BROKEN LADDER

HOME BUILDERS FEDERATION

CONTENTS

KEY FINDINGS

- For first time buyers, the price to income ratio in England is 10 – meaning that the average property value is 10 times the average annual net salary.
- This rises to over 12 in the South East, South West and East of England, and is over 16 in London.
- For the average first-time buyer, the monthly mortgage payment was 47% of net salary in 2004 and 2014. As of 2024, this has risen by 20 percentage points to 67%.
- First time buyers in England would have to save 50% of their discretionary income for nine years to save the necessary deposit. This rises to 13+ years for those looking to buy in the South East and London.
- After setting aside rent and bills, first-time buyers in England are facing a deposit that is more than 400% of remaining income.

BACKGROUND

For decades, the cost of buying a home has been increasing and slipping out of reach for more and more people, but this has become particularly problematic since turn of the century. The proportion of 18- to 34-year-olds living with their parents in the UK has overtaken the proportion living independently with their own children. While the latter used to be the most common living situation for young adults in the UK, the last 20 years have seen the two swap places.

There are multiple barriers facing today's potential home buyers – the size of deposits; house prices increasing at much faster rates than wages meaning sufficient mortgages are out of reach for many; and higher mortgage rates, meaning monthly mortgage costs are higher than many can reasonably afford.

While there is widespread recognition of the plight facing young people trying to get onto the property ladder, the desire to look for solutions seems to have receded.
For a decade, the Help to Buy scheme helped many first-time buyers onto the property ladder, with the equity loan scheme helping to overcome some of the barriers faced with both deposits and the ability to qualify for a mortgage.

Help to Buy followed successive initiatives from different governments aimed at supporting households into home ownership more affordably. For several decades from the 1960s this took the form of support through the tax regime on mortgage interest payments. From the early 2000s onwards, recognising the growing evidence of undersupply of new housing and conscious of potential consequences of assisting demand with no supply-side component, governments focused first-time buyer support on assistance in purchasing new build homes. Examples of schemes that preceded Help to Buy include the First-Time Buyers Initiative (FTBI), Homebuy Direct and FirstBuy.

However, with no support for first-time buyers in place for more than 18 months and alongside diminished consumer confidence and reduced mortgage availability and affordability, the dream of homeownership is becoming an unrealistic one for many of today's younger households – particularly those without family wealth to fall back on.

This report analyses just how unaffordable homeownership has become and calls for a government intervention that will support more people on to the property ladder.

Affordability gap

Region	Average net monthly income	Average FTB house price	House price/income ratio	10% deposit
England	£2,073	£248,571	9.99	£24,857
North East	£1,796	£132,389	6.14	£13,239
North West	£1,847	£181,237	8.18	£18,124
Yorkshire and The Humber	£1,802	£174,275	8.06	£17,428
East Midlands	£1,826	£201,958	9.22	£20,196
West Midlands	£1,818	£207,107	9.49	£20,711
East	£1,917	£277,479	12.06	£27,748
London	£2,299	£446,280	16.17	£44,628
South East	£1,973	£296,095	12.50	£29,610
South West	£1,793	£258,925	12.03	£25,893
Wales	£1,823	£184,231	8.42	£18,423

Data source: HM Land Registry

Deposits and discretionary income

The affordability gap becomes greater still when looking at the size of deposits in comparison to income, particularly in the context of fast increasing rent costs and other household bills.

Region	Net monthly	Average rent (ONS)	Monthly bills (energy and council tax)	Monthly income after bills	Months needed to save deposit after bills	Deposit as % of annual income after bills
England	£2,073	£1276	£328	£469	53	442%
North East	£1,796	£658	£328	£810	16	136%
North West	£1,847	£817	£328	£702	26	215%
Yorkshire and The Humber	£1,802	£774	£328	£699	25	208%
East Midlands	£1,826	£801	£328	£696	29	242%
West Midlands	£1,818	£853	£328	£637	33	271%
East	£1,917	£1,126	£328	£462	60	500%
London[1]	£2,299	£1,425	£328	£546	82	681%
South East	£1,973	£1,272	£328	£373	79	662%
South West	£1,793	£1,100	£328	£365	71	591%
Wales	£1,823	£723	£328	£771	24	199%

[1] Monthly rent in London has been taken from the English Housing Survey

After bills, deposits for buyers in their 20s are nearly 4.5 times their annual discretionary income.

In reality, potential buyers would not be able to save all of their discretionary income. Looking at a more realistic saving of 50% of discretionary income, the average deposit in England would take almost nine years to save for.

For the more expensive regions, this rises further:

- In London, it would take more than 13.5 years to save the necessary deposit, based on a saving of 50% of discretionary income.
- In the South East, it would take just over 13 years.
- In the East of England, it would take over 10.5 years.

Mortgage rates

The proportion of income spent on mortgages has increased significantly over the past 20 years. While a period of lower interest rates in the years preceding the 2022 mini-budget meant monthly payments were somewhat more affordable, with mortgage rates now more comparable to historic averages, the average monthly payments have increased far quicker than wages.

	House price	Deposit	Mortgage rate	Monthly payment	Monthly payment as % of net salary
2004	£103,392	£10,339	5.07%	£504	47%
2014	£139,316	£13,932	4.34%	£623	47%
2024	£248,571	£24,857	5.45%	£1,263	67%

Qualifying for mortgages

Most banks and building societies will lend buyers between four and five times their salary. As house prices have risen at much faster rates than wages, the mortgages that FTBs qualify to borrow are not sufficient for local housing markets.

Region	Annual	Potential likely mortgage amount based on 4.5x salary	FTB house price	Remaining required (necessary deposit)
England	£29,669	£133,511	£248,571	£115,061
North East	£25,043	£112,694	£132,389	£19,696
North West	£25,901	£116,555	£181,237	£64,683
Yorkshire and The Humber	£25,137	£113,117	£174,275	£61,159
East Midlands	£25,539	£114,926	£201,958	£87,033
West Midlands	£25,419	£114,386	£207,107	£92,722
East	£27,058	£121,761	£277,479	£155,718
London	£33,434	£150,453	£446,280	£295,827
South East	£28,000	£126,000	£296,095	£170,095
South West	£25,000	£112,500	£258,925	£146,425
Wales	£25,487	£114,692	£184,231	£69,540

This means that, even as availability of 90% LTV mortgages for FTBs has increased in recent years, home ownership is not necessarily closer for many.

Description	Remaining required (necessary deposit)	Annual average income after rent/bills	Deposit to annual remaining income ratio
England	£115,061	£5,629	20.44
North East	£19,696	£9,715	2.03
North West	£64,683	£8,424	7.68
Yorkshire and The Humber	£61,159	£8,390	7.29
East Midlands	£87,033	£8,356	10.42
West Midlands	£92,722	£7,645	12.13
East	£155,718	£5,549	28.06
London	£295,827	£6,552	45.15
South East	£170,095	£4,476	38.01
South West	£146,425	£4,380	33.43
Wales	£69,540	£9,254	7.51

The Help to Buy Scheme was instrumental in bridging the homeownership gap in this regard, providing 20% loans to buyers so that they were able to access 75% LTV mortgages with just a 5% deposit.

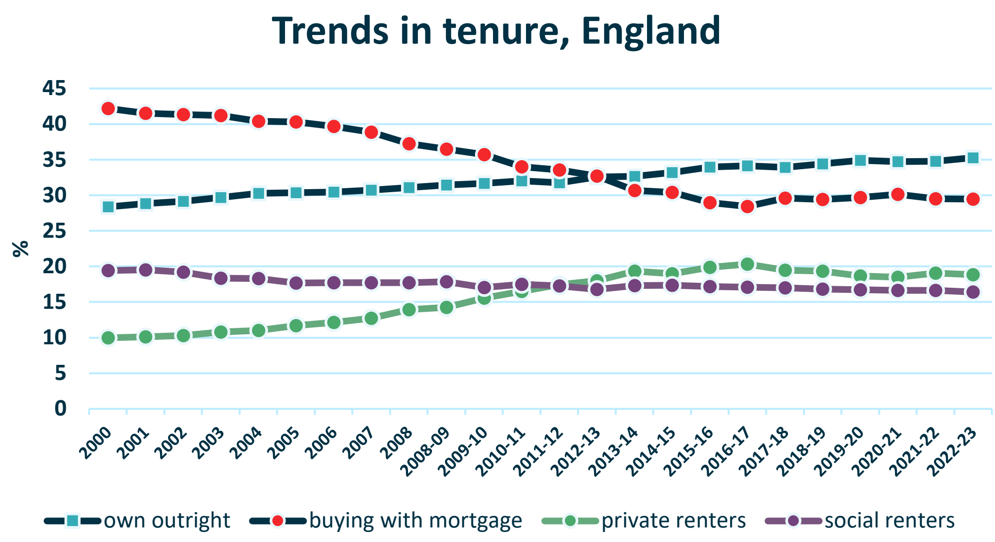
The scheme supported the purchase of almost 400,000 properties, the majority of which were first-time buyers.

57% of first-time buyers who used the Help to Buy Scheme had a deposit of 5% or less, and 24% used a deposit of 5.1-10%.

Impact on homeownership

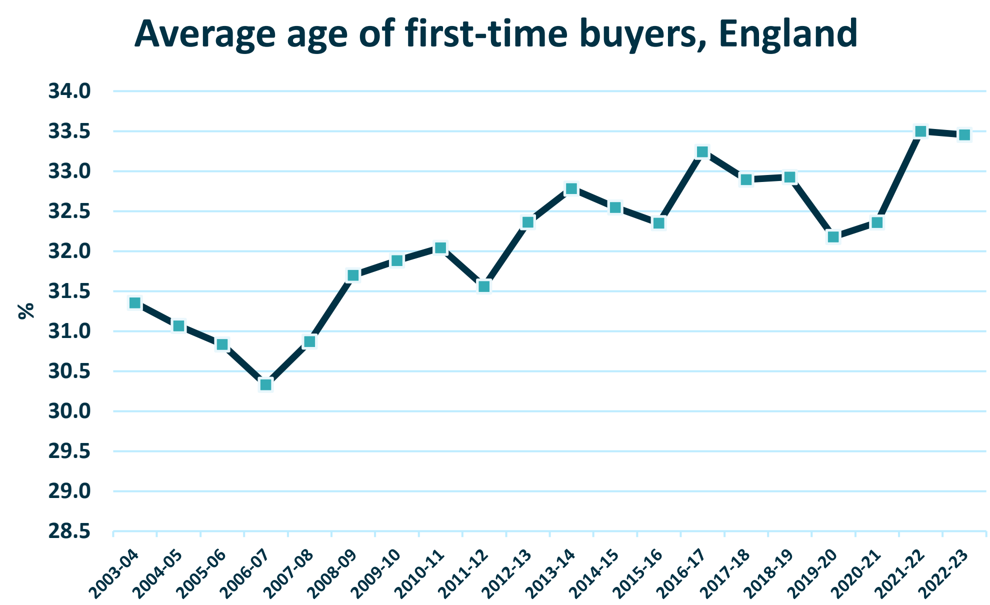
The multifaceted difficulties that younger generations face in getting onto the property ladder has seen the number of first-time buyers drop.

Homeownership has become more concentrated in a smaller number of households. Over the last decade, outright owners surpassed those with a mortgage, and the gap between private renters and mortgagors has narrowed. This represents a further entrenchment of wealth among property owners free of monthly mortgage repayments who are likely to be older households.



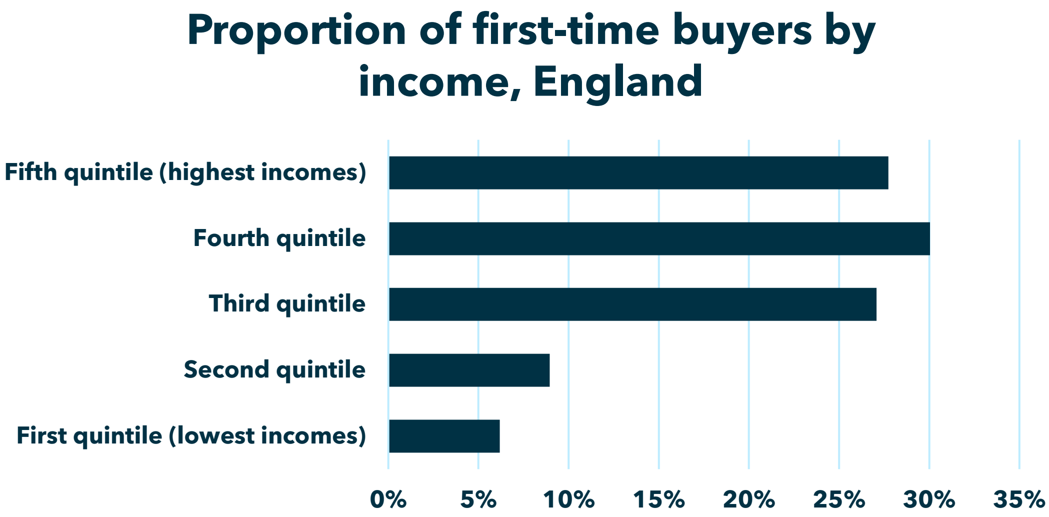
Data source: English Housing Survey

The average age of a first-time buyer has increased by over two years in the last 20 years.



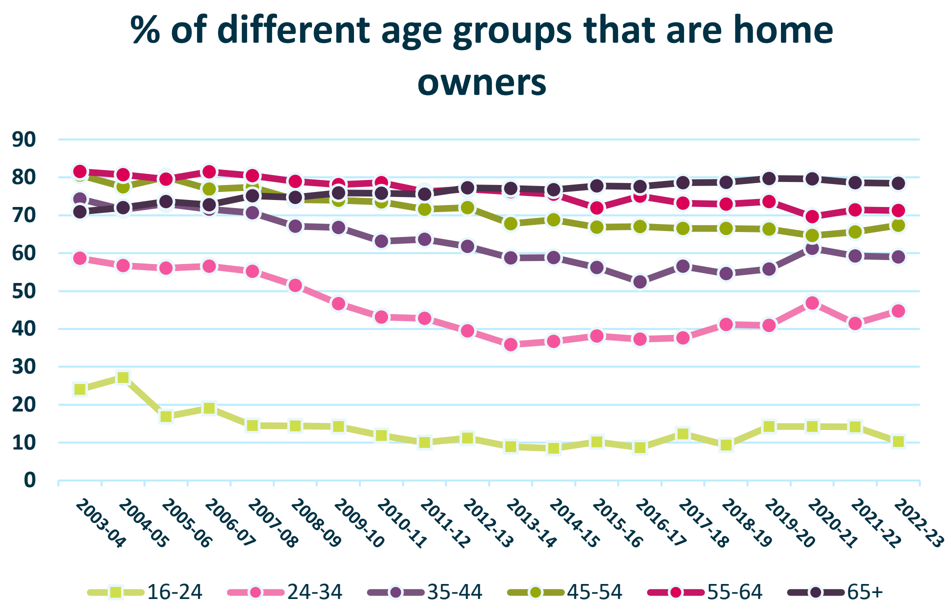
Data source: English Housing Survey

And those first-time buyers able to get their foot on the ladder are mostly above average earners, with over 50% in the top two quintiles last year.



Data source: [English Housing Survey]

Across a range of different age groups, home ownership has fallen over the last 20 years.



Data source: [English Housing Survey]

Between 2003-4 and 2022-23, homeownership:

- dropped from 24% to 10.3% among 16-24 year olds.
- dropped from 58.6% to 44.7% among 25-34 year olds.
- dropped from 74.3% to 59% among 35-44 year olds.
- dropped from 80.6% to 67.4% among 45-54 year olds.
- dropped from 81.5% to 71.3% among 55-64 year olds.

The 65+ age group is the only one that saw an increase during this time, growing from 71% to 78.4%.

CONCLUSIONS

These results show how difficult getting onto the property ladder is. A long-term undersupply problem has pushed house prices up and currently, for the first time in nearly 25 years, there is no government-backed support scheme to help with property purchases.

To genuinely bridge the homeownership gap, a new government/industry equity loan scheme should be established. A new equity loan scheme could support first-time buyers. A new scheme could:

- Boost first-time buyers' deposits, giving them access to new build mortgages which are more affordably priced
- See developers paying a fee similar to the 'commercial fee' payable by mortgage lenders for access to the Mortgage Guarantee Scheme
- Involve developers covering a portion of the upfront investment in the form of a fee which would see HMG retain the full equity share.

Under this proposed scheme, the first-time buyer would require a 5% deposit. This would be matched in the form of an equity loan from Government, which would include a developer fee from the participating developer, equivalent to 1% of the sales price. While the Exchequer has made a significant return on its investment in the Help to Buy initiative from the first 40% of equity loans that have been paid off by homeowners, a scheme that also provides an upfront fee from developers would offer even more investment return potential.

The Government should also consider working with lenders to expand the market for green mortgages. While lenders seem to offer more favourable LTV rates to those buying existing properties, the market for green mortgages for new builds remains very limited.

HBF's research on the running costs of new build and existing properties finds that those buying a new build house will save over £183 a month – over £2,200 a year.

When calculating whether a mortgage applicant can reasonably meet monthly mortgage repayments, a range of monthly costs are estimated. Despite the clear financial savings associated with newer properties and the presence of an Energy Performance Certificate to evidence this, typically homebuyers are assessed against one national average assumption for energy costs.

This affords no mortgage affordability benefit to those homebuyers who opt to purchase a more energy-efficient home with lower monthly running costs.

With mortgage affordability increasingly important to many households, lenders should progress mortgage products that offer tangible, financial incentives for homebuyers to make environmentally conscious, energy-saving choices.

ABOUT HBF

HBF is the representative body of the home building industry in England and Wales. Our members are responsible for providing around 80% of all new private homes.