



First-Time Buyers

Age-old problems, modern solutions
A roadmap for change

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 **Building Societies
Association**

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Author: Neal Hudson
Neal@resi-analysts.com

Neal founded Residential Analysts Ltd in January 2017, BuiltPlace in 2018, is a Visiting Fellow in Real Estate and Planning at Henley Business School.

BuiltPlace

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

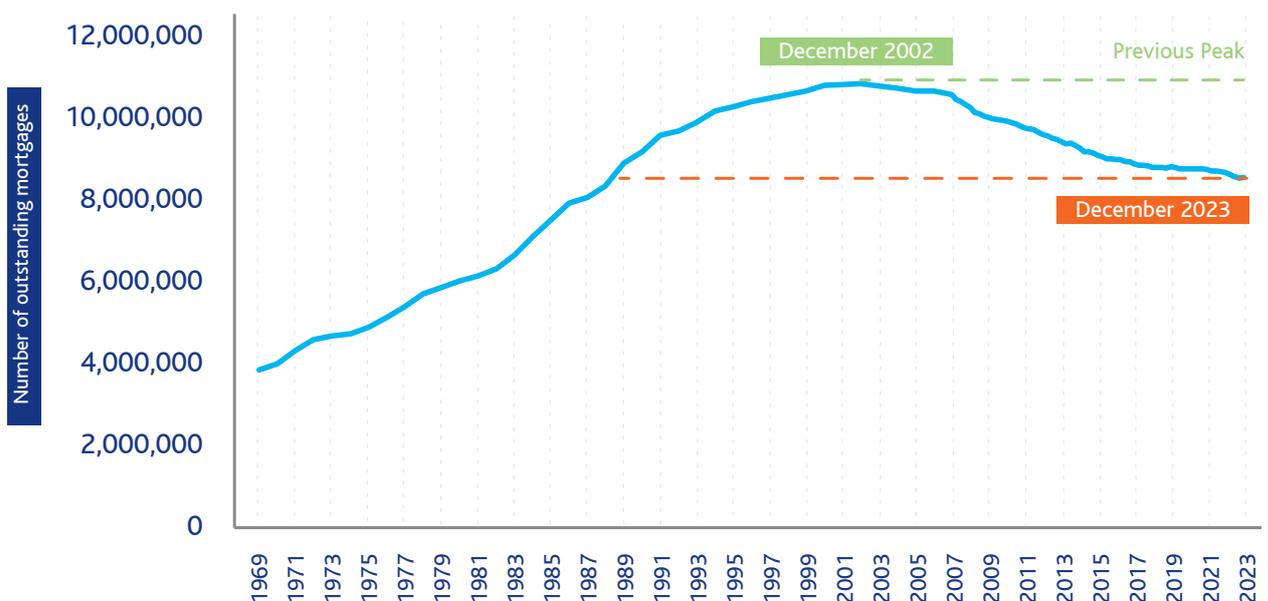
This report for the Building Societies Association (BSA) provides a comprehensive review of first-time buyers offering potential policy solutions that can hopefully help prospective first-time buyers buy their own home in the current housing market, without compromising the prospects of future generations.

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

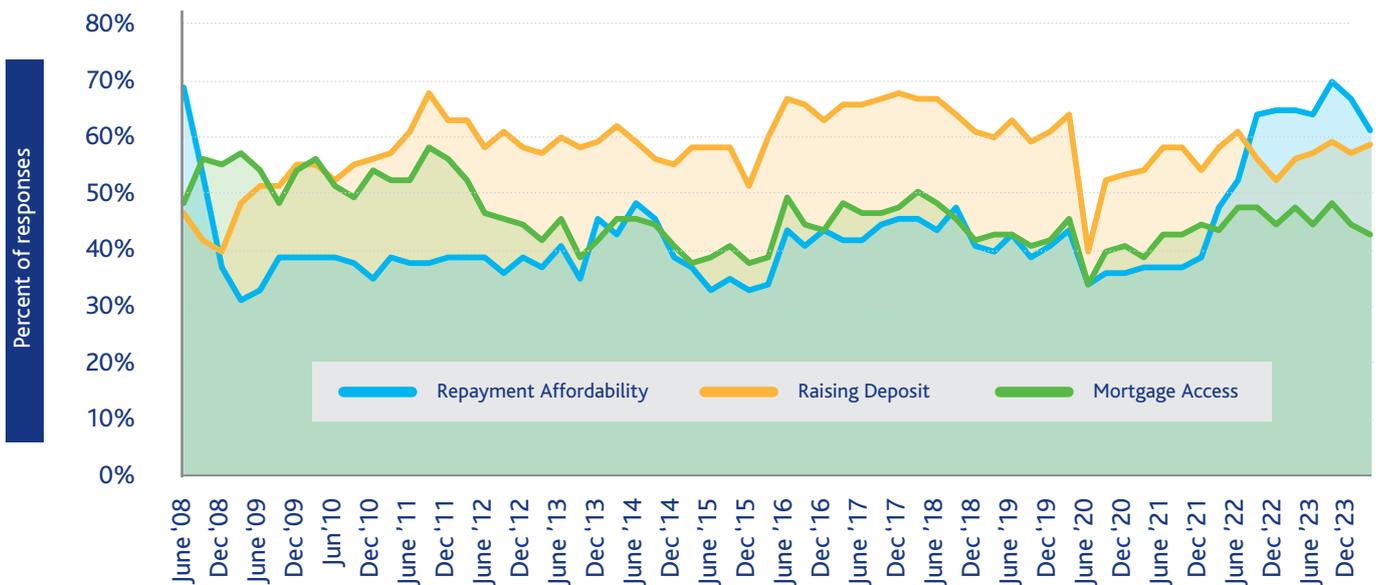


The Costs of Buying & Owning

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-returned 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.



Building Societies Association

www.bsa.org.uk

For more information contact:

information@bsa.org.uk

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