

Santander First-Time Buyer Study

The future of the homeownership dream

July 2019





“ First-time buyers need more support and I don’t think that lenders, policymakers or the government really appreciate just how much the situation has changed in the property market today. ”

Kim Reynolds, first-time buyer

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Introduction: 100 years of homeownership

Miguel Sard - Managing Director, Mortgages, Santander

Homeownership is something that is deeply ingrained in the Great British psyche. It's the aspiration of the majority and brings with it the sense of financial security both now and for the future.

The idea of Britain becoming a 'property owning democracy' was first championed by Noel Skelton MP, in 1923. At that time 90% of properties were rented, but today owning a home has become a reality for 63% of the estimated 23 million households in England, providing a foundation for financial security, raising a family and the hope of passing a tangible asset on to future generations.

At Santander, our legacy of helping people to own their homes goes back to the 19th century, when Abbey Road & St Johns' Wood Permanent Benefit Building Society and the National Freehold Land Society became two of the first businesses to be officially recognised under the Building Societies Act 1836. In 1944, these two names became Abbey National Building Society, which, along with Alliance and Leicester and Bradford and Bingley were bought by Santander in the 2000s. This helped us achieve our current position as one of the biggest mortgage lenders in the UK, helping over 31,000 first-time buyers buy a home in 2018.

As we've grown, one thing that has remained constant is the central position of homeownership in media headlines and on political agendas.

But despite the prominence of the homeownership dream in our national conversation, how far is Britain from becoming a true 'property owning democracy'?

Drawing on the biggest ever survey of would-be first-time buyers (5,002 non-homeowning adults aged 18 – 40 years), this report looks at what's happening across the property market today and what first-time buyers are thinking and feeling.

The following chapters assess the issues facing potential first-time buyers today and whether, nearly a century on from Skelton's dream, the idea of a homeownership democracy is alive and well.

As a lender, our aim is to help more first-time buyers realise that having the home they want is possible.

Only through a thorough understanding of the challenges faced by today's first-time buyers can the industry, the government and first-time buyers themselves keep the homeownership dream alive for the next generation.



Key findings

In the next decade, the homeownership dream is at risk of dying for **middle-income Britain, individual buyers and those unable to draw on family wealth.**



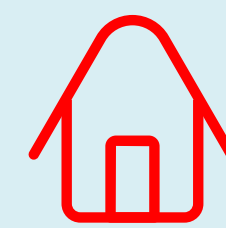
70%

of would-be first-time buyers believe the dream of homeownership is already over for many young people.



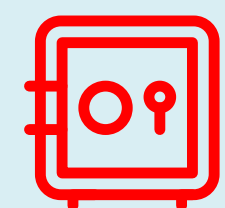
64%

say that property ownership will fall for future generations.



Nine in ten

young adults still aspire to own their own home in the future.



£24,816

the amount of deposit aspiring homeowners aim to save, (only just over half of the actual average of **£44,000** required) and anticipate it will take them around **four years** to save.



42%

have saved nothing towards their deposit. Men reported average deposit savings of £11,660, while women have on average saved half this amount with £5,621.



By 2026

forecasts suggest just a quarter (26%) of people aged between 25 and 34 will own their own home – down from over half (55%) 20 years ago.



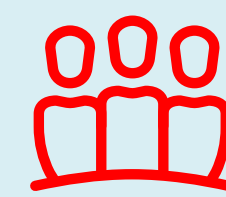
£227,000

the average cost of a house purchased by a first-time buyer – an **increase of 47% in ten years** from £154,000³. Meanwhile, **average incomes grew by just 18%**⁴ over this period.



73%

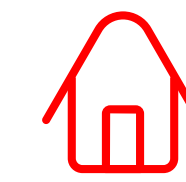
think that the government should do more to help first-time buyers.



Over a third

(37%) want to see 'Help-to-Buy' extended beyond 2023, 35% want a cap on rent prices, and 33% want to see stamp duty cut.

Top life goals



51%

owning their own home



40%

achieving financial stability



29%

travelling



27%

having children

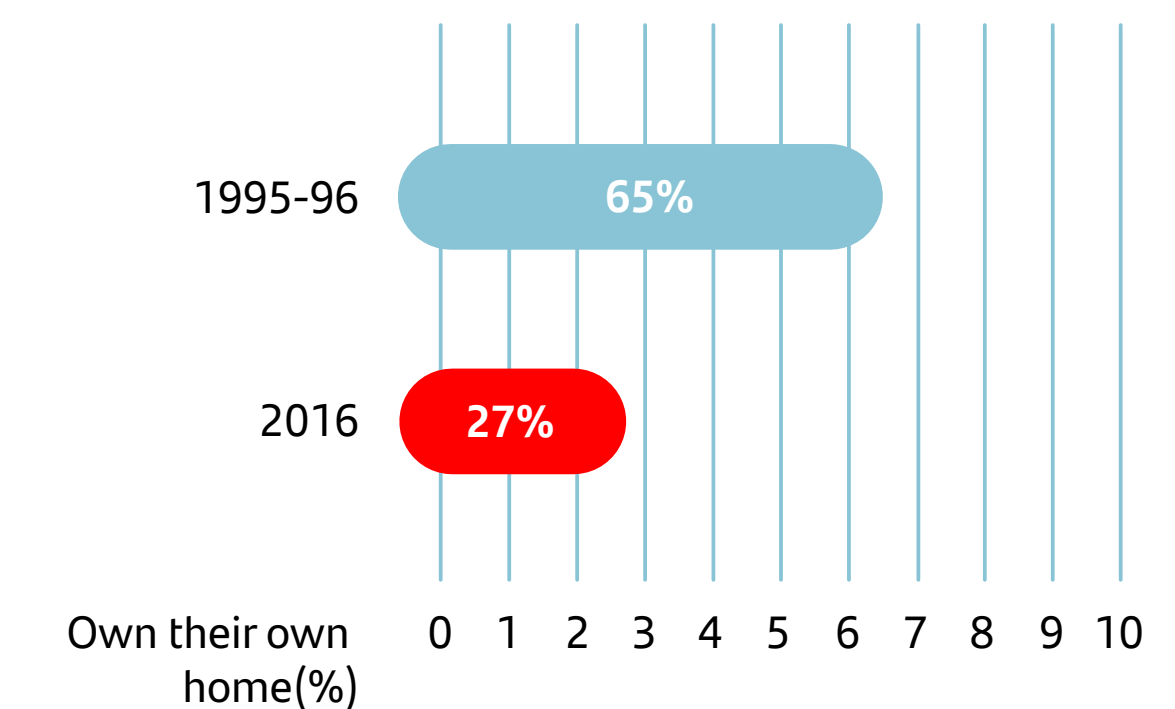


19%

getting married

The sharpest fall in homeownership has been among the 'squeezed middle', young adults on middle-incomes¹.

Middle earners aged 25-34 who own their own home²



¹ Middle-income in 2019 is taken to be an income ranging between £20,000 and £30,000.

² IFS study: The decline of homeownership among young adults

³ ONS House Price data, March 2019

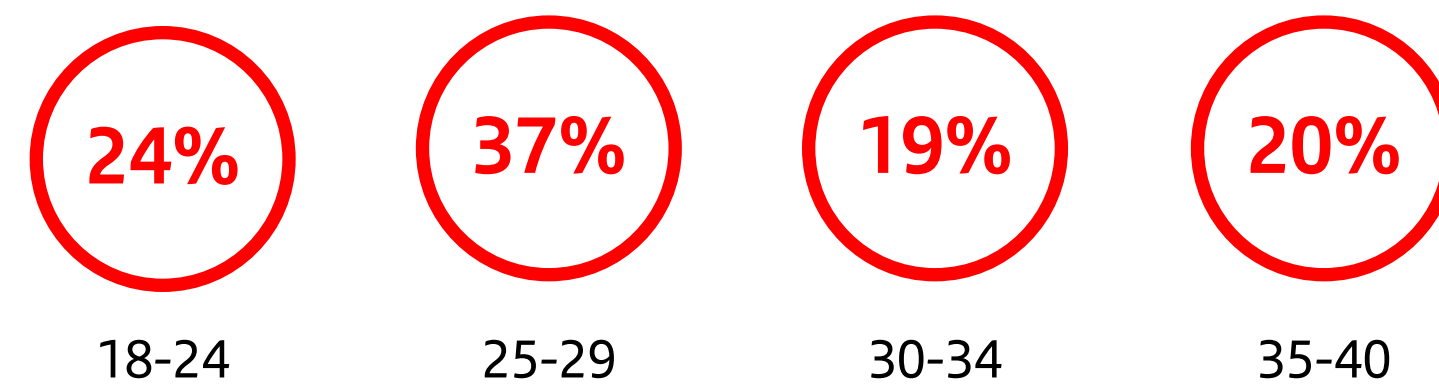
⁴ ONS Annual survey of Hours and Earnings Data, 2019

About this report

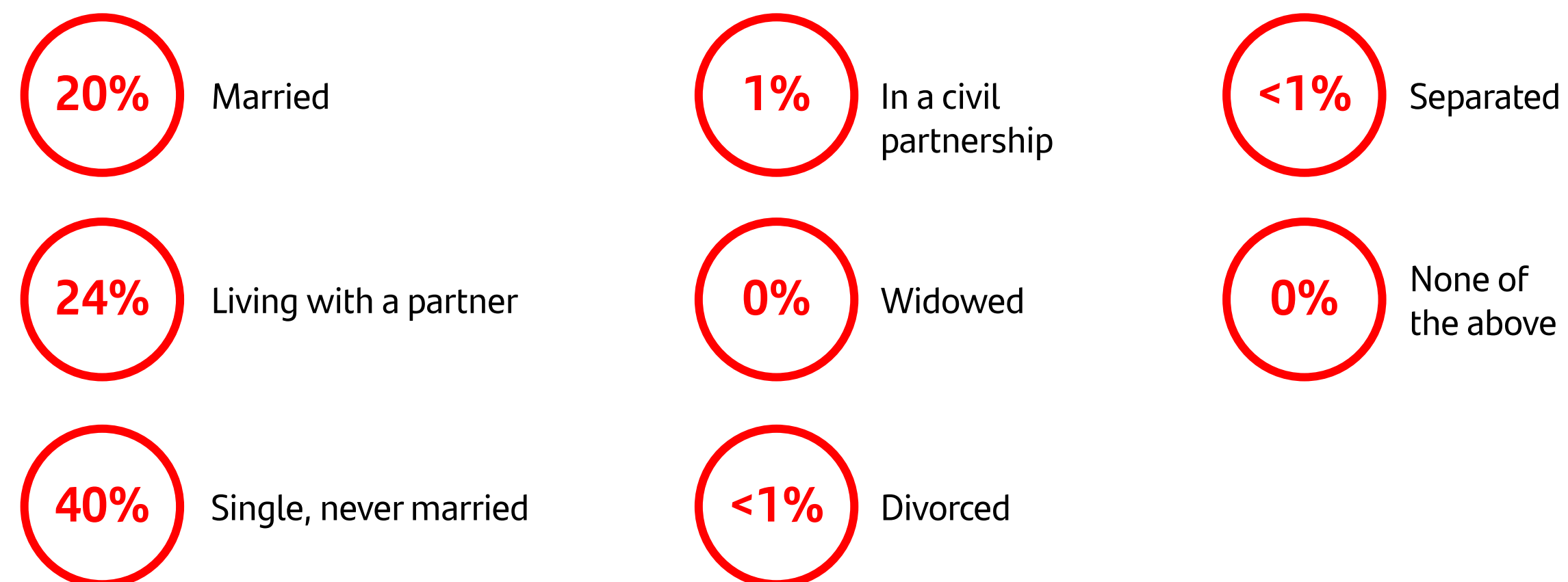
This study contains new research and analysis to examine the future of homeownership in the UK, featuring the largest study of potential first-time buyers of its kind. Santander commissioned research in May 2019 surveying 5,002 UK adults aged 18-40 years who don't own their own property.

Who we surveyed:

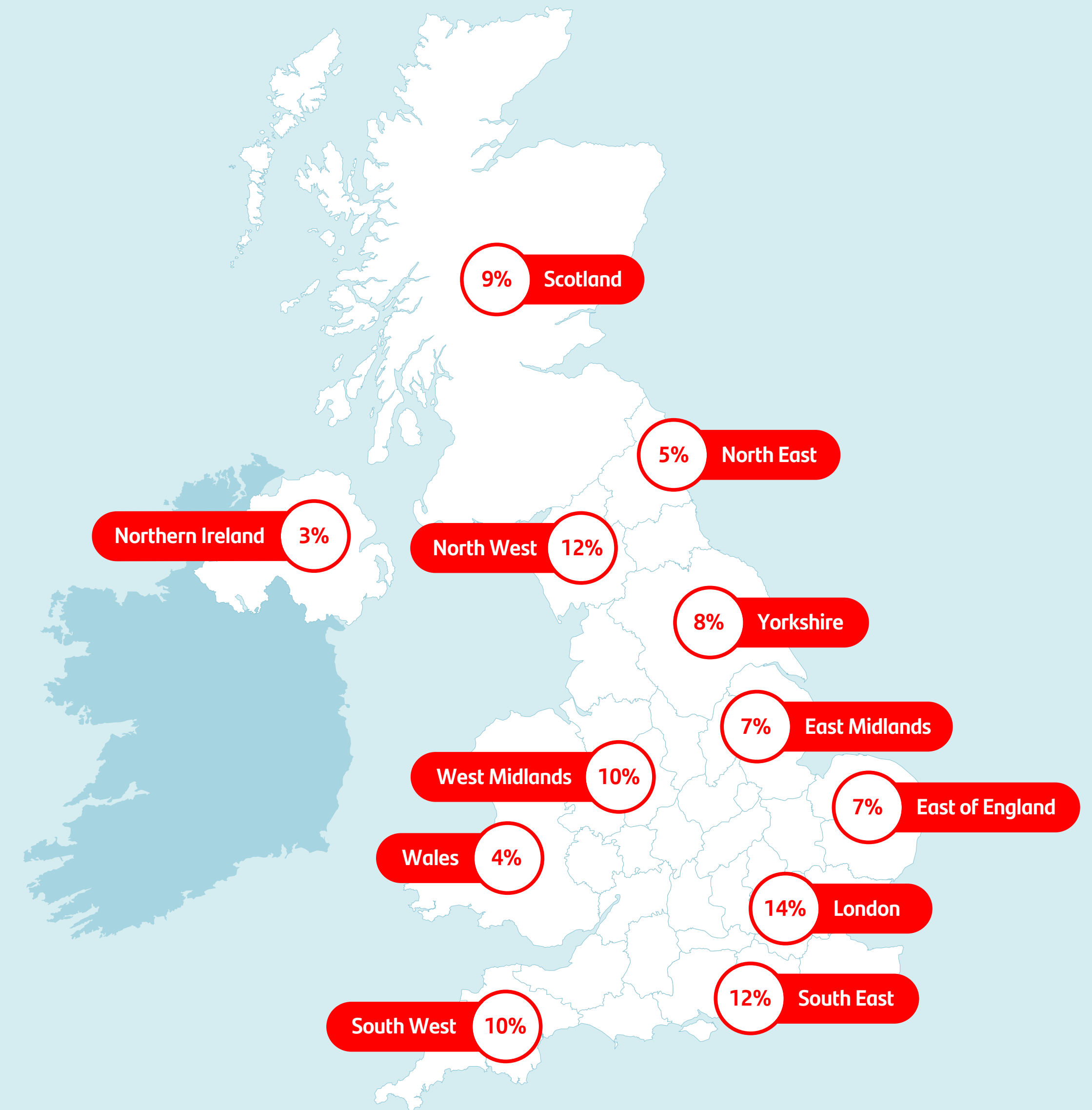
Age



Relationship status



Where respondents live:



Figures have been rounded



The future for first-time buyers

Part one: The growing inequality in the homeownership dream

Last year alone, mortgage lenders lent £62 billion to first-time buyers, a total of 370,000 mortgages — the highest number since 2006⁵. Despite these seemingly positive numbers, historically low interest rates and several government initiatives designed to support potential homeowners, our research underlines some uncomfortable facts about the real state of the market.

We may have seen first-time buyer numbers recover from the 2008 financial crash, but the 1920s vision of a 'property owning democracy'

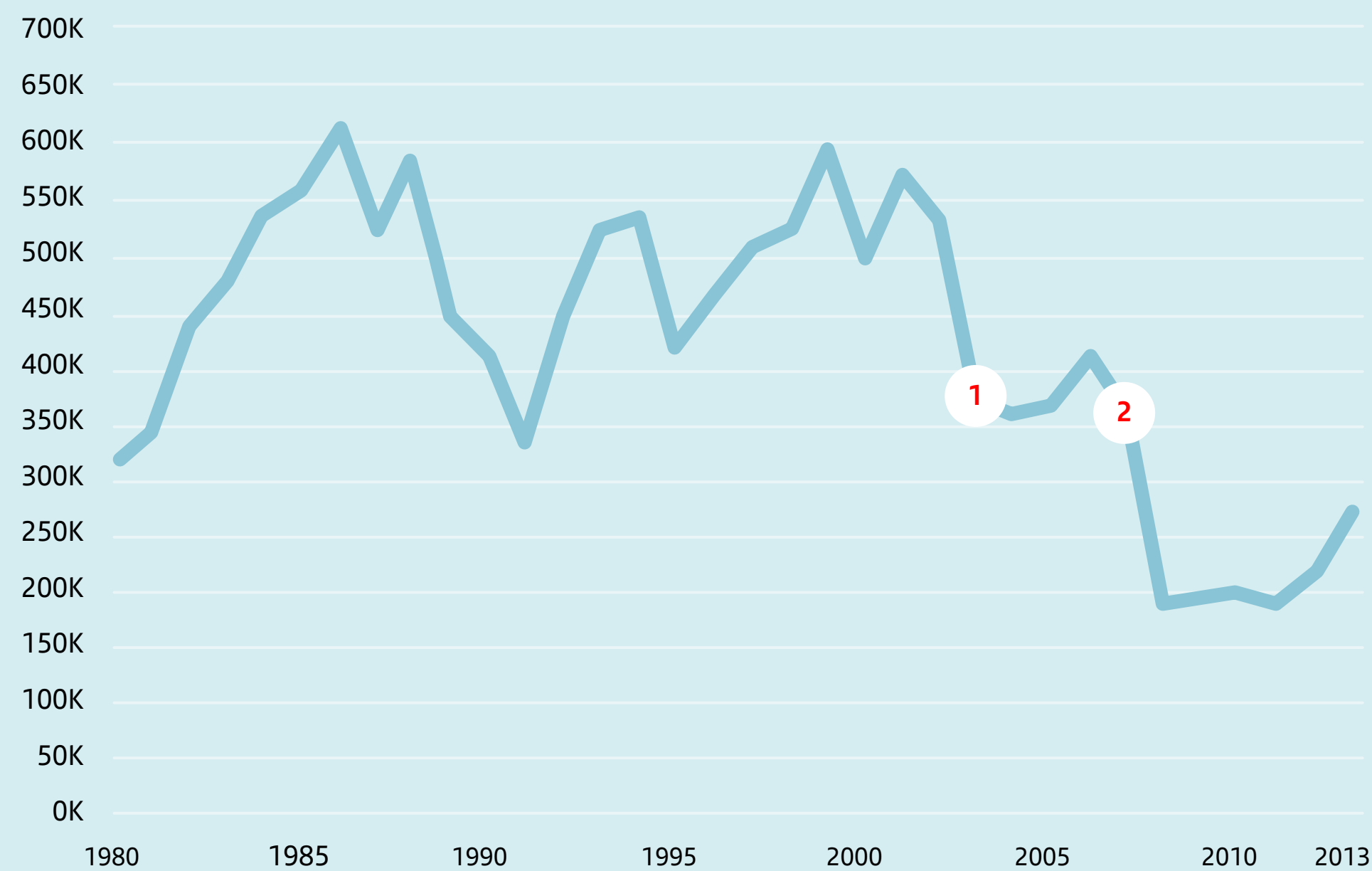
cutting across all levels of society is far from a reality. Of recent first-time buyers, **64% had household incomes of more than £40,000**, nearly half (47%) were couples without dependent children and just under a fifth (17%) were one-person households.

Among all recent buyers, **39% had help from family or friends** and 10% used an inheritance⁶. Our research among 5,000 potential first-time buyers, revealed that 38% would be relying on receiving an inheritance to get onto the property ladder.

⁵ UK Finance Mortgage Lending Trends, February 2019

⁶ English Housing Survey 2019 and ONS Household disposable income and inequality in the UK: financial year ending 2017

Number of mortgage loans for first-time buyers, UK, 1980 to 2013



Source: ONS, UK Perspectives 2016, Housing and home ownership in the UK

1 From 2002 to 2003 there was a 31% annual decrease in the number of mortgages for first time buyers.

2 From 2007 to 2008 there was a 47% decrease.

The sharpest fall in first-time buyer homeownership has been among the 'squeezed middle', that is adults on middle-incomes, which would today mean an income of between £20,000-£30,000.

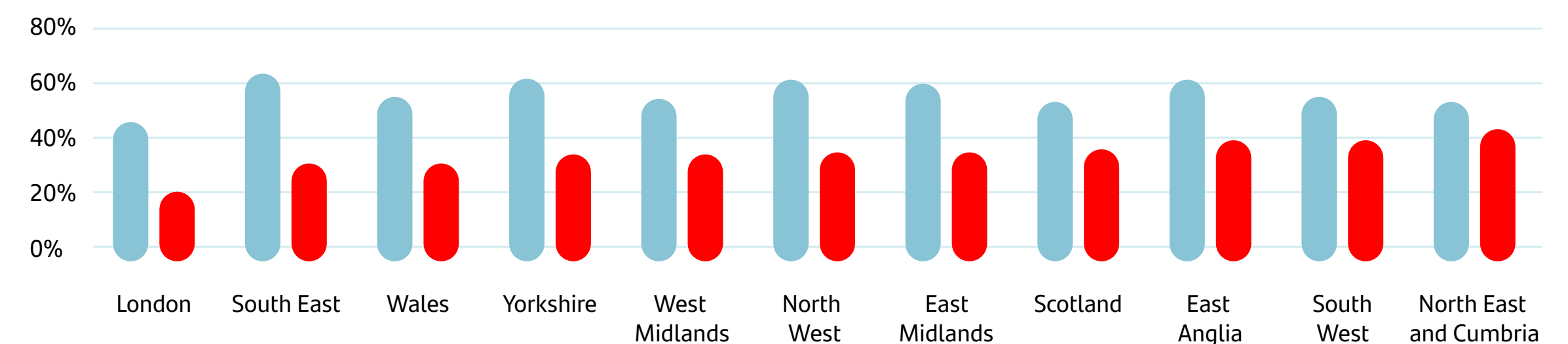
In 1995–96, 65% of those aged 25–34 with middle-incomes owned their own home. Twenty years later, in 2016, that figure was just 27%⁷.

These figures suggest the dream of homeownership is not democratic. Instead it is at risk of becoming the preserve of higher-earners, dual-income couples, and those able to draw on family wealth or inheritance. Those on middle-incomes who, unlike those on lower incomes, have historically had

homeownership within their grasp, are now also at risk of being priced out of the market. At the current rate of decline, the homeownership dream for those on middle-incomes could be dead in the next decade.

First-time buyers themselves are increasingly pessimistic about their prospects of owning a property. Our research reveals 70% believe that today, the dream of homeownership is over for many young people, while 64% of would-be buyers believe that property ownership will continue to fall for future generations.

Home ownership for those aged 25-34 by region



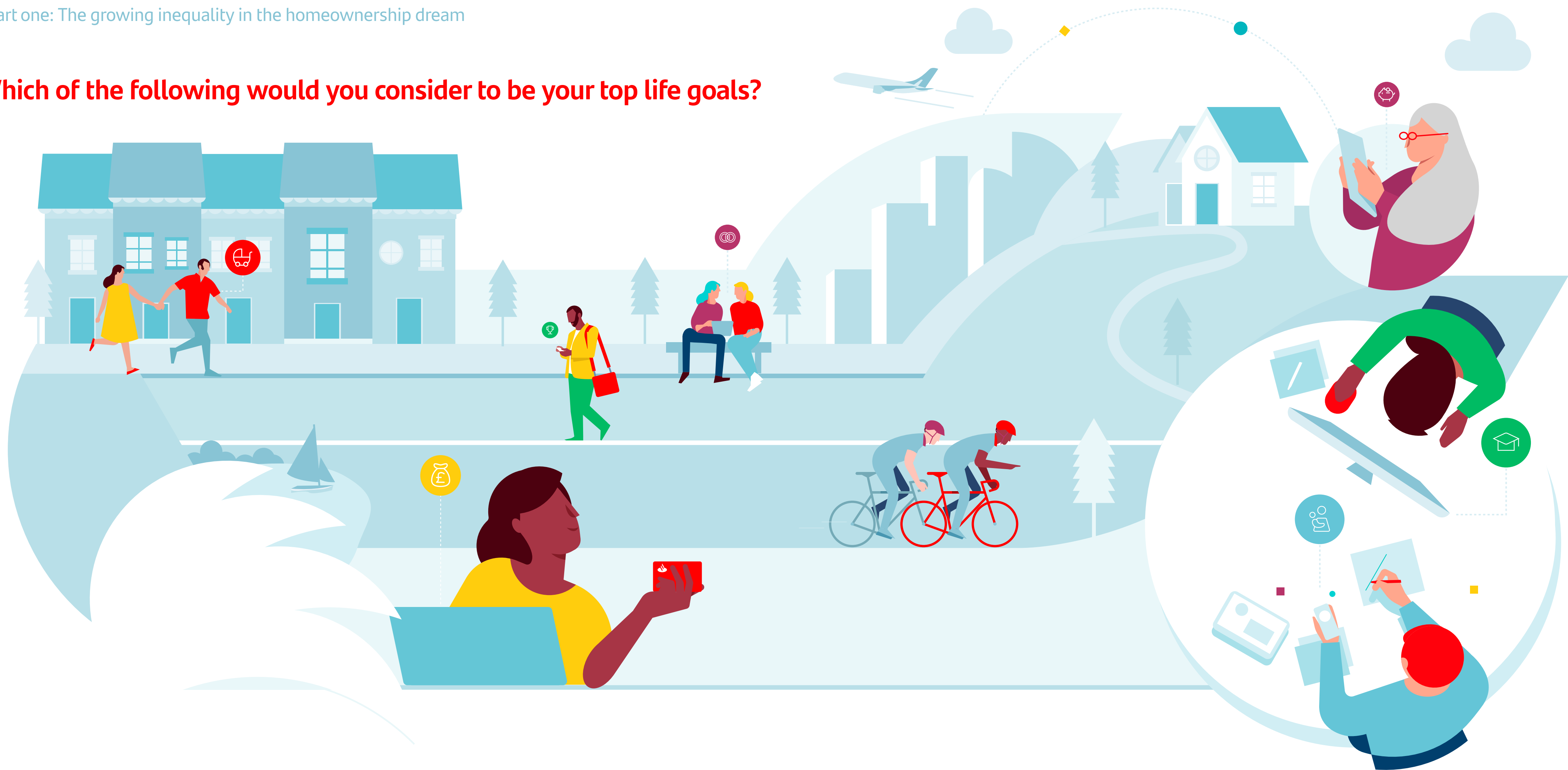
Source: The decline of homeownership among young adults (IFS) ● 1995-96 ● 2015-16

However, the desire to own a home remains extremely strong. **Nine in ten young adults aspire to own a home in the future** and over half (51%) of the first-time buyers surveyed listed it as one of their top life goals.

This is equivalent to an estimated 4.75 million people in the UK between the ages of 25-34 years. **Owning a home is considered a top life goal by nearly twice as many people as starting a family or getting fit and healthy.**

⁷ See Ref 2

Which of the following would you consider to be your top life goals?



51%
Owning my own home
51% male | 52% female

40%
Achieve financial
stability for my family
33% male | 45% female

29%
Travelling
28% male | 29% female

27%
Get fit
/ become healthy
26% male | 28% female

27%
Having children
/ starting a family
22% male | 31% female

23%
Achieve career
goals
25% male | 20% female

21%
Achieve the right
work-life balance
24% male | 18% female

19%
Getting married
17% male | 21% female

16%
Being secure
in retirement
18% male | 14% female

3%
Paying off my university
/ tuition fees
4% male | 2% female

Why is owning a home a key life goal?

- 56%** It provides me with a sense of security
- 36%** It's a means of future wealth preservation – something to pass on to my children
- 36%** Owning a property is cheaper than renting
- 34%** I see property as a smart investment
- 21%** I see it as a sign of status and success
- 9%** I feel under pressure from parents/society/peers

When asked why owning their own home was such an important life ambition, **over half (56%) said it was because it gave them a sense of security.** Over a third (36%) said bricks and mortar were important for future wealth preservation, to have something to pass on to their children. The same amount said they felt owning a property was cheaper than renting.

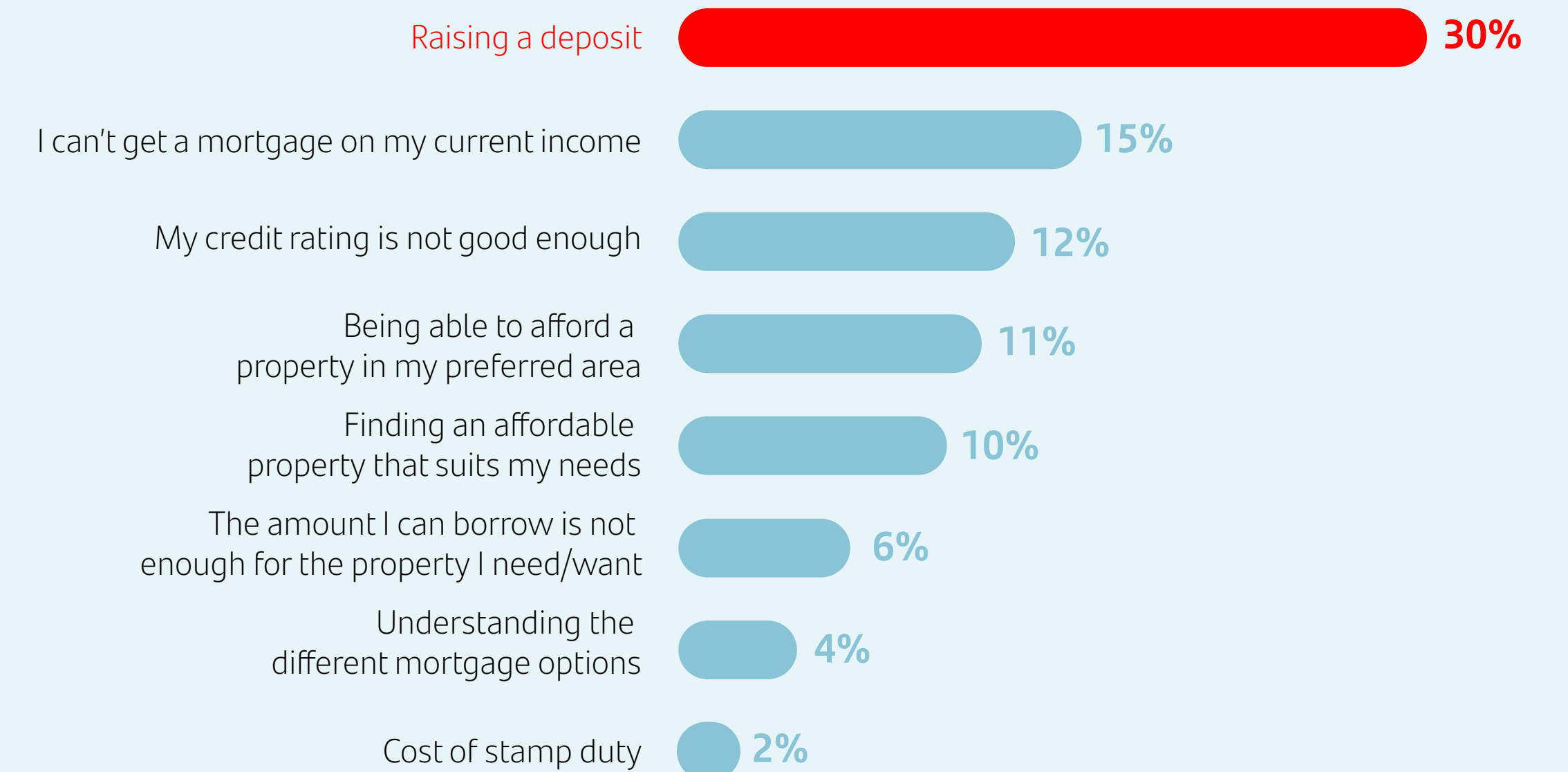
Only one in ten felt societal pressures and expectations were driving their aspiration to

get on the property ladder. Instead, young would-be buyers are much more focused on the benefits that homeownership provides in terms of wealth preservation and security.

What then is preventing people taking that step on to the property ladder?

Our research identified several key factors which would-be buyers today believe are putting homeownership out of their reach.

Biggest barrier to buying first property



Young would-be buyers on middle-incomes are particularly disadvantaged in comparison to their wealthier peers for three principal reasons: they struggle to raise a big enough deposit; they can't afford to borrow a large enough mortgage; and they lack the family wealth that mitigates these issues.



Raising a deposit

Saving for a deposit is seen as the biggest barrier to achieving the homeownership dream and with the average actual deposit required standing at £44,000⁸, this is no surprise.

However, our research suggests that first-time buyers are aiming for an average deposit of just £24,816, which might be more achievable, but will put them on higher loan-to-value mortgage ratios in many locations.

Region	Average property price	Average target deposit	Percentage of property price
London	£463,283	£39,526	9%
South East	£318,491	£27,298	9%
East of England	£286,611	£24,005	8%
South West	£253,752	£22,636	9%
West Midlands	£196,571	£22,282	11%
East Midlands	£190,171	£21,720	11%
Yorkshire and Humber	£162,129	£20,746	13%
North West	£159,471	£19,533	12%
Wales	£158,696	£19,957	13%
Scotland	£149,461	£23,685	16%
Northern Ireland	£134,811	£17,178	13%
North East	£123,046	£19,454	16%

⁸ONS House Price data, March 2019

Would be buyers estimate that it will take them four years to save a deposit – on average this is £6,200 a year, or £517 a month. Respondents have saved an average of £8,289, while over four in ten (42%) of prospective buyers have, to date, saved nothing at all.

When questioned about what they have done to raise the necessary deposit, over a quarter (28%) of people who said they wanted to buy a property have not taken any steps towards making their dream a reality.

Which of the following steps, if any, have you taken to help raise a deposit to buy your first home?	Percentage of respondents
Nothing – I have not taken any steps	28%
Cut back on unnecessary spending	25%
Paid off existing debt	21%
Cut back on socialising	20%
Started to save in a regular savings account – regular amounts	18%
Started to save in a Help to Buy or Lifetime ISA	15%
Started working longer hours/shifts	14%
Started a new job	12%
Started to save in a regular savings account – lump sums	12%
Sold possessions to raise money	10%
Pushed for a promotion/pay rise at work to improve salary	9%
Taken on an additional job	9%
Spoken to my family about borrowing money for a deposit	8%
Moved in with a family member	7%
Moved to a cheaper rental property	7%
Moved to a cheaper rental area	5%

This could reflect a lack of awareness among first-time buyers of the steps they may need to consider to make their homeownership dream a reality, or a feeling that the sacrifices they need to make to their lifestyle, independence or other life ambitions in order to raise a deposit are too great.

Which life goals would you be prepared to sacrifice to get on the property ladder?	Percentage of respondents
Travelling	16%
Achieving the right work-life balance	9%
Get fit / become healthy	8%
Getting married	7%
Achieve career goals	7%
Achieve financial stability for my family	7%
Having children / starting a family	5%
Being secure in retirement	4%
Paying off my university / tuition fees	1%

A knock-on effect of the fall in homeownership is a marked increase in private renting among adults in the 25-34 age group. In 2007-08, 28% lived in the private rented sector, increasing to 44% a decade later*. While our survey reveals that three quarters view their rent as affordable, with would-be buyers telling us that

their average rental payment is £446 a month, it inevitably reduces what a first-time buyer can save. The option of moving in with family is often touted as the ideal way to save these rental costs, but only 7% of would-be buyers have done this, while a similarly small number have looked to reduce their rental outgoings by moving properties.

*Source: ONS, private rented sector: 2018.

The gender gap

Typically, men have saved twice as much as women (£11,660 compared to £5,620) towards a deposit, while just over one in three men (35%) and nearly half of all women (48%) have not saved anything at all.

Amount saved towards house deposit



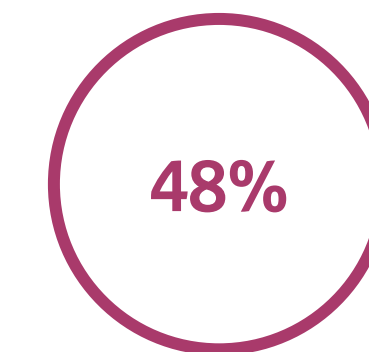
Not saved anything



Amount saved towards house deposit



Not saved anything



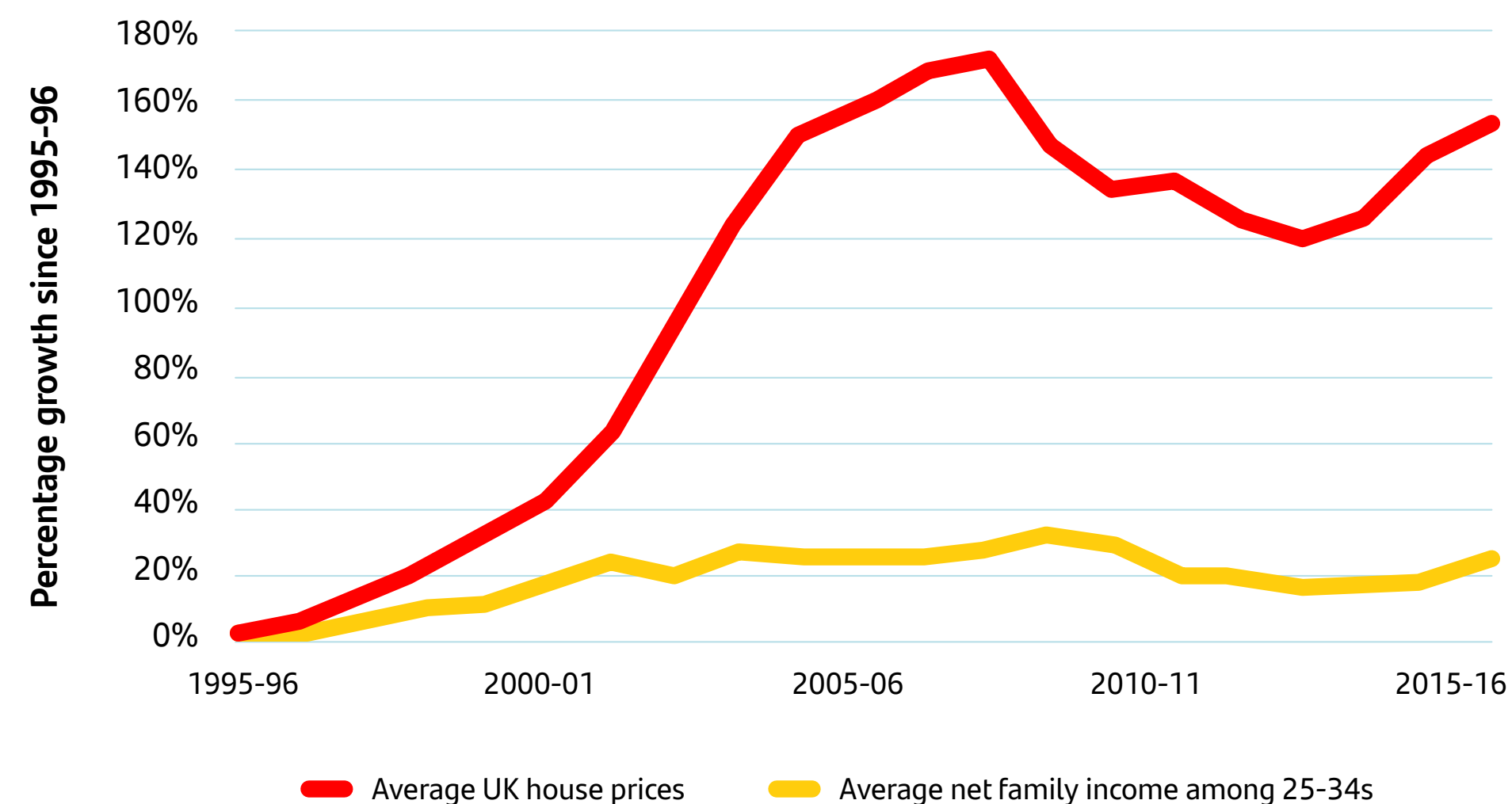
Getting a mortgage

On top of saving for a deposit, would-be buyers' troubles have been compounded by the struggle to get a mortgage, driven by the sharp increase in house prices relative to incomes.

Despite a gradual slowing of house price growth since 2008, the last decade has still seen house prices outstrip wage growth with the average property increasing by 47% from £155,000 to £227,000⁹ and wage growth standing at just 19%¹⁰.

This has resulted in a sharp rise in house price to income ratios for those earning an average salary.

Figure 6. Growth in real house prices and in net incomes of those aged 25-34



Source: Land Registry House Price Index and ONS ASHE

⁹ Land Registry House Price Index, March 2019

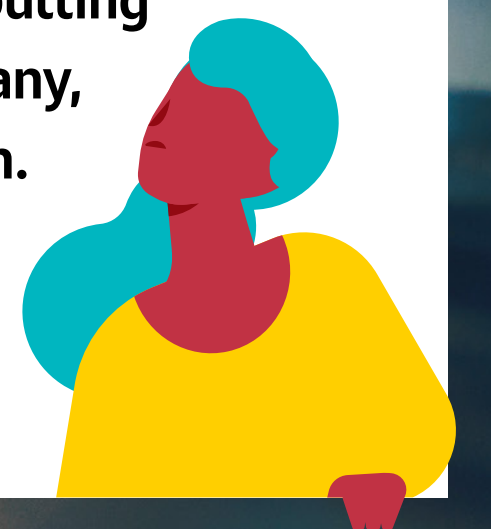
¹⁰ ONS Survey of Hours and Earnings, April 2019

¹¹ ONS: Housing affordability in England and Wales: 2018



Today, full-time employees in England and Wales could typically expect to spend 9.6 times their median gross annual earnings on purchasing a newly built property and 7.6 times their annual earnings on an existing property. Twenty years ago, buyers could expect to spend 4.9 times their earnings for a new build property and 3.4 times their earnings on an existing property¹¹.

If this rate of increase were to continue, buyers would be facing property prices of nearly 20 times their median gross annual earnings in the next 20 years – putting homeownership for many, completely out of reach.



What will buying cost around the UK?

When we look at buying a property regionally, we see that the average deposit people are looking to save would often leave them with a deficit well in excess of the amount they could borrow. This prices individual buyers, or

households relying on a single middle-income, out of every region in the UK.

Those borrowing as part of a couple fare much better, and it's no surprise that they make up 47% of new buyers entering the market.

To ensure responsible lending and reduce problems with consumer indebtedness, rules were introduced in April 2014 which tightened controls over mortgage lending¹². Additional regulation in October 2014 introduced further limits on the income multiples

that lenders could offer to customers¹³. These limits restrict most mortgage lending to 4.5 times a household's income, meaning that for many first-time buyers finding an affordable property is an unattainable goal.

Region	Average property price**	Average gross income nearest £(net)***	Property price as multiple of salary	Average intended deposit****	Single maximum borrowing at 4.5 times gross salary (net salary)	Joint maximum borrowing at 4.5 times joint average salary (net salary)
London	£463,283	£37,589 (£27,825)	12.3 (16.6)	£39,526	£169,151 (£125,213)	£338,301 (£250,425)
South East	£318,491	£29,340 (£22,568)	10.9 (14.1)	£27,298	£132,030 (£101,556)	£264,060 (£203,112)
East of England	£286,611	£25,399 (£20,081)	11.3 (14.3)	£24,005	£114,296 (£90,365)	£228,591 (£180,729)
South West	£253,752	£23,714 (£18,984)	10.7 (13.4)	£22,636	£106,713 (£85,428)	£213,426 (£170,856)
West Midlands	£196,571	£20,527 (£16,885)	9.6 (11.6)	£22,282	£92,372 (£75,983)	£184,743 (£151,965)
East Midlands	£190,171	£20,527 (£16,932)	9.3 (11.2)	£21,720	£92,372 (£76,194)	£184,743 (£152,388)
Yorkshire and Humber	£162,129	£19,214 (£16,119)	8.4 (10.1)	£20,746	£86,463 (£72,536)	£172,926* (£145,071)
North West	£159,471	£20,527 (£16,861)	7.8 (9.5)	£19,533	£92,372 (£75,875)	£184,743* (£151,749)
Wales	£158,696	£18,653 (£15,754)	8.5 (10.1)	£19,957	£83,939 (£70,893)	£167,877* (£141,786)
Scotland	£149,461	£22,399 (£18,099)	6.7 (8.3)	£23,685	£100,796 (£81,446)	£201,591* (£162,891*)
Northern Ireland	£134,811	£18,840 (£15,813)	7.2 (8.5)	£17,178	£84,780 (£71,159)	£169,560* (£142,317*)
North East	£123,046	£18,840 (£15,809)	6.5 (7.8)	£19,454	£84,780 (£71,141)	£169,560* (£142,281*)

¹² Mortgage Market Review; April 2014

¹³ PRA: Implementing the Financial Policy Committee's recommendation on loan to income ratios in mortgage lending; October 2014

*Where the total amount of borrowing exceeds the average property price buyers would still need to save a minimum 5% deposit.

** UK Government House Price Index data for March 2019

*** ONS regional household income 2017

****Data from Santander consumer research

It's evident that first-time buyers today have a clear idea of what they are looking for in a property.

Reflecting the fact that today's average first time buyer is 33 years old and 40% already have a child or children, **the most popular choice for a first home is a 3-bed semi-detached house** (21%), followed by a 2-bed terraced (19%) then a 2-bed flat (14%), with **only 8% of first-time buyers looking to purchase a stereotypical one bedroom 'starter flat' often associated with new buyers.**

Encouragingly, the government figures show that over a third (36%) of new homes built last year were three-bedroom properties, in line with the desired criteria of today's aspiring homeowner¹⁴.

When it comes to geography, **most buyers are not looking to move away from where they are already based**, with an average of

over 90% saying they will stay in the same region. However, this falls to 85% for London, possibly reflecting the higher average property prices in the region.

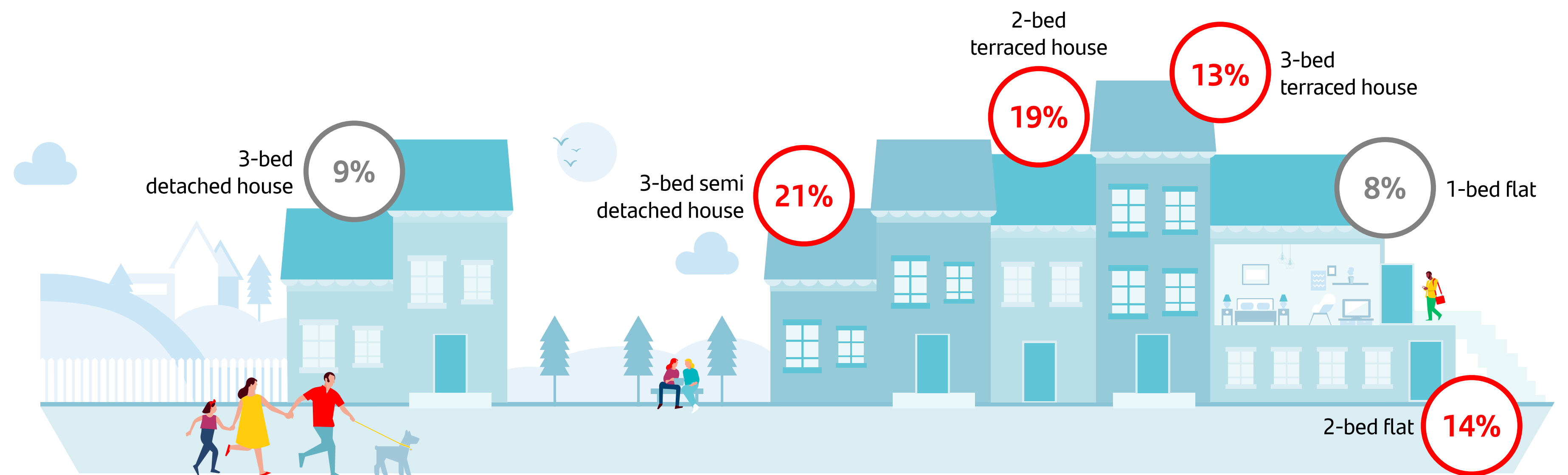
Our research shows that only a small number of first-time buyers were willing to compromise on the type of property they wanted to buy or the features it had. Just over a quarter (28%) who wanted a new build or modern home would be happy to compromise, a similar number (27%) would compromise on their desired amount of outdoor space and having a big kitchen. Likewise, around a quarter were willing to compromise on good nearby schools (26%) and a garage/off-street parking (26%).

However, the least common aspects people would be willing to give up include proximity to public transport (19%), a local community feel (18%), travel links to friends or family (17%) and reception or living room (17%).

The ability of middle-income Britain to save for even a minimum deposit, and the amount they could borrow today has been further impacted by several factors:

- **Today's average first-time buyer is 33 years old, up from 25 years old two decades ago¹⁵**, and 40% already have a child or children. Average part-time nursery fees are around £6,600 per year – or £550 a month, with a full-time space costing on average £12,600 a year¹⁶.
- The rising levels of student debt. **In 2000, the average student left university with £2,690 in debt**, a decade later, in 2010 that had risen to £14,670. **A student who finished university in 2018 is likely to have left with debts of £34,800¹⁷.**
- Historically, every generation has enjoyed a higher living standard than the one before. But for the first time in over 100 years, those in their 20s and 30s in the UK today are worse off than their parent's generation were at their age once the cost of housing is taken into account¹⁸.

The struggle with borrowing restrictions strongly suggests that in the absence of extremely large deposits, much larger than the average buyer plans to save, many middle-income buyers will find themselves priced out of the market.



¹⁴ Ministry of Housing, Communities & Local Government – New Build Dwelling tables

¹⁵ Ministry of Housing & Local Government: English Housing Survey 2017-18

¹⁶ Family and Childcare Trust: Childcare Survey 2019 – the average cost of childcare for a child under 2 attending 25 hours a week (part-time) and 50 hours a week (full-time).

¹⁷ Student Loans Company.

¹⁸ The Resolution Foundation: As time goes by, Shifting incomes and inequality between and within generations, February 2017.

Family support

While support from family members can help prospective buyers overcome the deposit gap and boost their borrowing power, it entrenches rather than alleviates inequality in the housing market and is not a sustainable or effective long-term fix. The 'Bank of Mum and Dad' is playing an increasingly important role for first-time buyers, with financial support from family increasingly dictating young people's ability to get on the property ladder. In 2017-18, nearly two fifths (39%) of first-time buyers had help from living family, up from 29% of buyers just two years earlier¹⁹.

Around 40% of potential first-time buyers in our survey said they are relying on an inheritance to boost their deposit and get them on the property ladder, a marked increase from the 10% that are reported to have used an inheritance in 2017-2018²⁰.

Unsurprisingly therefore, young adults with wealthier families are more likely to own their own home – in fact 43% of 25-34-year olds whose parents are or were in a high occupational class (e.g. lawyers,

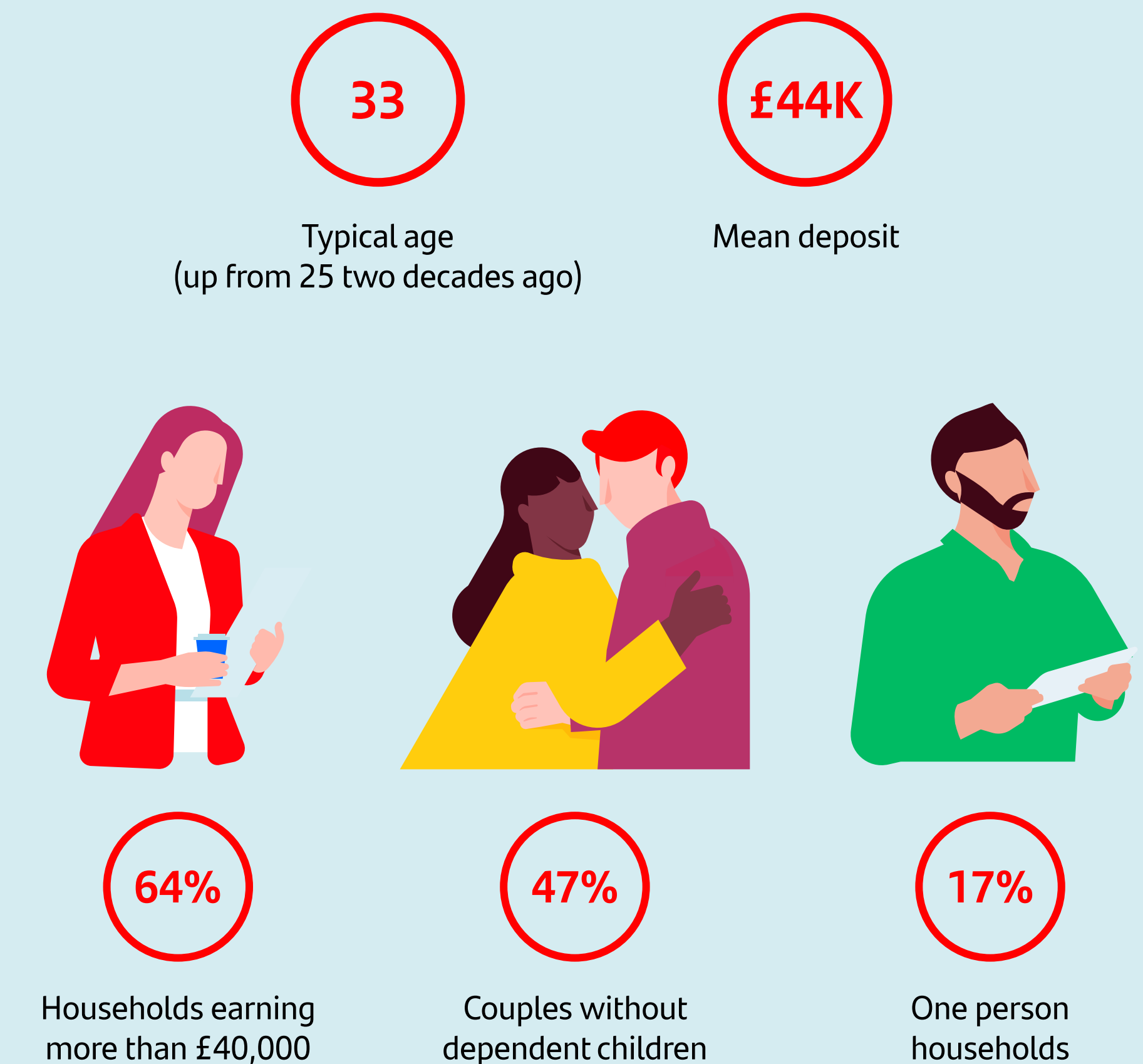
accountants) owned their own home against a national average of 34%²¹.

However, the growing role of family support may lead to financial challenges for those gifting wealth, especially if they find themselves needing money in older age for costs of later life care. The average cost of residential care stood at £32,344²² a year in 2018, nearly three quarters of the average housing deposit.

As life expectancy increases, we can expect to see the number of people in care increase and the wealth they have built up through property ownership quickly diminished.

There is also an increased risk that some would-be buyers are relying on inherited wealth that may not be as readily available to them as they think, if this money has been used to finance unanticipated costs of 'later life'.

Who are today's first-time buyers?



¹⁹MHCLG: English Housing Survey Headline Report 2017-18

²⁰MHCLG: English Housing Survey 2017-18

²¹IFS Study: The decline of homeownership among young adults

²²LaingBuisson Care of Older People UK Market Report 29th edition 2018

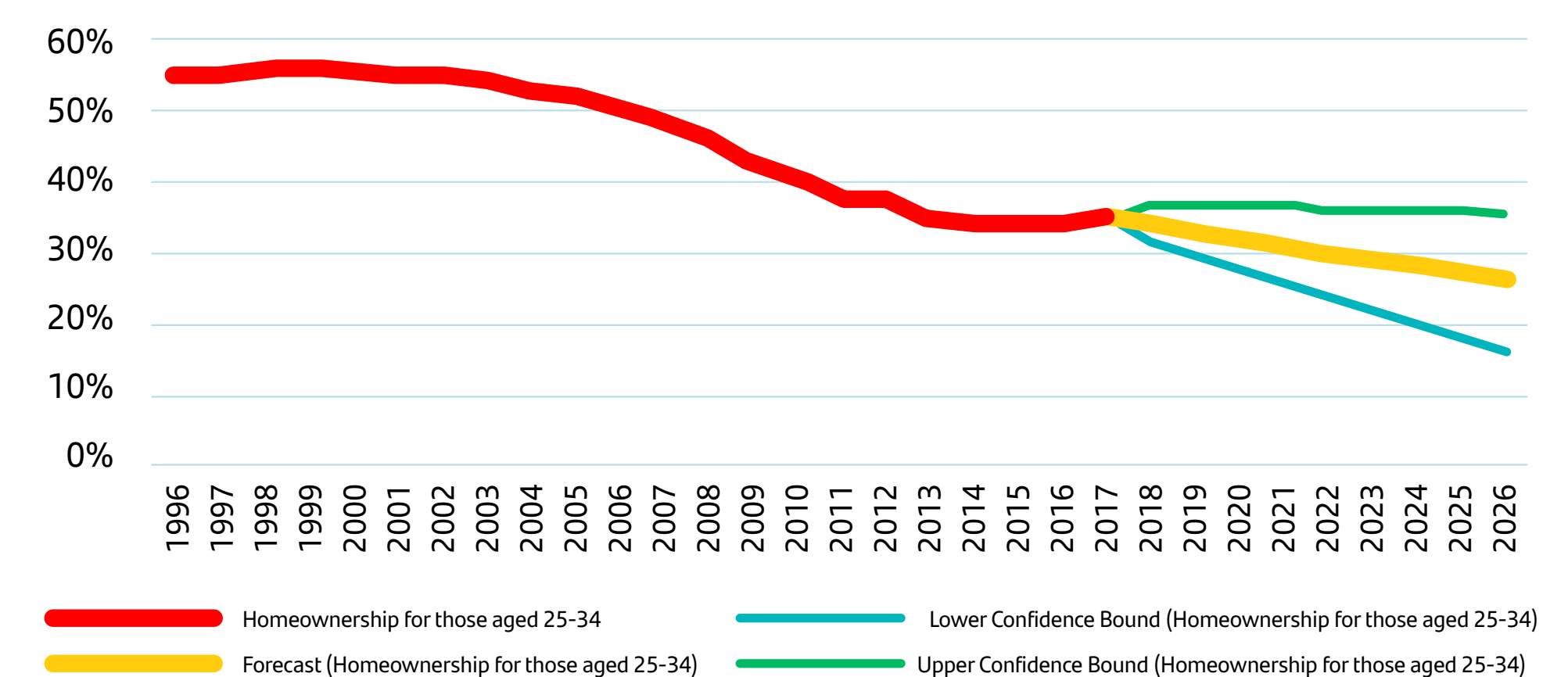


Keeping the dream alive for tomorrow

Our analysis suggests that the homeownership dream is far from democratic and that the one in three 25-34-year olds who currently own a property today is largely made up of higher earners, couples without children and those who can access family support.

Using projections based on historical trend data, it is possible that **by 2026 just one in four (26%) people aged between 25 and 34 will own their own home**, meaning the homeownership dream is at risk of dying for middle-income Britain, individual buyers and those unable able to draw on family wealth.

Homeownership projections for those aged between 25-34



Both the government and industry have taken a range of steps in recent years designed to make home ownership accessible for more first-time buyers.

However, it is clear that further action is urgently needed if we are to prevent these projections from becoming a reality.

Government

The introduction of Help to Buy and the Lifetime ISA has given would-be buyers a much-needed boost to their deposit savings. Meanwhile, challenges with securing a suitable mortgage to buy a property have led to the development in shared ownership and Help to Buy.

However, these schemes come with their own limitations on property values and the amount that can be saved into them. They are also not always readily available depending on where in the

UK you are looking to buy. Moreover the Help to Buy: Equity Loan scheme is being restricted in 2023, so it is important that this doesn't create a cliff edge for first-time buyers.

Lifetime ISA

Allows savings of £4,000 each year with a 25% government top-up, up to a maximum of £1,000.

Someone saving the maximum each year would take approximately five years to reach the deposit goal of £24,816 and almost nine years to save £44,000. The ISA can then be used to purchase a property that costs £450,000 or less.

Help to Buy: Shared Ownership

Allows buyers to buy a 25-75% share of a property and pay rent on the remaining share.

The scheme is only available to households earning less than £80,000 outside of London or less than £90,000 in London. Shared Ownership properties are always leasehold.

Help to Buy: Equity Loan

The government lends up to 20% of the cost of a new build home (up to 40% in London), for buyers with a 5% deposit. Buyers then mortgage the remaining 75%.

No fees are charged on the Equity Loan for the first five years. After this, buyers are charged 1.75% on the outstanding amount as interest. This will increase each year by RPI plus 1%.

Stamp Duty Land Tax (SDLT) relief for first-time buyers

First-time buyers buying a property valued at £300,000 or less are exempt from paying SDLT. Properties valued between £300,000 and £500,000 will pay 5% SDLT on the amount of the purchase price in excess of £300,000.

First-time buyers purchasing a property for more than £500,000 will not be entitled to any relief and are charged SDLT at the normal rates which currently range from 2% up to 12% based on the value of the property being purchased.

Help to Buy: ISA

Buyers can pay in a lump sum of £1,200, then add regular amounts of £200 a month. The government will boost anything saved by 25% up to a maximum of £3,000. Couples buying together can each hold an ISA with a maximum government boost of £6,000.

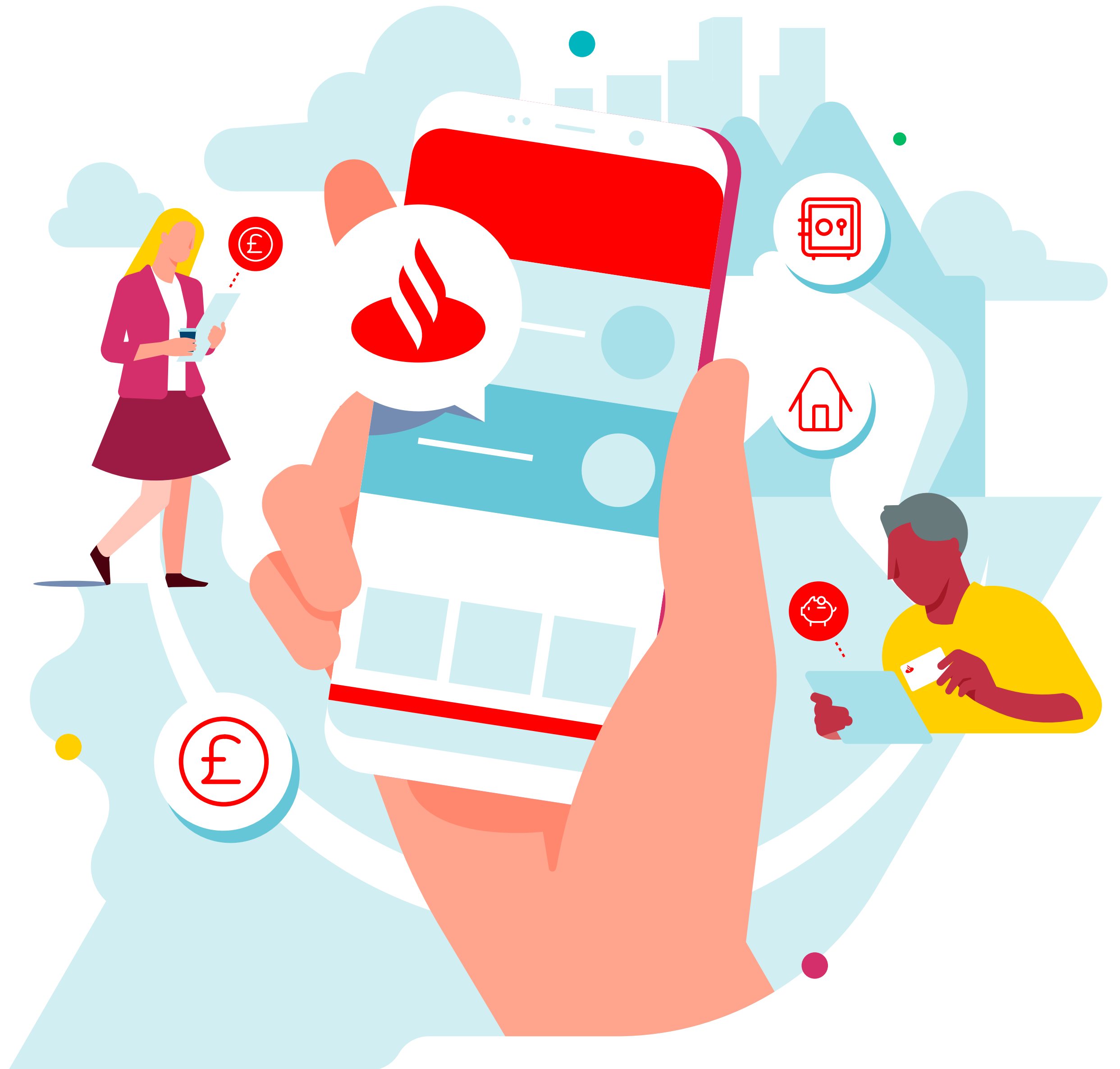
The bonus is paid at the time of buying a property and buyers must instruct their solicitor or conveyancer to apply for the bonus on their behalf. This can only be used on properties up to £250,000 (£450,000 in London) but is due to close to new applicants in December 2019. Existing customers will be able to pay money in and claim their bonus until 2030.

Despite the wide range of initiatives introduced in recent years, **three quarters of would-be first-time buyers say that the government needs to do more to help first-time buyers.**

The most popular measure supported by aspiring first-time buyers is extending the Help to Buy scheme beyond 2023, followed by the introduction of a cap on rent prices.

Action the government could take	Percentage of would-be first-time buyers in favour of this action
Extend the Help to Buy scheme for first-time buyers beyond 2023, when it is currently due to expire	37%
Cap rent prices	35%
Cut stamp duty for all house buyers on homes under £500,000 in order to encourage more sales and free up homes for first-time buyers	33%
Encourage landlords to sell their properties to long-term rental tenants by giving them a tax rebate	28%
Introduce stronger quotas on developers to build more affordable homes	23%
Build more houses on the green belt	15%
Increase number of shared ownership properties available	13%
Other	1%
Not sure	18%

In line with the challenges identified in this report, we believe there are three key areas the government and regulators should look to address in order to help first-time buyers get onto the property ladder.



1. Deposits

Based on the findings of this report, it's clear that there is a stark inequality in buyers' abilities to raise a deposit. New initiatives should be considered to help those unable to access family support or ineligible for existing government schemes such as Help to Buy. For example, the Forces Help to Buy scheme, which allows those

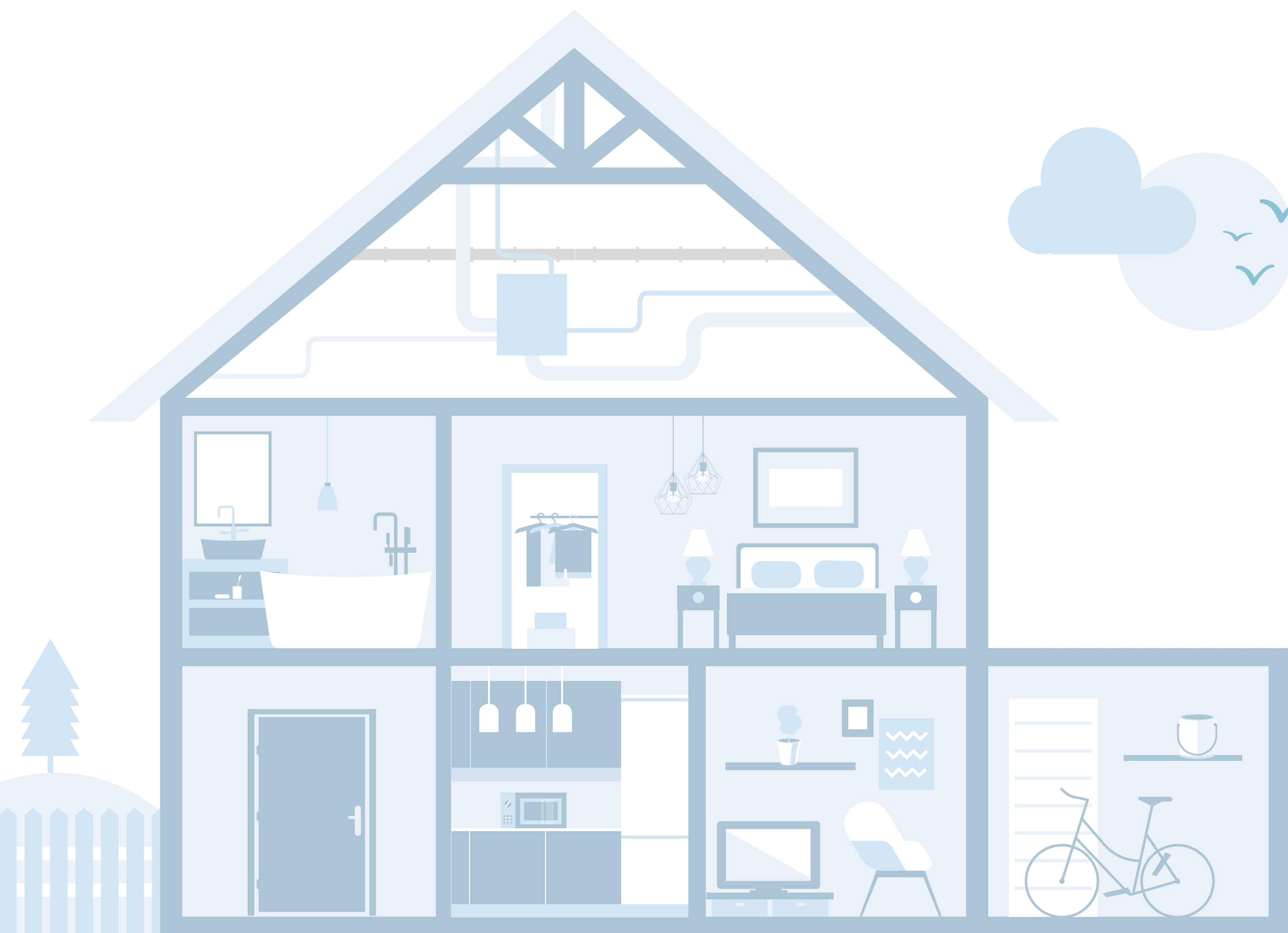
working in armed forces to take an interest free loan of up to 50% of their salary towards a house purchase, could be extended to support all public sector workers. Another potential option could be a government-backed guarantee to lenders, reducing or removing the need for certain categories of first-time buyers to provide a deposit.

2. Affordability

Since 2008, lending criteria have understandably tightened, but there is an argument that lending may now be slightly too conservative. By using Bank of England forecasts for future interest rates as a base, more flexibility could be found in the projected interest rates against which lenders must test customers' ability to meet their mortgage repayments. This 'stress

rate' currently stands at 3% above a lender's reversion rate, the rate to which customers revert at the end of any fixed rate or incentive period. This can be 5% or 6% higher than the rate that the customer is actually paying, requiring a customer to meet interest rates which they are in reality unlikely to be paying in the medium term.





3. Housing supply

The most obvious, and widely documented solution to improving housing affordability is to build more homes. A significant increase in supply would almost certainly see a significant fall in property prices. But building the numbers of homes the UK requires is politically challenging and will take sustained action across multiple governments over at least a decade.

In the shorter term, there is an opportunity to make better use of our existing housing stock. At present many people in the UK live in properties which

may be unsuited to their needs.

This is increasingly prevalent among older demographics, with older couples frequently living in properties with three or more bedrooms. In order to improve circulation of properties and help free up homes for first-time buyers, action at the other end of the market may be required. For example, a cut in stamp duty for those aged over 55 who are downsizing would encourage more sales and help free up suitable properties along the chain.

Industry

Meanwhile, 63% of potential first-time buyers believe that relaxing borrowing rules would help redress the inequality in the homeownership market.

Changes like this would need to be backed by the government and regulators, but lenders must continue to innovate and push for products that fit with the needs of today's first-time buyer, tackling issues such as raising a deposit and addressing the needs of the older first-time buyer.

Lenders have already made changes and areas that they can continue to develop include:

- Offering mortgages over longer terms;
- Extending the upper age limit of mortgages;
- Increasing the number of people named on a mortgage;
- Reviewing what can be accepted as guarantee for a deposit or loan, in lieu of family wealth and support; and
- Considering existing rental payments as evidence of an ability to afford a mortgage in lieu of using restrictive income multiples.



Conclusion

Without change, the UK's property market is at risk of becoming the preserve of only the wealthiest young buyers over the next decade. The large and growing disparity between average earnings and average property prices is leaving a gap that future generations of middle-income buyers in the UK will be unable to bridge, leaving them completely frozen out of the property market.

Clearly for this gap to narrow, either house prices will have to substantially fall, or earnings will have to substantially increase. In recent months there has been talk of a house price correction, but the reality is price falls across the UK have so far been modest.

Moreover, the Institute for Fiscal Studies highlighted in March 2019 that last year also saw no growth in household incomes. As a result, the inequality between those who can afford to take a step onto the property ladder and those who can't is becoming more evident than ever.

The government and industry must now be prepared to think differently and work together to have a meaningful impact in helping many more first-time buyers on to the property ladder. Without urgent action, there is a real risk that the next generation of first-time buyers will be unable to realise their homeownership dream.



Endnote from a first-time buyer

An interview with Kim Reynolds, first-time buyer



“ I’m writing this at a point where my husband and I are (hopefully) about to exchange on our first family home! It’s exciting! I can’t wait to have something that is ours, that we can make a home for our young son and not to be paying someone else’s mortgage.

It’s been a long road to get here, and it’s not over yet. Getting a deposit was the first challenge and we didn’t have family that could help give us a foot up on to the ladder. Saving took five long years, putting money away month after month and making the most of the government Lifetime ISA scheme. In that time, we got on with living our lives, got married and had our first child.

Once we had a suitable deposit, we thought the hard work was over. But how wrong we were.

Finding a property that suited our needs was much harder than I imagined. As saving enough has taken such a long time, we already have a young family, so found we needed somewhere with enough space. In addition, our son was born deaf and the support services in our current borough have been a huge help

to us, not to mention the fact that he was settled with a childminder near where we lived. With that in mind we had a very specific area we wanted to move within. Unfortunately for us, it was a particularly expensive area to buy in.

Most of the three-bedroom terraced properties that seemed suitable for us were selling for between £100,000-£120,000 above our price range. No amount of stretching or digging behind the sofa was going to make that work.

We also realised that while diligently saving into a Lifetime ISA for our deposit had been beneficial, it had now restricted us to properties costing £450,000 or less – which I know sounds like a lot but was not that common in the area of London we were looking to buy, especially when looking for a home with enough space for our young family.

In the end, we’ve had to compromise on the condition of the property and the location within our area. The anxiety and pressure of saving for and buying a house isn’t over yet – but we’re closer than we’ve ever been.

We’re fortunate that we’re able to buy, and it’s the result of working hard, saving hard and a little bit of luck with the property we found. But in my mind, that element of luck is not there for everyone, and there is not enough done to help first-time buyers. The schemes that are in place can be really limited once you get down to the fine print, and saving is tough unless you’re prepared to put your entire life on hold. Even with a deposit, finding a property that’s suitable and affordable isn’t easy and more needs to be done to improve the housing stock.

Overall, first-time buyers need more support and I don’t think that lenders, policy makers or the government really appreciate just how much the situation has changed in the property market today. ”

