first-time buyers being excluded from the mortgage market, while increasing first-time buyer numbers can quickly lead to increased financial market risk.

The last decade has seen the balance tilted in favour of financial stability and that has had an inevitable cost, with many excluded from home ownership - particularly those with single incomes, lower than average incomes, or unstable incomes, and with less wealth. For example, Figure 21 shows that while the number of first-time buyer mortgage completions had recovered in recent years, the number using higher loan-to-value mortgages (at 90% and above) has remained depressed compared to prior to the financial crisis. 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 for the housing market and economy. There is no correct answer for the appropriate balance, but it needs honest debate about the costs and benefits.

Figure 21: First-Time Buyer Mortgage Sales by Loan-to-Value Ratio

Source: FCA Product Sales Data



Alongside the balance between financial risk and first-time buyer numbers, there are many others that need to be acknowledged when designing policies to help first-time buyers. These balances include but are not limited to:

- The needs of prospective first-time buyers now versus those buying in the future.
- The impact of increasing first-time buyer demand in a supply constrained market.
- The needs of first-time buyers versus those of other buying groups such as investors.
- The impact of how the inequality in inheritances will affect different first-time buyers.
- The importance of private rented sector security and affordability in saving for a deposit.
- The importance of first-time buyers to market liquidity given the prevalence of transaction chains.
- The lending conditions for buyers at the point they first buy versus their future needs.
- The lifestyle and work preferences of first-time buyers versus previous generations.
- The impact of current regulations around lending into retirement and the current thresholds.

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.

The Help-to-Buy Exception

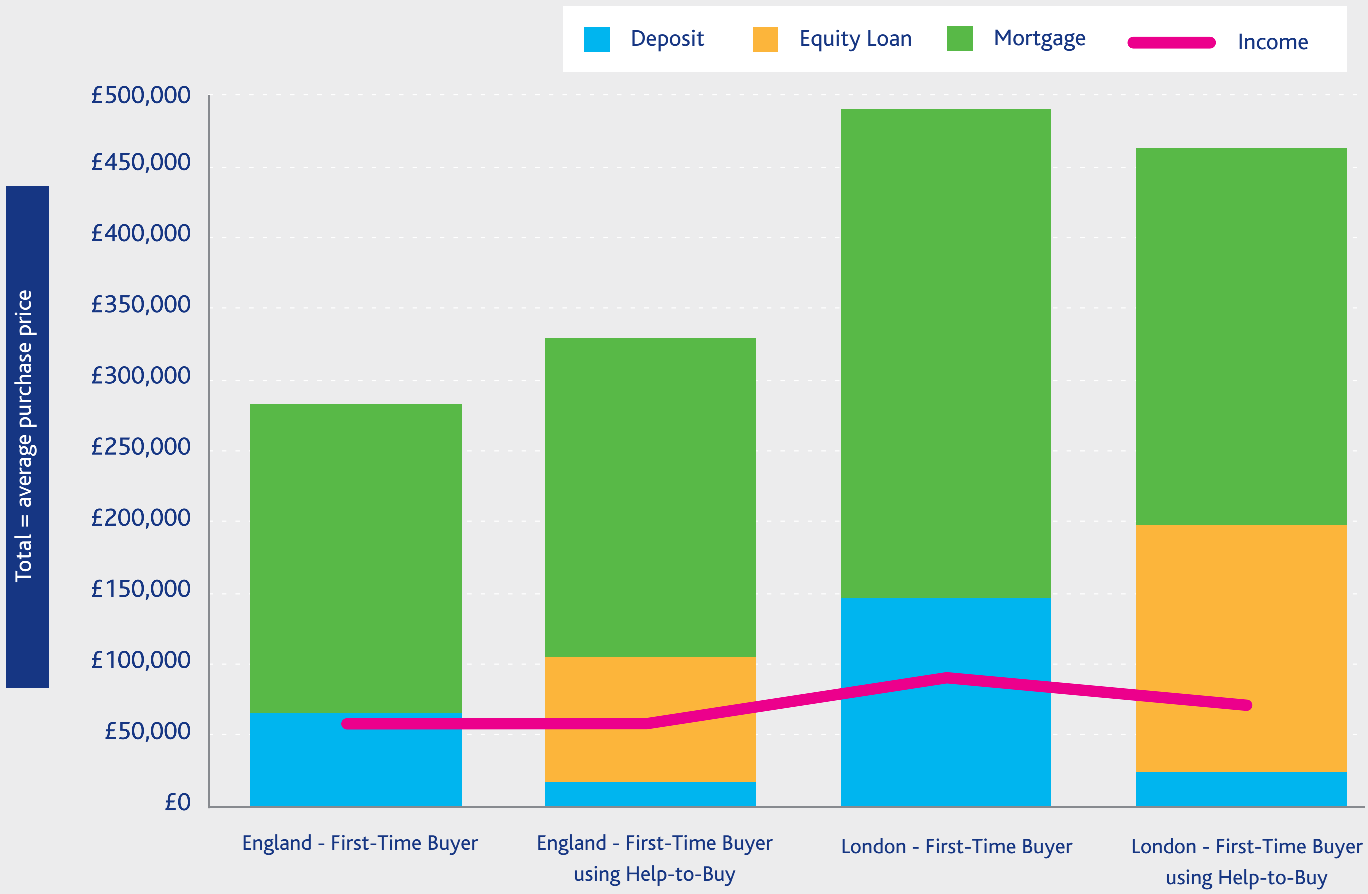
Perhaps the most successful housing policy supporting first-time buyers in recent years has been the Help-to-Buy equity loan scheme. There have been a number of different schemes under the Help-to-Buy banner, but the equity loan version was specifically targeted at those buying new build properties. It was required because new build properties are typically sold at a premium to the existing market, though the evidence for this can usually only be seen several years after. Because of the new build premium, lenders had been more reluctant to lend at higher loan-to-value ratios than for the equivalent existing home, and so Government stepped in with an equity loan. It is perhaps the closest we've come to a blank cheque in recent years as it sat outside the normal regulatory rules.

The scheme gave buyers - both first-time and existing owners - of new build homes an equity loan of up to 20% across England, which was raised to 40% in London from February 2016. The loan was interest free for five years and was to be paid back in full on the sale of the property or by the end of the buyer's mortgage term. The amount paid back was tied to the value of the home at the point of sale or redemption. The scheme has been controversial though it probably led to additional new build homes being built as new build sales increased as a share of total transactions. It has been particularly contentious in London where the 40% equity loan was more extreme and some of those buying have also found themselves caught in the cladding and leasehold crises.

The impact of the scheme on affordability can be seen in our simple example of the financial position for first-time buyers as of Q3 2022 (Figure 22). For first-time buyers using Help-to-Buy, it is based on actual mean house prices, household incomes, equity loans, and a 5% deposit. For other first-time buyers, it is based on actual mean house prices, household incomes, and mortgages from the Regulated Mortgage Survey. The national data shows how a first-time buyer with a similar household income and much smaller deposit could afford a more expensive home under Help-to-Buy equity loan than when buying with a normal mortgage. The London example highlights how Help-to-Buy enabled a first-time buyer with a lower income and much smaller deposit to buy a home priced similarly to those bought by normal first-time buyers with higher incomes and much larger deposits in the capital.

Figure 22: First-Time Buyer Financial Position Including Help-to-Buy Equity Loan, Q3 2022

Source: BuiltPlace analysis of DLUHC and ONS Regulated Mortgage Survey data




sold
subject to contract
SOLD
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What Success Would Look Like

Before designing any package of policies, it is important to set out what outcomes they are intended to achieve. This can help guide the policy design but may also highlight any policies or decisions that should be avoided given potential conflicts with the desired outcomes. It can also highlight what has changed in the housing market and possibly cannot be fixed. For example, we've already shown how the housing ladder is now broken and it's quite likely that home ownership will not offer the same quick route to wealth as previous generations have found.

Government Commitment

A new Government, committed to helping prospective first-time buyers might start by acknowledging the challenges younger generations face not just in housing but more generally, before identifying and then putting into action the necessary steps to achieve their objectives. 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. Leadership on the desired outcomes must be clearly set by Government, but both the outcomes and proposed solutions will require collaboration from the public, mortgage lenders, and other participants in the housing market. The Government would then set out a package of policies that will clearly achieve their objectives and create the optimal conditions for improving affordability without resorting to short-term election gimmicks.

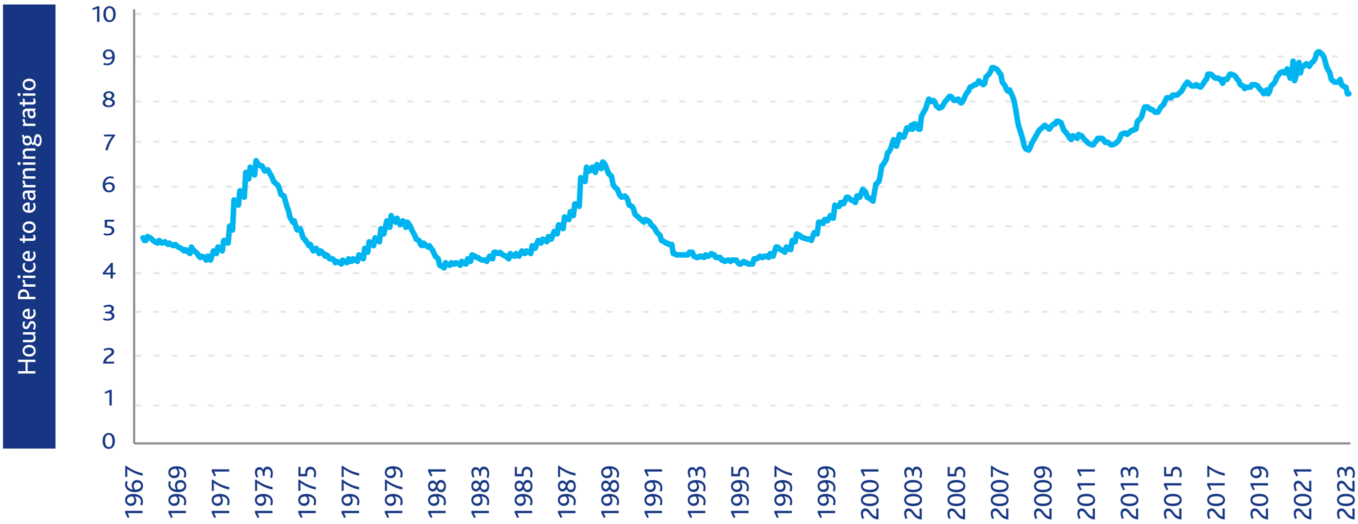
> "A new Government should commit to a package of housing policies that make homes more affordable, more available, and more appropriate to the needs of those living in them."

Optimal Conditions

The optimal conditions for making the housing market more affordable are those that ensure house prices rise in nominal terms but fall relative to earnings until they reach an affordable level, and then only rise in line with earnings. As Figure 23 shows, house prices have already fallen relative to earnings over the last 18 months thanks to rising interest rates. However, prices still remain elevated and the fall only corrects the short post-pandemic boom rather than the 25-year long boom. Unfortunately, the corrective process can take a long time, decades even, and the underlying interest rate environment also plays a part in setting the baseline level. Given the important role rising house prices have played in the economy and peoples' sense of wealth in recent decades, this will be a difficult adjustment to the national psyche. Future Governments must also remain committed to this outcome as the temptation to inflate the housing market to compensate for a struggling economy has been too irresistible for several previous Chancellors of the Exchequer, irrespective of the longer-term costs.

Figure 23: House Price to Earnings Ratio

Source: ONS



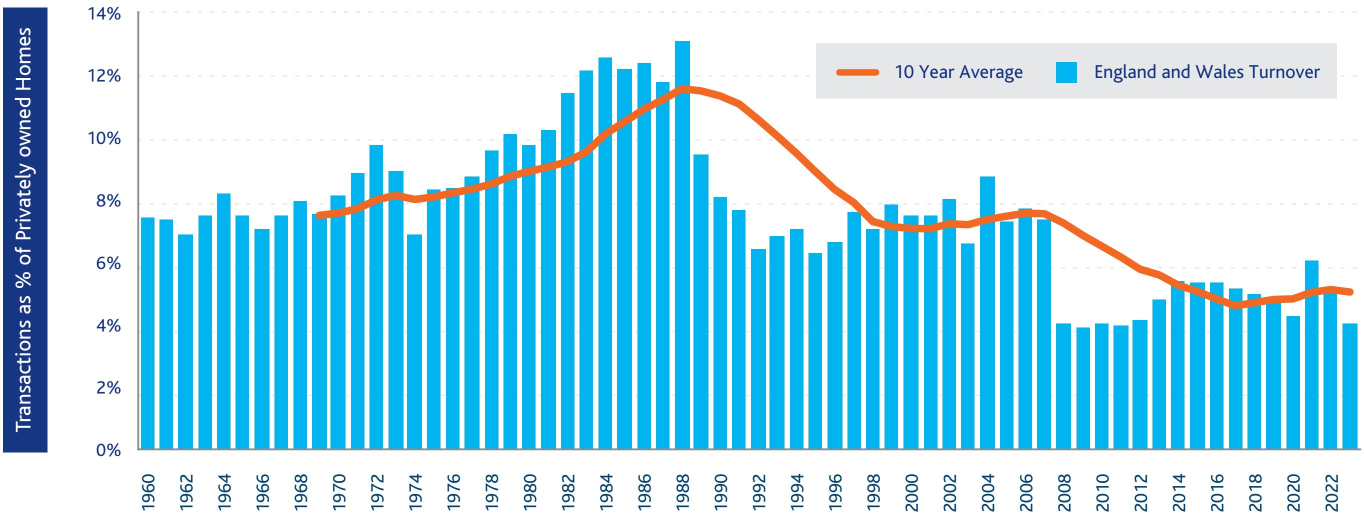
Market Liquidity

Maintaining rates of turnover is also key to a functional housing market, especially in a market where home ownership is the dominant tenure. The rate of turnover – how many homes are sold per year - can reflect many factors such as demographics, mortgage market conditions, and the underlying economy but ensuring households can move easily is also essential for the economy.

Figure 24 shows the rates of housing market turnover since 1960. The housing market should liquid enough to provide suitable choices at the point of purchase while also allowing owners to quickly and easily transact if their home no longer meets their needs. Households should also be able to easily switch housing tenures as their circumstances change, with no risk of being left behind by rising prices. Maintaining a rate of new housing supply that allows these conditions, while ensuring homes are available for everyone who needs them, is a key part of the solution.

Figure 24: Housing Market Turnover

Source: ONS, HMRC, DLUHC – England & Wales



The Changing Climate

Homes should also be appropriate for the changing climate by prioritising energy efficiency (including both heating and cooling), while also being located in areas that will not be affected by the increased prevalence of adverse weather events such as flooding. Plans for new homes should be linked to wider strategic planning on resources and infrastructure, including ensuring areas have sufficient resources to cope with an increase in housing supply such as water, energy, and transport capacity.

Independent of Wealth

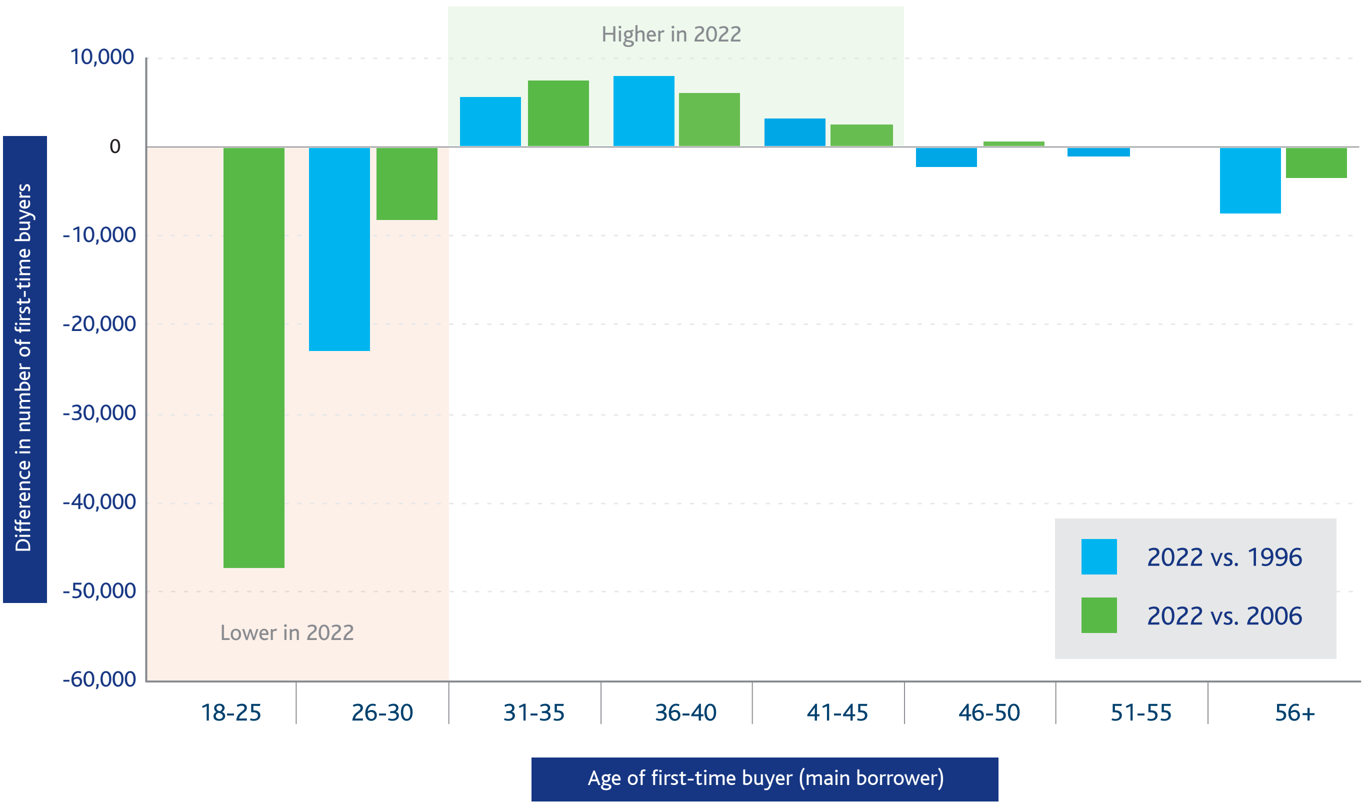
For first-time buyers, success means making home ownership easier to access with a lower cost of buying and less dependence on family wealth. But it also needs to achieve that while ensuring that the ongoing cost of ownership is affordable and secure. The home a first-time buyer chooses and the mortgage they use should be appropriate to their immediate needs, but also flexible enough to allow for any changes in the future.

Success would see first-time buyers requiring smaller deposits and a reduction in the proportion of them needing support from family and friends to buy. This would hopefully lead to an increase in true non-returner first-time buyer numbers, including more buying in the 25 to 40 age range to offset the longer-term decline in the number of those aged under 25 buying their first home.

As Figure 25 shows, the number of first-time buyers aged 31-45 was slightly higher in 2022 than in 2006 or 1996. However, the number of buyers aged 30 and under is substantially lower when compared to previous periods. Some of this decline will reflect the increase in higher education participation since the 1990s but a large part is simply due to the underlying unaffordability of housing. Therefore, while a decrease in the average age of a first-time buyer might be desirable, it would be preferable to ensure that older private renters that have been excluded from home ownership since the financial crisis have increased opportunities to buy in the future.

Figure 25: Difference in Number of First-Time Buyers by Age Band

Source: CML, UK Finance, FCA Product Sales Data



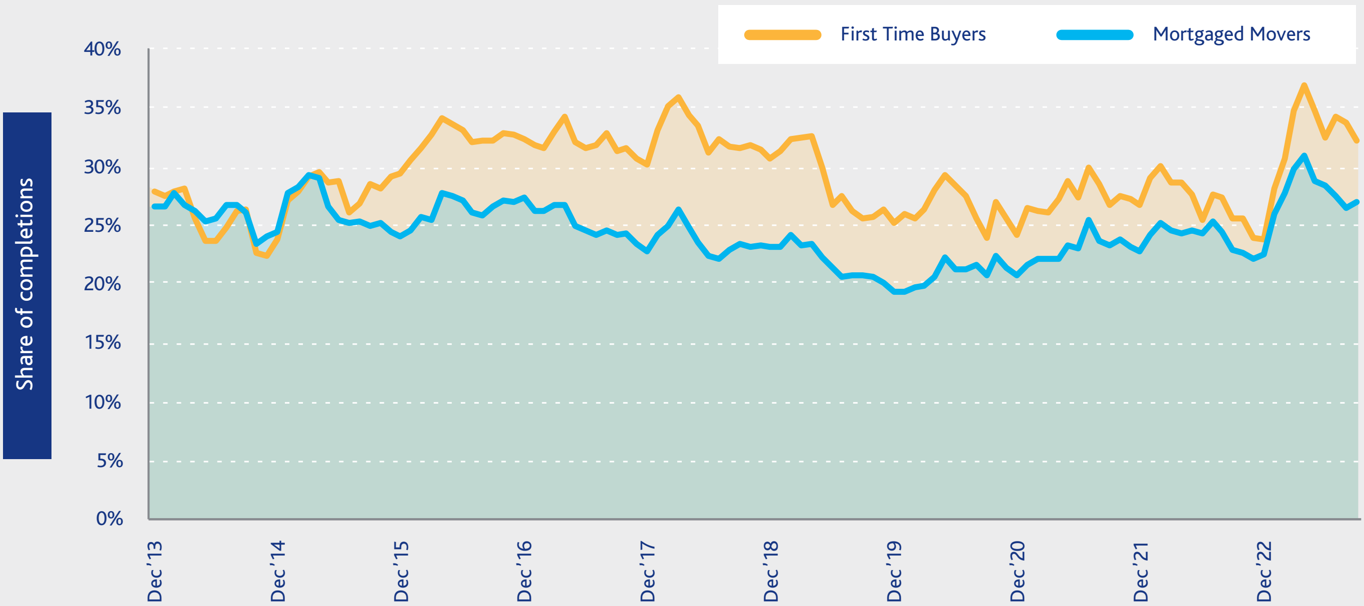
The Role of Building Societies

Building societies are well positioned to help support Government's objectives for first-time buyers. According to the BSA which represents all 42 building societies, as well as 7 of the larger credit unions: building societies serve around 26 million consumers across the UK and have total assets of over £507 billion. Together with their subsidiaries, they are helping over 3.5 million families and individuals to buy a home with mortgages totalling over £375 billion, representing 23% of total mortgage balances outstanding in the UK. They are also helping over 23 million people build their financial resilience, holding over £370 billion of retail savings, accounting for 19% of all cash savings in the UK. Within this, societies account for 40% of all cash ISA balances.

In terms of first-time buyers, our analysis of UK Finance data shows that building societies account for around one-third of completions by first-time buyers, compared to one-quarter of completions for mortgaged home movers. But more can be done, including additional lending to first-time buyers at higher loan-to-value ratios. As such, building societies are ready to work with Government and regulators on their objectives for increasing the number of first-time buyers and increasing the rate of home ownership.

Figure 26: Building Societies Market Share of Mortgage Completions by Buyer Type

Source: BSA, UK Finance



Recommendations

Housing Policy

Government should identify what a successful housing market looks like and commit to a package of housing policies and reforms that can achieve it:

First-Time Buyers

There is the need for a wider housing strategy identifying how to make homes more affordable, more available, and more appropriate to the needs of those living in them and the world we live in. As just one part of this, Government should commission an independent review of the first-time buyer market, regulation and Government intervention. It should include a task force, including but not limited to, lenders, investors, house builders, regulators, academics and other experts, and the general public. It would review various policy suggestions, including long-term fixed rate mortgages and using pensions for a deposit in light of the current economic and interest rate environment, setting out a long-term strategy.

The review should report initial findings within six months of a new parliament and publish a final report within 12 months.

House Price Readjustment

Government should also commit to putting in place all the tools at its disposal to help ensure that – while house prices still rise in nominal terms – they do not rise faster than earnings leading to a fall in the house price to earnings ratio. This would include a commitment to consistently deliver new homes at a sustainable rate, appropriate regulation to balance the needs of those already owning or buying during the period of adjustment compared to those in the future, and policies to encourage the better and more efficient use of the existing housing stock.

New Housing Supply

Government should shift funding and policy support to more affordable housing delivery including a range of tenures such as social rent and shared ownership and an increased variety in the type and size of new homes. The increased delivery of affordable homes will both complement and incentivise delivery through the speculative housebuilding market while ensuring a consistent level of delivery. Shared ownership has helped many first-time buyers and can continue to support those buying in the future, especially in more expensive markets. However, better transparency on costs and more market liquidity is required, while reform is needed to ensure it offers a route to full home ownership.

The planning system should be revised with a greater focus on strategic planning and less focus on development control. The quality and space standards of new homes should be set and rigorously enforced. There should be greater transparency on the price of new homes, including incentives, and the costs of running them. This will allow a better understanding of the new build premium and the benefits of improved energy efficiency and may help mitigate the need for schemes such as Help-to-Buy equity loan and Deposit Unlock to offset the risk of buying a new build. Leasehold reform also should be prioritised.

Property Taxation

The current residential property taxation is ineffective. Government should commit to reform property taxation to increase market liquidity and encourage the more efficient use of existing homes. However, the lessons of using the tax system to favour first-time buyers should not be lost – the reforms to SDLT in 2014 and 2016 helped first-time buyers increase in numbers everywhere except in the most expensive markets. As such, any tax reform should continue to favour first-time buyers above investors and second homebuyers. Meanwhile, the current system of Inheritance Tax, with the “residence nil-rate band” creates an incentive to remain in a large and valuable family home.

Private Renting

With high house prices relative to earnings, access to home ownership will be more limited irrespective of conditions in the underlying mortgage market. As a result, there will continue to be people who rely on the private rented sector and landlords for their home. The sector is an important part of the existing housing market and is an essential stepping stone for many. Balancing the needs of first-time buyers versus investors is a challenge as ensuring the availability and affordability of homes to rent is important to prospective first-time buyers.

The quality, security and affordability of homes in some parts of the private rented sector needs to be tackled urgently. We should also learn from other countries that have high rates of private renting on how to best manage the sector.

Additionally, the private rented sector has ended up housing many who should be living in social housing. Increasing the provision of social housing and removing the reliance on the private rented sector for housing the most vulnerable in society should be a priority.

Regulation

There is no single solution to increasing the number of first-time buyers and helping everyone that wants to become a homeowner in the current high price-to-income housing market. But there are some things that can be done from here that will help more of those on the fringes to buy their own home. Specific areas of regulation where building societies can help but need more flexibility include:

- A review of the relative costs and benefits of a stricter regulatory environment versus the social benefits of higher rates of homeownership should be undertaken to strike the right balance between financial stability and enabling access to home ownership. Since the pandemic, lenders have been much more likely to support borrowers in place and, while the risk of negative equity still exists, the impact it has should be less than seen previously. Despite this, it may be worth considering mortgage products that allow households to move home if trapped by negative equity.
- The 15% cap on lending above 4.5 times income has limited the use of higher loan-to-value mortgages in more expensive housing markets. However, 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 should be undertaken to assess whether it would be beneficial to adjust the limit and to target mortgages above the cap at first-time buyers.
- Given the increased short-term flexibility on repayments, the FCA's MCOB rules should be changed to more easily allow part-repayment and part-interest only lending during the course of a mortgage, and the flexibility to shift between them as a borrower's needs change.
- Alongside a general increase in the number of true non-returner first-time buyers, there should also be a focus on supporting ethnic minorities and other groups that have lower than average rates of home ownership to buy their own homes. Lenders should be able to offer a greater diversity of mortgage products and, in turn, increase the diversity of the people they help to become first-time buyers, which may need consideration by the regulators

Older Home Owners

The under-occupation of homes owned by older generations is a divisive topic. The increased availability of high quality new homes (and not just bungalows) could increase the willingness of some to "downsize" or "rightsize". However, most will want to stay in their family homes and the tax system creates a number of barriers while the economics only really work for wealthier homeowners. Additionally, most older households live in homes worth around the average value. Unfortunately, downsizing from a £300,000 home does not make financial sense irrespective of how many unused bedrooms it has, and most people only move into age-restricted housing when illness, safety or bereavement force them to leave their family home.

Given the increase in longer mortgage terms and the ageing population, regulators should review the state of the pre and post-retirement mortgage lending market. There are existing thresholds that prevent many households from optimising their finances immediately prior to retirement, while the post-retirement mortgage market offers alternatives not available to younger borrowers. A mortgage market that offers more flexibility for borrowers prior to and entering retirement could help create a more efficient housing market.

> **"A mortgage market that offers more flexibility for borrowers prior to and entering retirement could help create a more efficient housing market."**

Next Steps

An election is due within the next year and a new Government, committed to helping prospective first-time buyers might start by acknowledging the challenges younger generations face not just in housing but more generally, before identifying and then putting into action the necessary steps to achieve their objectives.
For example, a speech might begin:

"We recognise the sacrifices made by younger people to protect their parents and grandparents during the pandemic. We also recognise the challenges for them continue as rising living and high housing costs prevent many from being able to fully capitalise on their potential.

Becoming a first-time buyer now requires a substantial deposit, beyond anything their parents or grandparents had to save when they bought their first home. And many of those who do manage to buy are dependent on the wealth that their parents and grandparents were lucky enough to build up during the unique economic conditions of the last sixty years. Even if they do manage to save a deposit, first-time buyers now need a higher than average income and, thanks to higher mortgage rates, may end up paying more for longer than many previous generations.

While it would be unfair to future generations to give current prospective first-time buyers a blank cheque, we must still do all we can to help them in the present time. Therefore, this Government will 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. Government will take the lead and set out our desired outcomes. But both these and the proposed solutions will require collaboration from the public, mortgage market, and other participants in the housing market.

To address the challenges facing first-time buyers, we will immediately host a summit in Downing Street, where we will bring together all the key stakeholders in the market. We will then commission a first-time buyer market review with an independent chair. This review of the first-time buyer market, regulation, and Government intervention will deliver a clear starting point for action.

More generally, we are committing to putting in place the necessary tools and policies to ensure that house prices do not rise faster than earnings over the long term. To achieve this, we will prioritise improving the supply of both existing and new homes - across a range of tenures. Our planning reforms will focus on strategic planning and less on development control. We will look at reforming property taxation to increase market turnover and encourage the more efficient use of existing homes. We are also committed to improving the quality, security, and affordability of the private rented sector while also reforming leasehold.

The lessons of the past clearly demonstrate that the stability of the financial system is essential, but over the last decade it has been too heavily focussed on it at the cost of lower home ownership and fewer first-time buyers. We will review this balance and ensure that more people can buy their own home without compromising their or the country's future financial stability.

As part of this review, we will look at offering borrowers more flexibility to allow them to shift between part-repayment and part-interest-only lending during the course of their mortgage, as their needs change. We will review the cap on lending above 4.5 times income to assess whether it would be beneficial adjust the limit and to target them at younger buyers. We will work on changing the regulatory framework to increase the number of mortgages available up to 95% loan-to-value for first-time buyers. Alongside an increase in the number of first-time buyers, we will also focus on supporting ethnic minorities and other groups that have lower than average rates of home ownership to buy their own homes by giving regulators a mandate for increasing access to mortgages."

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Glossary

Financial Policy Committee (FPC)	Established in 2013 as part of the new system of regulation brought in to improve financial stability after the financial crisis.
Fixed-Rate Mortgage	Interest rate is fixed for an agreed period.
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Freehold	If the property is freehold, then the buyer owns both the property and the land it's built on.
Housing equity	The amount remaining when the value of the mortgage and other secured lending is taken away from the value of the house. At the point of purchase this should be equal to the deposit in a normal mortgage.
Interest Only	Monthly payment pays only the interest charges on the loan, there is no capital repayment.
Leasehold	If a property is leasehold the homeowner buys a property, but the freeholder retains ownership of the land on which the property stands, providing the homeowner with a long lease giving them the right to live in the property for a period of time. Over recent years there have been many unfair leasehold terms, including high service and estate rent charges, lack of transparency on costs, sale transfer fees and excessive ground rent liabilities.
Loan-to-income multiple	The value of the mortgage divided by the borrower's income. Around 3.3 for the typical first-time buyer.
Loan-to-value ratio	The value of the mortgage as a proportion of the house price. Around 76% for the typical first-time buyer.
MCOB	FCA's Mortgages and Home Finance: Conduct of Business sourcebook
Mortgage Guarantee Scheme	Scheme designed to increase the appetite of mortgage lenders for high loan-to-value lending to creditworthy customers. It provides lenders with the option to purchase a Government guarantee that compensates them for a portion of their losses in the event of foreclosure.
Mortgage term	The number of years the mortgage is paid back over. Around 31 years for the typical first-time buyer.
Non-returners	First-time buyers that are not actually buying for the first-time, but are included in some mortgage market data
Stamp Duty Land Tax	Tax charged on land and property transactions in the UK. The tax is charged at different rates depending on property and values of transaction. First-time buyers in England and Northern Ireland have a higher threshold before Stamp Duty is payable.
Standard Variable Rate (or revert-to-rate)	A lender's normal mortgage rate without any discounts or deals. This is the rate most fixed rate mortgages revert to at the end of the fixed rate period.

Building Societies Association

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