

# Can first time buyer numbers keep on rising?

August 2019

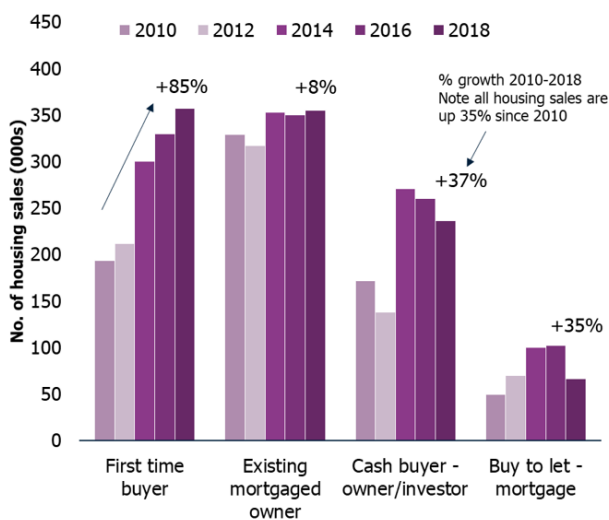
- First time buyers (FTBs) have been the driving force for housing sales in recent years. They were the largest group of purchasers in 2018 - 36% of all sales - and are expected to remain so in 2019.
- This report examines the key drivers of FTB purchases and outlook. Growth in FTBs is expected to be driven in regional markets where affordability remains attractive, supported by availability of higher LTV mortgages.
- FTBs are not trying to purchase lower value homes and appear to be taking a longer-term view.

## First time buyers driving force for housing sales

In recent years, first time buyers (FTBs) have been the driving force behind housing sales. FTB numbers have grown for 8 consecutive years, up 85% since 2010, outpacing other buyer groups (Fig. 1).

FTBs were the largest purchaser group in 2018, accounting for over a third (36%) of all UK housing sales and half of all mortgages for home purchase. Help to Buy (HTB) schemes have supported this growth and we estimate 14% of all FTB purchases used HTB in 2018.

Fig. 1 – Housing sales by buyer group

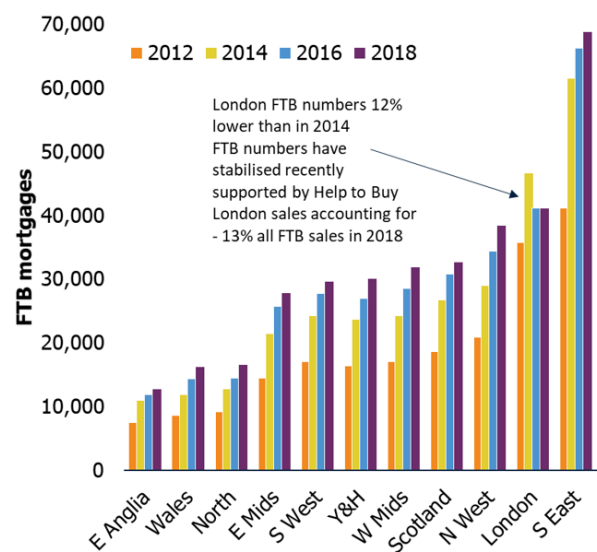


Source: Zoopla Research, HMLR, ROS, UK Finance

## Numbers rising across all regions except London

FTB numbers have been increasing across all regions except for London although the rate of increase has started to slow more recently (Fig.2). Numbers in London have fallen 12% since 2014, although this is a smaller decline than the 25% drop in overall sales across the London market. This partly reflects support from HTB which we estimate to account for 13% of all FTB purchases in London in 2018.

Fig. 2 – FTB mortgages regionally 2012-2018



Source: UK Finance

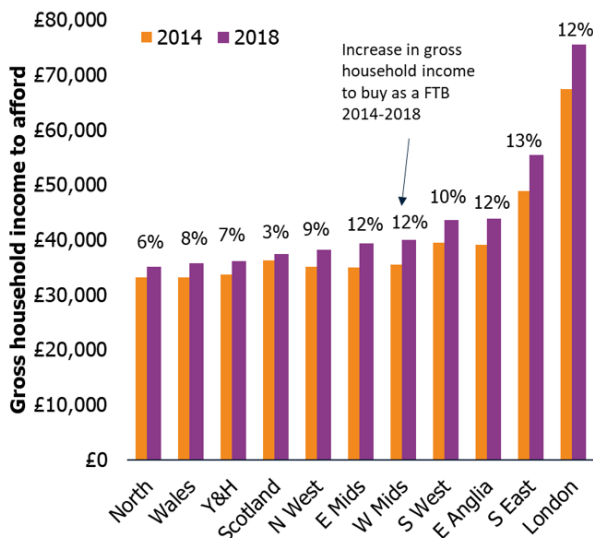
## Income to buy for FTBs has increased 6-12%

Slower growth in FTB numbers is largely a result of affordability factors. The growth in residential values since 2013 has not been uniform. In areas where prices have grown rapidly the income required to buy, and deposit levels, are relatively high. In areas where price growth has been more modest, affordability levels remain less of a constraint on demand.

We estimate that the household income required to purchase a typical (2-3 bed) FTB priced property (10%-15% lower than an average home) ranges from £35,000 in the North to £75,000 in London (Fig.3).

Deposit levels have also increased since the global financial crisis averaging 23% of the purchase price today, compared to 9% in the mid 1990's (UK Finance). The average FTB deposit currently ranges from £26,000 in the North to £140,000 in London.

Fig. 3 – Household income to buy an FTB property



Source: Zoopla Research calculations, UK Finance

**Loan to income caps limit affordability of 90%+ loans**

It is not just higher house prices and larger deposits that FTBs need to overcome. The picture has been complicated by increased mortgage regulation – specifically loan to income (LTI) limits and affordability testing. Banks are limited on the share of lending they can make over 4.5x the borrowers’ income. These LTI limits impact the ability to take larger loans in high priced markets like London which keeps demand in check and results in slower growth in FTB numbers.

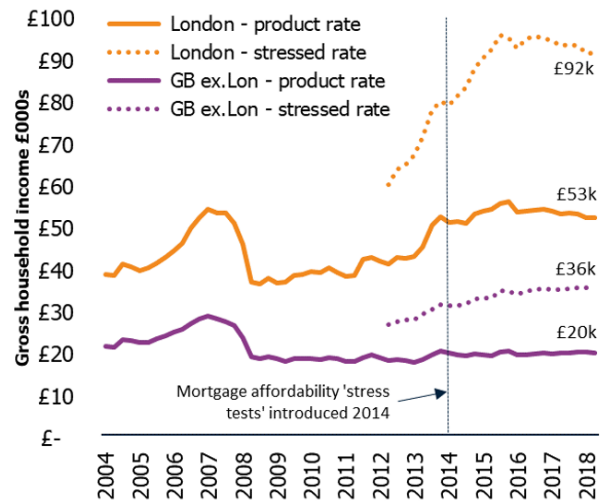
**Affordability stress tests create extra hurdle**

Mortgage affordability tests, introduced in 2014, create a further hurdle for FTBs. The income to buy shown in Figure 3 assumes the borrower pays a mortgage product rate of 2.4%. Affordability testing requires that a buyer can afford a higher, ‘stressed’ mortgage rate closer to 6.5% or 7%.

Figure 4 tracks the household income to buy a 2-bed home in London and Great Britain excluding London at both the mortgage product rate and a ‘stressed’ rate. While a household in London could afford the regular mortgage repayments on a household income of £53,000, they need to prove to the bank they can afford higher payments equivalent to being on an income of around £92,000 in order to buy.

Outside London, the impact is less pronounced, and a typical household requires an income of £36,000 to buy at the stressed mortgage rate. No surprise that FTB numbers continue to increase in regional housing markets with many buyers looking to buy larger homes.

Fig. 4 – Income to buy 2 bed - London / GB ex London



Source: Zoopla Research, UK Finance

**Longer mortgage terms and FTB stamp duty relief**

Other factors influencing FTB numbers are a trend towards longer mortgage terms, which provide an additional boost to buying power, and stamp duty relief. Changes to stamp duty in 2017 means 70% of FTBs got full or partial relief from Stamp Duty Land Tax (SDLT) in 2018/19 in England and Northern Ireland.

Data for 2017/18 suggests an average saving of £2,300 rising to £4,300 in London. This relief is welcome for those that benefit but the amounts are small relative to deposit levels required. FTBs paying over £300,000 still pay 5% SDLT on the excess up to £500,000 and 30% of FTBs still pay the full SDLT. This is an extra cost that falls on buyers in high value markets.

**Options to boost affordability and buying power**

Given the growing constraints facing FTBs looking to purchase a home in southern England there are two options to boost buying power. First is to buy cheaper property and second is to take advantage of greater availability of higher LTV mortgages of >90%.

**FTBs are not buying cheaper properties**

Comparing the average purchase price for FTB homes and pricing across the wider market reveals little evidence that FTBs are buying cheaper homes as a response to affordability pressures. In fact, the gap between the average price paid by FTBs and all buyers has been narrowing over the past two decades (Fig. 5).

In 2018 FTBs were buying property with average prices c.8-15% lower than the regional average for all housing. This contrasts with pre-2007, when FTBs were buying homes 20% to 25% below the regional average.

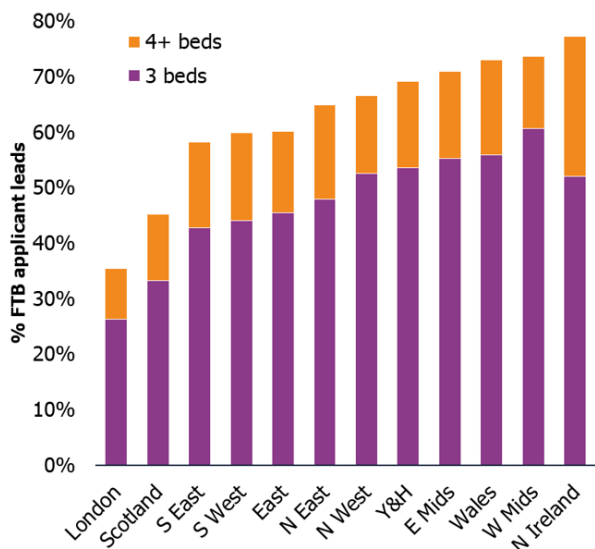
**Fig. 5 FTB purchase price as % overall average price**



Source: Zoopla Research, UK Finance

This suggests that FTBs are not compromising on size of home, aiming for slightly larger homes than they may have previously bought. FTBs appear to be taking a longer-term view which is supported by the fact that this group are taking out mortgages with longer terms, averaging 30 years today compared to 25 years over a decade ago. Longer mortgage terms enable buyers to pay those few extra percentage points for a home but mean a longer period to repay the mortgage.

**Fig. 6 Zoopla’s FTB demand by size of property 2018**



Source: Analysis of Zoopla.co.uk applicant leads

**Zoopla data shows most FTBs want a 3 bed home**

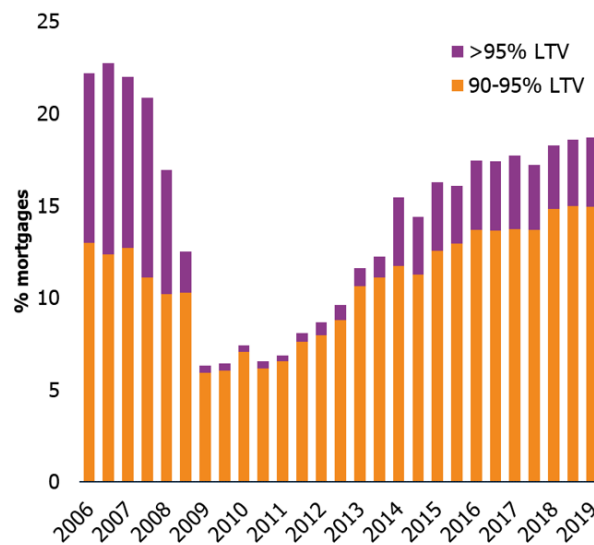
Zoopla data shows that a third of FTB demand in 2018 was for flats and two third houses. Excluding London this increases to 80% houses with an average 2.9 bedrooms. The expectations on size of home are greatest in the most affordable markets. Fig. 6 shows the % of FTBs seeking 3 and 4+ bed homes by region.

**Higher loan to value mortgages**

Greater availability of higher loan to value mortgages will support a growing cohort of FTBs. Five years ago, 90%+ LTV loans were less available and came at a high price (mortgage rate). The availability of higher loan to value mortgages has been steadily increasing.

The latest data shows that mortgages at or over 90% LTV accounted for 19% of all mortgage lending in 2019Q1 – a post crisis high. The average mortgage rate on 90% LTV loans has also declined in recent years and is less than 1% higher than the rate for a 75% loan.

**Fig. 7 Rise of mortgages at or over 90% LTV**



Source: FCA Product Sales Data and BoE calculations

Higher loan to value mortgages will support FTB numbers in regional markets while affordability tests and loan to income limits will keep demand in check in the higher value markets.

### **FTBs to remain largest buyer group in 2019**

This analysis has demonstrated the complexities and challenges facing FTBs and how policy and regulation is starting to shape parts of the housing market, particularly in higher value areas.

The outlook for FTB numbers is very much a function of affordability and future policy changes around schemes such as Help to Buy and any further changes to stamp duty. Despite growing headwinds in parts of the country, we expect FTBs to remain the largest buyer group in 2019 holding steady at 36% of sales.

### **Flat FTB volumes in London and South East**

The outlook for FTB numbers is more challenging in higher value markets across southern England where large deposits and higher incomes to buy mean a shrinking pool of potential buyers.

We expect FTB numbers to hold at or around current levels for the next year to 18 months in southern England with ongoing reliance on families to support FTBs with deposits and continued innovation in mortgage products which will support purchases at the margins.

### **Room for growth in regional markets**

Weaker growth in FTBs in London and the South East will be offset by sustained growth in the regional markets where affordability pressures are less of a constraint on demand and where greater availability of higher loan to value mortgages will support purchases. The greatest potential is in the North West and Scotland where growth in FTB numbers has been most robust recently.

### **Impact of changes to Help to Buy?**

External factors aside, changes planned for Help to Buy in England from 2021 appear most likely to impact the medium-term outlook. Fourteen percent of all FTB transactions are funded with the support of Help to Buy across England, Wales and Scotland. Changes to the nature of these schemes could have a knock-on impact for FTB numbers but this could be offset by higher loan to value lending and other forms of tenure such as shared ownership. However, as a group they will remain an important group of buyers and source of demand for the UK housing market.