First Time Buyers - 2009

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Summary

- First time buyers today have a harder time getting on the property ladder than their parents, and it would appear that parents have been instrumental in keeping the market going for the last few years by providing assistance to their offspring.
- CML estimates around 38% of first time buyers under the age of 30 in 2006 got financial assistance from their parents.
- This level of parental assistance is possibly a more significant factor in the falling number of first time buyers than the disappearance of 100%+ mortgages.
- The National Savings and Investments (NS&I) quarterly savings survey shows that nationally the percentage of regular savers in the population decreased from 52% in Winter 2007/08 to 47% in Spring 2008.
- Within the sub-region, in most areas except for Cambridge City, South Cambridgeshire and Forest Heath, a lower quartile household income paying a 10% deposit can afford monthly mortgage repayments for a lower quartile 1 bedroom flat based on paying 35% of their salary. In South Cambridgeshire and Forest Heath a deposit of more than 10% would be required to make the monthly repayments manageable, but the amount required would take less than ten years to save.
- However first time buyers tend to prefer to buy two-bedroom freehold houses over one bedroom flats for reasons such as being more flexible for young, changing households.
- In Cambridge City, a two-bedroom property appears to be a wholly unrealistic aspiration for most first time buyers. However, a one-bedroom property may be more suitable in the City than elsewhere.
- Cambridge City also has a larger private rented sector than elsewhere in the sub-region so the fact that people can't afford to buy two-bedroom houses may be less of an issue than elsewhere in the region.
- Loans to first time buyers so far in 2008 suggest that the total number of advances for the year will be about 60% of what they were last year. The need for a larger deposit and a likely decrease in the level of assistance from family members may also cancel out any drop in prices in the coming year. This will make it harder for existing home owners who need to move to sell their current home.
- There is also less buy-to-let activity at the moment. In the last couple of years, there has been considerable interest in the role the private rented sector plays and this is largely made up of buy-to-let investors. In particular, most households who are renting privately are similar in character to first time buyers and around 57% of private renters aspire to own their own home eventually. If people are less able to access finance to move into owner occupation, this is likely to increase demand in the private rented sector at just the time when it starts to shrink. This is likely to increase housing needs registers and may lead to an increase in overcrowding if people choose to stay in the family home longer.

Chapter 37. First Time Buyers - 2009

37.1 **Introduction**

The recent (2008) survey of estate agents suggested that there were very few first time buyers currently in the market and this was creating difficulties in making chains of sales.

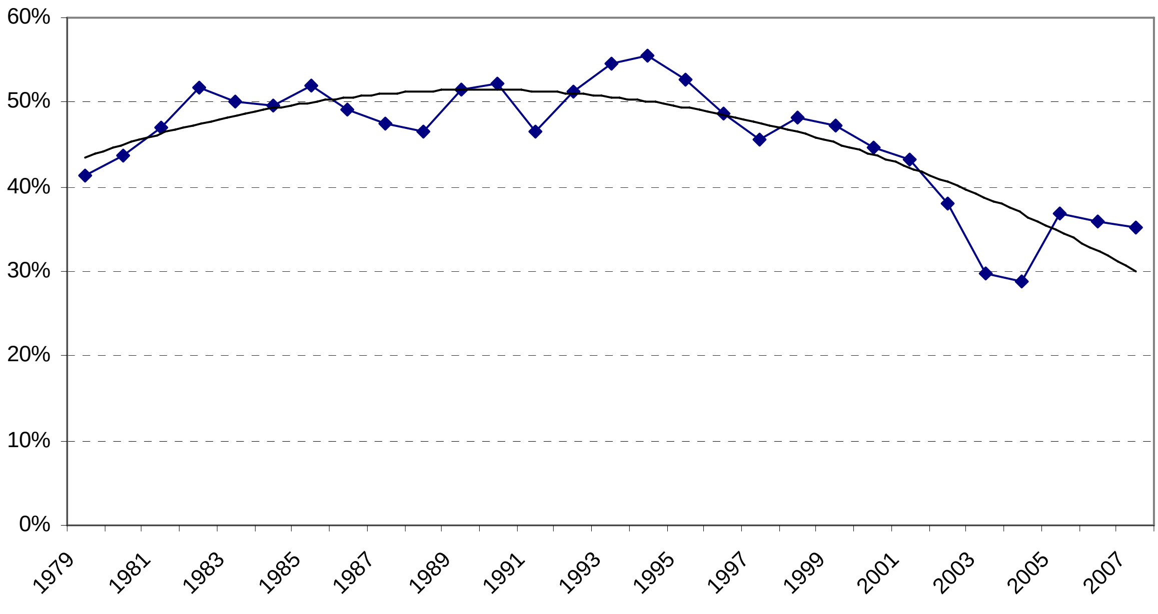
Affordability has been highlighted as a problem for first time buyers over the past few years, so why has the situation changed now and what has been enabling people to buy for the first time?

This report looks at long-term national data from the council of mortgage lenders to get a clearer idea of the first time buyer market over time. It then focuses on the current market in the Cambridge sub-region and the next year or so. Finally, it looks at the issue of parental assistance – several sources suggest that first time buyers are getting help from their parents in order to get a foot on the ladder, but how much are parents contributing?

37.2 **Council of Mortgage Lenders**

The Council of Mortgage Lenders (CML) provides information on first time buyers since 1979. It is interesting to look at this data over time and particularly so in the light of parental assistance as many of those first time buyers from 1979 are the parents of those trying to buy a home for the first time now.

Fig 1: Percentage of loans to first time buyers



Source: CML

Fig 1 shows the percentage of all loans that were made to first time buyers. For much of the 1980-90s at least 44% of all mortgage lending was to first time buyers. This has fallen significantly in the last few years and the percentage of loans to first time buyers in currently around 37% - higher than is has been for much of the 2000s but not as high as the long-term trend shows.

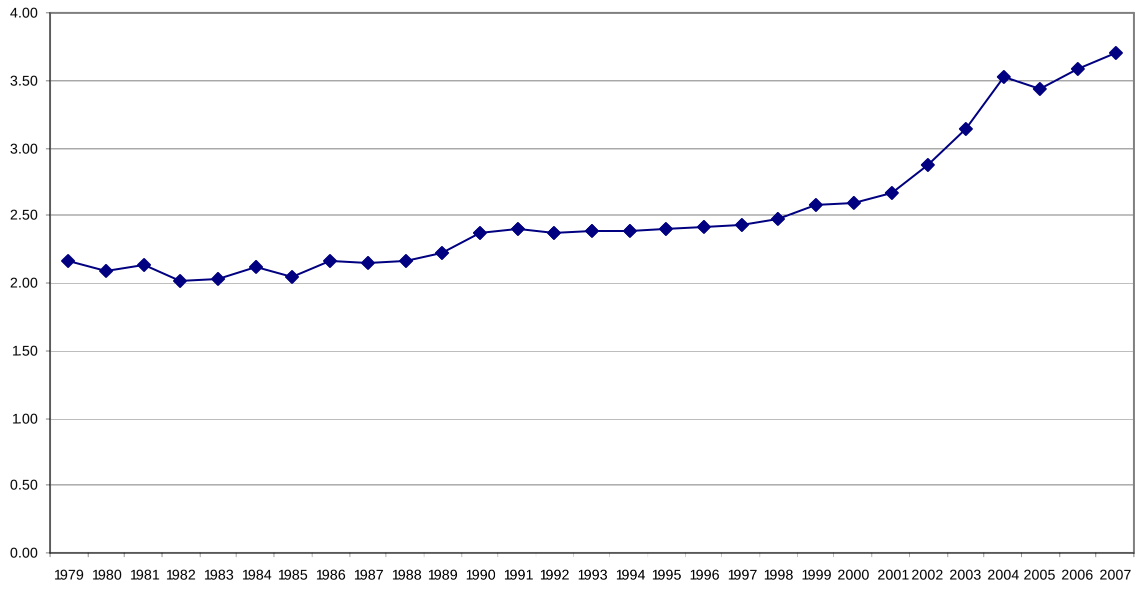
Some of this is demographic – most first time buyers are aged between 18-34 and this age group has decreased by more than other age groups in the population over the last few years. But over the same period the median age of first time buyers has increased from 26 in 1979 to 29 currently. It peaked at 31 from 2002-2004. This possibly suggests that it is now taking longer to amass the resources to buy a home than it has in the past. Interestingly, this is younger than the current average of shared ownership purchasers in the Cambridge sub-region (32).

However some of these households include "returners" to the market, i.e. people who have previously been owner-occupiers but who were living in a different tenure immediately before purchase. This figure may be as high as twenty percent.[1]

In 1979, the average first time buyer household income was £6,000 per year. This has increased by 583% to £35,000 in 2007. According to the Annual Survey of Hours and Earnings, in the sub-region the average earnings are between £21,000 and £44,000 and lower quartile earnings are between £14,000 and £20,000 depending on district. Average earnings for full-time workers in England in 2007 were £30,000. First time buyers are likely to be at the lower end of the wage scale, which suggests buying a home for the first time in 2007 requires two incomes. Again, the demographic trend shows that single person households are growing more quickly than other types of household structure, albeit that some of this is older people.

While wages between 1979 and 2007 have increased nearly six-fold, the average first time buyer house price in the same period have increased ten-fold, from £13,000 to £130,000.

Fig 2: House price to income ratio for first time buyers

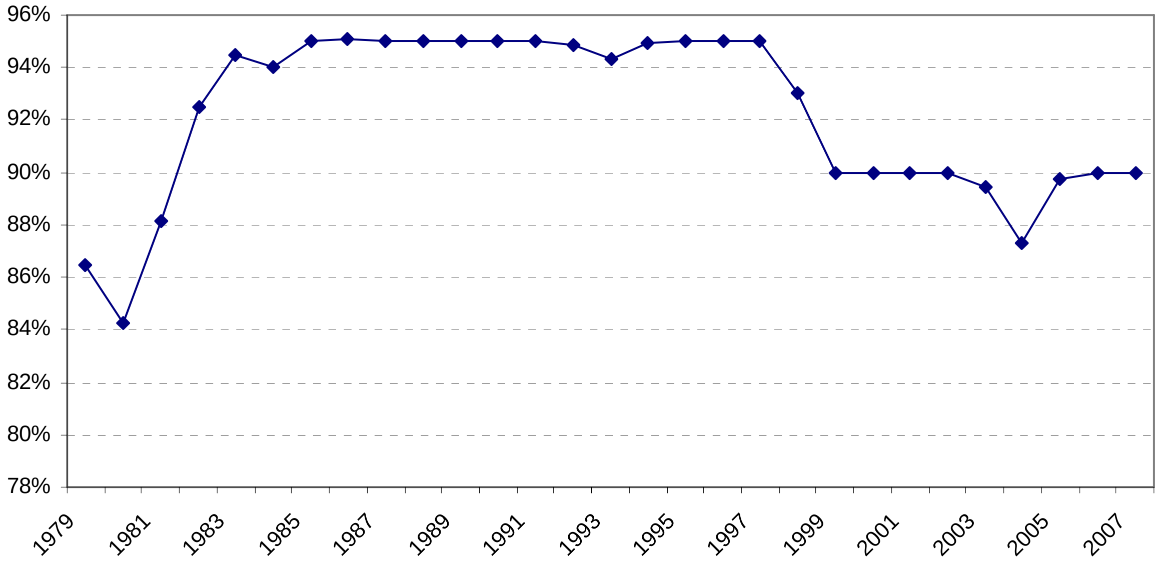


(Source CML)

The house price to income ratio was under 2.5 for most of the 1980s and 90s. Since 1999 it has increased to 3.71. This suggests that people are possibly stretching their incomes considerably further than in the past.

[1] CML (2006) "Will the real first time buyer please stand up?"

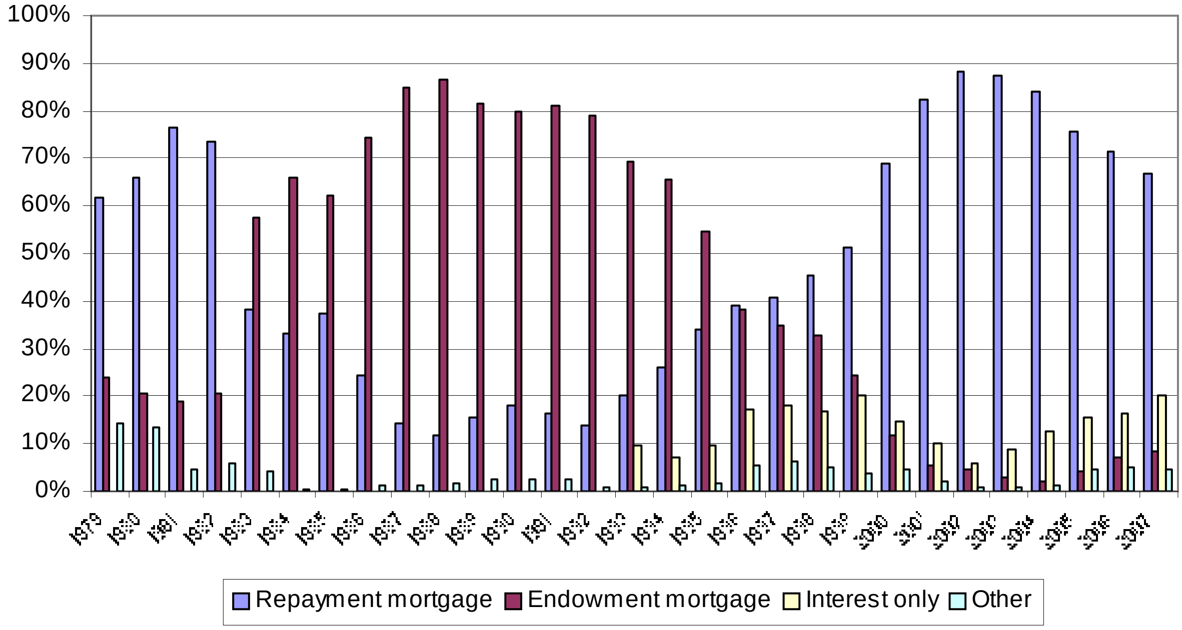
Fig 3: Percentage advance



Source: CML

On average in 1979, lenders were lending 86% of the money required to buy a home. Throughout the 1980s and most of the 1990s, they were lending around 95% of the amount required and it has since dropped. At around the same time, the most popular type of mortgage for first time buyers was the endowment mortgage. Since 1996, repayment mortgages have become the main type of mortgage again.

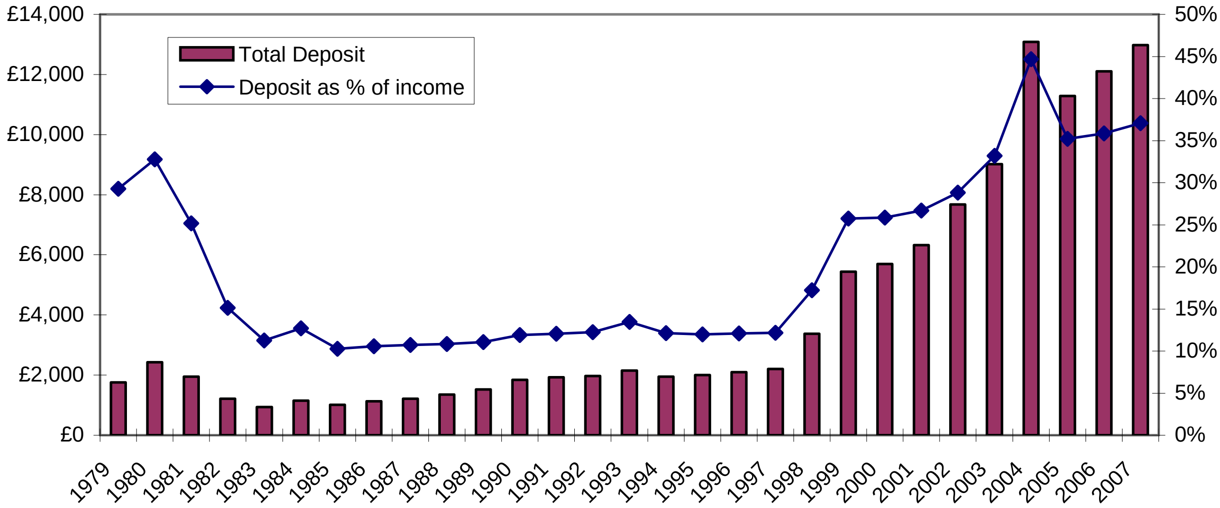
Fig 4: Type of mortgage



Source: CML

Given that 100% mortgages were available during the last few years, this suggests that they possibly were not very common and that there were some “first time buyers” with some very large deposits (likely to be people returning to the market). Since the end of 2007 mortgage lenders have become much stricter. The monthly data for 2008 shows that the average advance has fallen from 90% in January to 84% in August.

Fig 5: Average size of deposit (£s) and average deposit as percentage of income.



Source: CML

The size of deposit required for much of the 1980 and 1990s was between £1,146 and £2,200, roughly equivalent to between 10% and 12% of the average first time buyer annual household income. First time buyers currently require a deposit roughly equivalent to 37% of their annual household income. This peaked in 2004 at 45%. This may explain the increase in average age for first time buyers – it is taking people longer to save for a deposit.

During the 1980s interest rates were higher and less stable, which would increase repayments, but also possibly make it easier to save.

37.3 Cambridge sub-region

Information from the survey of estate and letting agents 2008 showed that first time buyers prefer smaller, cheaper properties with two bedroom properties being the ideal, especially houses. Some people buy smaller properties just to get something, although these types of buyers are possibly not as active in the current market as a year ago.

Table 1 shows the lower quartile prices for one and two bedroom properties earlier in the year and the amount of money required to put a 10% deposit on this type of property.

Table 1: Property prices for first-time buyer properties, Feb 2008

	1 bed		2 bed	
	Price	**Deposit Required**	**Price**	**Deposit Required**
Cambridge City	£130,000	£13,000	£193,000	£19,300
East Cambridgeshire	£93,500	£9,350	£128,000	£12,800
Fenland	£70,000	£7,000	£103,478	£10,348
Huntingdonshire	£98,000	£9,800	£127,500	£12,750
South Cambridgeshire	£120,000	£12,000	£145,750	£14,575
Forest Heath	£97,000	£9,700	£123,457	£12,346
St Edmundsbury	£90,000	£9,000	£124,500	£12,450

Source: Hometrack

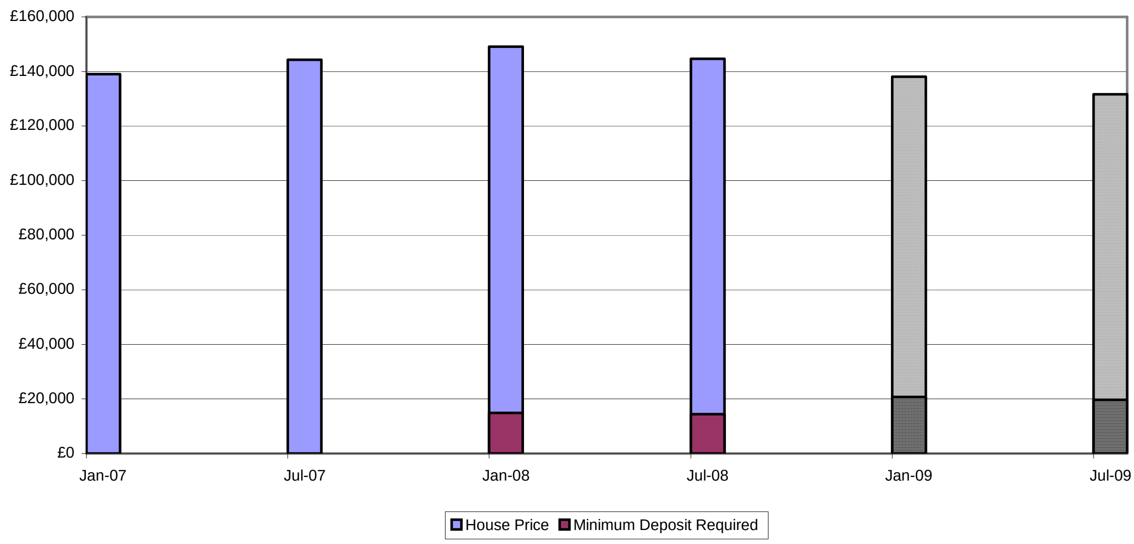
For a one bedroom flat [2] a first time buyer would require less than £10,000 as a deposit in all districts except for Cambridge City and South Cambridgeshire. A mortgage for a more desirable two bedroom property would require a deposit of at least £10,000 and almost double this for the city.

According to the National Savings & Investments Quarterly Savings Survey (Spring 2008), around 54% of people in the East of England save regularly, compared to the national figure of 47%. These regular savers save £198/month on average. Nationally, “saving for a deposit/ paying of a mortgage/ home improvements” is one of the top five reasons why people save, with around 39% of people saving for this reason. If people save £198/month, it would take them around 4.5 years to save enough for a deposit on a 2 bed property in Fenland (the cheapest district) and around 8.5 years to save for a deposit on a 2 bedroom property in Cambridge City (the most expensive area). The sub-regional average deposit size is around £14,000. It would take about six years to save this amount.

Fig 6 shows the minimum deposit amount required from January 2007 to July 2009 for a lower quartile 2 bedroom property. In 2007, 100% deposits were available so the “minimum deposit level” is 0. These are not available anymore. Lenders are being much more restrictive, especially to groups they perceive as “high risk”, which includes first time buyers. At the start of the year, the average LTV ratio for first time buyers was 90%. In September it had fallen to 84%, i.e. most of the first-time buyers who bought in September had a deposit of 16% of the price of the house.

Fig 6 shows the impact of this change in attitude. In 2007, 100% mortgages were available so no deposit was required. House prices increased slightly at the start of the year, but a 10% deposit was required to access the market at a reasonable interest rate (around £14,000) for a lower quartile two-bed property. In July, prices fell slightly, but the deposit size required increased to 15% (around £21,000). Local estate agents predict a fall of around 10% in 2009. Assuming the required deposit size for a reasonable rate stays at 15%, a first time buyer purchasing next year may require a deposit of around £20,000.

Fig 6: Lower quartile 2 bed house price and deposit required



Source: Hometrack

[2] The Hometrack data gives lower quartile and average price data for one bedroom flats. The two bed prices are based on the mid point between the two-bed flat price and the two bed house price. There are very few one-bedroom houses. They are likely to be slightly more expensive than flats – possibly a similar price level to two bedroom flats.

While 15% is quite possibly going to be the norm next year, the section below assumes a 10% deposit is required. This is because while the CML data shows that 15-16% is what most first-time buyers who are buying have at the moment, 10% is consistent with the approach used by most financial comparison websites (e.g. see www.moneysupermarket.com). These sites also show that there are still some lenders prepared to offer loans to first time buyers with a 5% deposit. There are not many of these and the interest rate is usually less favourable. The interest rate is usually fixed too – there are very few tracker products available to first time buyers.

Table 2: Deposit required as percentage of gross household income

	Lower quartile income	Deposit required as percentage of income	Median Income	Deposit required as percentage of income
Cambridge	£19,000	102%	£30,000	64%
East Cambridgeshire	£20,000	64%	£32,000	40%
Fenland	£17,000	61%	£27,000	38%
Huntingdonshire	£21,000	61%	£34,000	38%
South Cambridgeshire	£21,000	69%	£35,000	42%
Forest Heath	£18,000	69%	£28,000	44%
St Edmundsbury	£19,000	66%	£30,000	42%

Source: CACI 2006/07, Hometrack Feb 2008

Another measure of deposits is to look at how much is required compared to annual income. Table 2 shows the lower quartile and median household income, with a 10% deposit on a lower quartile 2 bedroom property (the first time buyer ideal)

A 10% deposit on a typical first time buyer type property is roughly equivalent to between 61% and 69% of gross annual lower quartile household income or between 38% and 44% of median household income outside the City. In Cambridge itself, a 10% deposit on a lower quartile 2 bed property is equivalent to more than a year's income for a lower quartile income household, and almost two-thirds for a median income household. Given these findings it is surprising that the number of first time buyers has not decreased by more over the past few years (see fig 1). It is not surprising that there has been a notable increase in the number of people staying in their family homes until well into adulthood[3] or that 38% of first time buyers are getting parental help to buy a home[4].

Deposits are only part of the story – first time buyers may be able to amass a 10% deposit with little help, but a larger deposit may be required to make the monthly repayments more manageable:

Table 3: Monthly mortgage repayment on lower quartile 1 and 2 bed properties[5]

	1 bed	% Lower quartile income	2 bed	% Lower quartile income
Cambridge City	£754	48%	£1,119	71%
East Cambridgeshire	£542	33%	£742	45%
Fenland	£406	29%	£600	42%
Huntingdonshire	£568	32%	£739	42%

[3] See for example The Times, (7th Feb 2008) "Return home of the boomerang kids stretches parents to limit" www.timesonline.co.uk/tol/life_and_style/education/article3321762.ece

[4] CML (2007) "Affordability: Are parents helping?"

[5] Assuming 10% deposit

	1 bed	% Lower quartile income	2 bed	% Lower quartile income
South Cambridgeshire	£696	40%	£845	48%
Forest Heath	£562	37%	£716	48%
St Edmundsbury	£522	33%	£722	46%

Source: Hometrack, CCRG affordability model (see chapter 21)

Chapter 21 of the Cambridge sub-region strategic housing market assessment uses a third of income as an “affordable” amount to be paying on housing costs, which is fairly widely accepted. If people are buying and deriving some long term benefit, it may be more reasonable to use a level of 35%. This means that the mortgage repayments on a 1 bedroom flat bought with a 10% deposit are “affordable” for a lower quartile income household in East Cambridgeshire, Fenland, Huntingdonshire, and St Edmundsbury. Similar households in Cambridge City, South Cambridgeshire and Forest Heath would need to stretch themselves financially to be able to afford the mortgage repayments if they put down a 10% deposit. The mortgage repayments on a two-bedroom property purchased with a 10% deposit would be around 42-48% of gross lower quartile household income in most district and nearly ¾ in Cambridge City. A sensible mortgage lender would probably not agree to lend at this level.

Table 4 shows the level of deposit required for a lower quartile income household to be able to afford the monthly mortgage repayments on a lower quartile 2 bedroom property and how long it would take to save this amount assuming that a household saved £189.28/month based on the national data on what regularly savers are saving and an interest rate of 5% per year based on information from price comparison websites. This is a very rough estimate – saving habits, earnings, interest rates and house prices all change over time, but it gives some idea of how long it could take to amass the level of deposit required.

There are three districts in which a 10% deposit would mean monthly repayments on a lower quartile 1 bedroom property are unaffordable. These are also included in this table.

Table 4: Deposit required for affordable monthly repayments and time to save

		% deposit required	Deposit amount	Years to save
Cambridge City	1 bed	34%	£44,200	15
	2 bed	56%	£108,080	25
East Cambridgeshire		30%	£38,400	13
Fenland		26%	£26,904	11
Huntingdonshire		26%	£33,150	12
South Cambridgeshire	1 bed	21%	£25,200	10
	2 bed	35%	£51,013	16
Forest Heath	1 bed	16%	£15,520	7
	2 bed	34%	£41,975	14
St Edmundsbury		31%	£38,595	13

Source: Hometrack, CCRG affordability model, NS&I quarterly savings survey June 2008 (see chapter 21)

For example, in order to be able to afford the monthly mortgage repayments on a lower quartile 2 bedroom property in Fenland, a first time buyer would need a deposit of around 26% of the purchase price. Unaided it might take them 11 years to save this.

The CML data shows that the current median age for first time buyers is 29. Some people enter employment at 16 and some people begin working at 22. Overall, ten years may be a reasonable time for a first time buyer to save for a deposit (although their parents may feel otherwise)! In this time, assuming £189/ month saved and 5% interest, they should have been able to save around £26,000. Table 5 shows the degree of assistance, which may be required, based on the total deposit required minus the amount saved over 10 years.

Table 5: Assistance required to buy 2 bed property after saving for 10 years

	Parental assistance
Cambridge City – 1 bed	£18,200
2 bed	£82,080
East Cambridgeshire	£12,400
Fenland	£904
Huntingdonshire	£7,150
South Cambridgeshire	£25,013
Forest Heath	£15,975
St Edmundsbury	£12,595

Source: Hometrack, CCRG affordability model, NS&I quarterly savings survey June 2008 (see chapter 21)

Potentially parents may contribute between £900 and £82,000-worth of assistance to help their children buy a home, with the average being around £22,000. Other sources estimate that nationally parents are contributing just under £18,000[6], and it is worth noting that outside Cambridge and South Cambridgeshire, the sub-region is below this level.

37.4 Summary – where have all the first time buyers gone?

First time buyers today have a harder time getting on the property ladder than their parents, and it would appear that parents have been instrumental in keeping the market going for the last few years by providing assistance to their offspring. The CML estimate that around 38% of first time buyers under the age of 30 in 2006 got financial assistance from their parents. This level of parental assistance is possibly a more significant factor in the falling number of first time buyers than the disappearance of 100%+ mortgages. The type of people who were helping their children last year are probably unwilling and possibly unable to release equity in their own homes/ sell shares etc. at a time when markets are falling.

The National Savings and Investments (NS&I) quarterly savings survey shows that nationally the percentage of regular savers in the population decreased from 52% in Winter 2007/08 to 47% in Spring 2008. The main reason fewer people are saving is they cannot currently afford to because of increases in the cost of living, but the survey also shows that those who are saving regularly are saving more.

Within the sub-region, in most areas with the exception of Cambridge City, South Cambridgeshire and Forest Heath, a lower quartile household income paying a 10% deposit can afford monthly mortgage repayments for a lower quartile 1 bedroom flat based on paying 35% of their salary. In South Cambridgeshire and Forest Heath a deposit of more than 10% would be required to make the monthly repayments manageable, but the amount required would take less than ten years to save. However first time buyers prefer to buy two-bedroom freehold houses to one bedroom flats for reasons such as being more flexible for young, changing households. This aspiration is also probably keeping the number of first time buyers down. Last year is was a sellers market and according to one estate agent people were looking for anything that would get them on the property ladder. This year it is a buyers market and people are being a lot choosier. With prices falling, people who can “nearly” afford a two bedroom home are most likely waiting for the prices to come down further rather than settling for a one bedroom property.

[6] Alliance & Leicester, (Aug 2006) “£17,667 to cut the parental purse strings”

In Cambridge City, a two-bedroom property appears to be a wholly unrealistic aspiration for most first time buyers. However, a one-bedroom property[7] may be more suitable in the City than elsewhere (people tend to move into the city when they are young for work and then move out when they are older to start a family). Two property market professionals have told us that studio and one bedroom accommodation sells well and is wanted in the city, but this is not a view shared elsewhere. Cambridge City also has a larger private rented sector than elsewhere in the sub-region so the fact that people can't afford to buy two-bedroom houses is possibly less of an issue than elsewhere in the region. Tied to this rental market in the city is a strong room rental market. If a first time buyer does buy a two-bedroom property in the city, but they are able to rent a spare room, this reduces the amount of parental assistance which may be required. Also the lower quartile price used is the lower quartile price for the whole city and there is quite a bit of variation between the different areas.

Loans to first time buyers so far this year suggest that the total number of advances for the year will be about 60% of what they were last year. The need for a larger deposit and a likely decrease in the level of assistance from family members may also cancel out any drop in prices in the coming year. This will make it harder for existing home owners who need to move to sell their current home.

There is also less buy-to-let activity at the moment. In the last couple of years, there has been considerable interest in the role the private rented sector plays and this is largely made up of buy-to-let investors. In particular, most households who are renting privately are similar in character to first time buyers and around 57% of private renters aspire to own their own home eventually. If people are less able to access finance to move into owner occupation, this is likely to increase demand in the private rented sector at just the time when it starts to shrink. This is likely to increase housing needs registers and may lead to an increase in overcrowding if people choose to stay in the family home longer.

[7] There is some suggestion that one bedroom and studio accommodation turns over at a faster rate than larger properties. A large proportion of one bedroom stock is owned by buy-to-let (see Chapter 15, The private rented market).