

Help to Buy

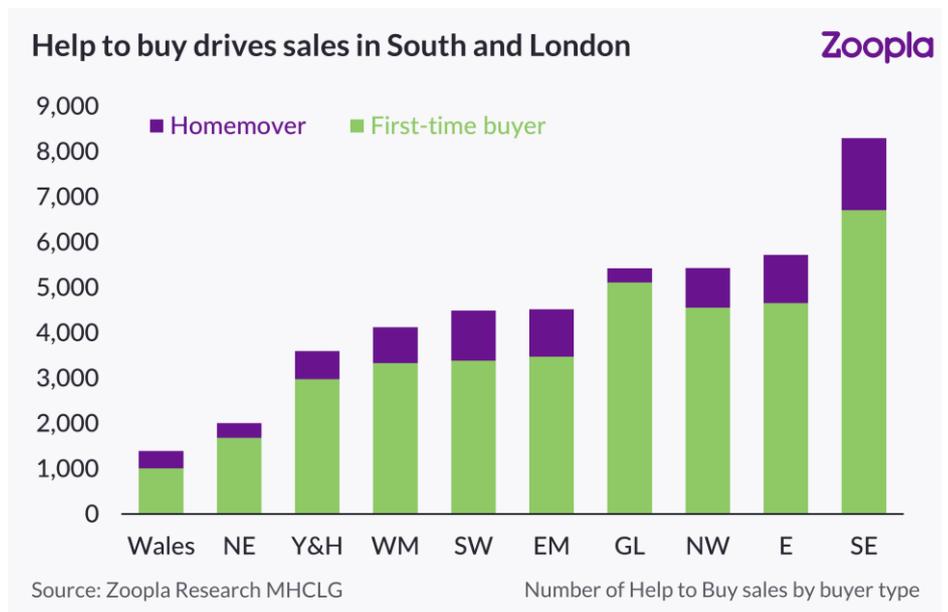
Do builders need to change their approach from April 2021?

300k
Homes sold using
Help to Buy equity
loan since 2013

Summary

- Help to Buy is due to change from April 2021 in England and Wales. In England, the scheme will be only available to first-time buyers with regional price caps introduced to better reflect the local new homes market.
- In Wales, the scheme remains open to homeowners but has also seen its cap changed to £250,000. This scheme is available to March 2023 in England, with Wales running to the end of 2022 with an option for an extra year, subject to availability of funding.
- To understand the impact the changes to Help to Buy may have on future delivery we have analysed sales recorded by the NHBC for homes sold in 2020 that were eligible for the initial Help to Buy scheme and applied the new 2021 caps for England and Wales.
- This shows that 43% of new build homes sold in 2020 that were eligible for Help to Buy equity loan would now be above the new price caps.
- we expect to see a more challenging market emerge for 4+ bed homes in the North, Midlands and the more expensive parts of the South as builders are forced to cast their net beyond Help to Buy and target new audiences to maintain sales rates and pricing.

Number of Help to buy loans (12m to Sept 2020)



Introduction

The Government introduced the Help to Buy equity loan scheme in April 2013 to address the fall in property sales following the 2008 financial crisis and the introduction of tighter lending requirements over the availability of high LTV and LTI mortgages.

The current scheme offers home buyers an equity loan of up to 20% (40% in London) of the sale price for new-build property capped at £600,000 and £300,000 for England and Wales, respectively. As of September 2020, the 2013-20 scheme had helped over 300,000 buyers into homeownership, with first-time buyers accounting for 82% of Help to Buy sales and 15% of all first-time buyer sales in 2018/19.

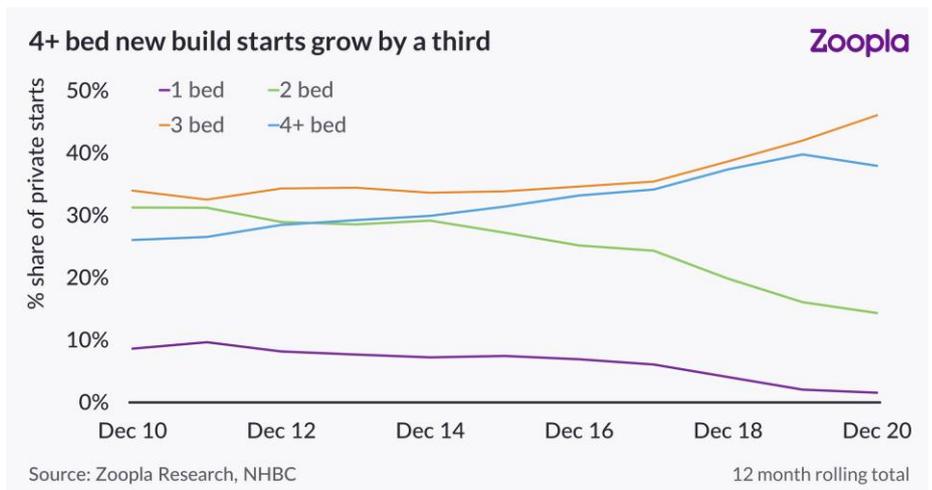
From April, the scheme in England will be limited to first-time buyers and introduces regional caps to align with local house prices more closely. The Welsh scheme remains open to all homebuyers but has also seen its cap reduced, falling by £50,000 to £250,000.

After the Help to Buy scheme was introduced in 2013, unit mixes across sites started to change, with more three and four-bed homes being delivered. There has been little move away from this trend since the 2021 changes to Help to Buy were announced in late 2018,

The chart below shows that although the number of private starts of 4+ beds in England and Wales has fallen slightly over the 12 months to Dec 2020, 3 and 4+ bed homes still account for 78% of future supply. Considering the coming changes, and that first-time buyers have predominantly used the scheme to buy less expensive 1-3 bed properties, builders could be confronted with a more challenging sales environment for larger properties over the next two years.



Private starts by bed count





Which properties will the price caps impact?

By examining new homes sales in 2020 that were eligible for Help to Buy under the current programme and applying the new price caps we begin to see which property types may be affected, and in which regions, as we move beyond April.

The table below shows that 43% of homes sit above the price cap. Note that London's price cap has remained unchanged, so the properties sold in 2020 could still use Help to Buy.

This ranges from 30% in the East of England, to 66% in the North East of England - although in absolute terms this is a smaller number, as new homes sales in the North East make up 4.5 % of all Help to Buy completions

As we examine the types of homes that fall above the price caps, it becomes clear that four-bed homes make up most of new homes affected. Some 68% of sales above the 2021 caps are 4+ bed properties ranging from 72% in the North East and South West to 59% in the West Midlands. 28% of homes above the cap are 3 beds with the West Midlands, South East and Wales seeing a third sales fall above their respective caps

Given that current new homes pipelines closely resemble 2020 levels, this suggests that by proportion of new homes affected, developments in the North East will see the highest proportion of properties fall outside the price caps. However, in absolute terms, the area where the biggest number of homes that will no longer be eligible for Help to Buy is the North West .

Proportion of 2020 sales over regional price caps by bed count

Region	HTB sales (12m to Sept 2020)	% of sales above 2021 cap	Proportion of new homes		
			1- 2 bed	3 bed	4+ bed
Wales	3.1%	33.1%	0.4%	11.9%	20.8%
North East	4.5%	65.7%	0.8%	17.6%	47.3%
Yorkshire & H	8.0%	56.0%	3.7%	13.6%	38.8%
West Midlands	9.2%	61.0%	4.2%	20.7%	36.1%
East Midlands	10.0%	57.5%	1.1%	15.4%	41.0%
South West	10.0%	37.9%	1.6%	9.3%	27.4%
North West	12.1%	57.8%	3.1%	14.6%	40.2%
East of England	12.7%	30.1%	2.3%	7.7%	20.2%
South East	18.4%	31.1%	1.7%	9.5%	19.8%
London*	12.1%	N/A	N/A	N/A	N/A

Source: Zoopla Research, MHCLG, Stats Wales, NHBC

* London price cap has remained unchanged at £600,000

Where is the risk concentrated?

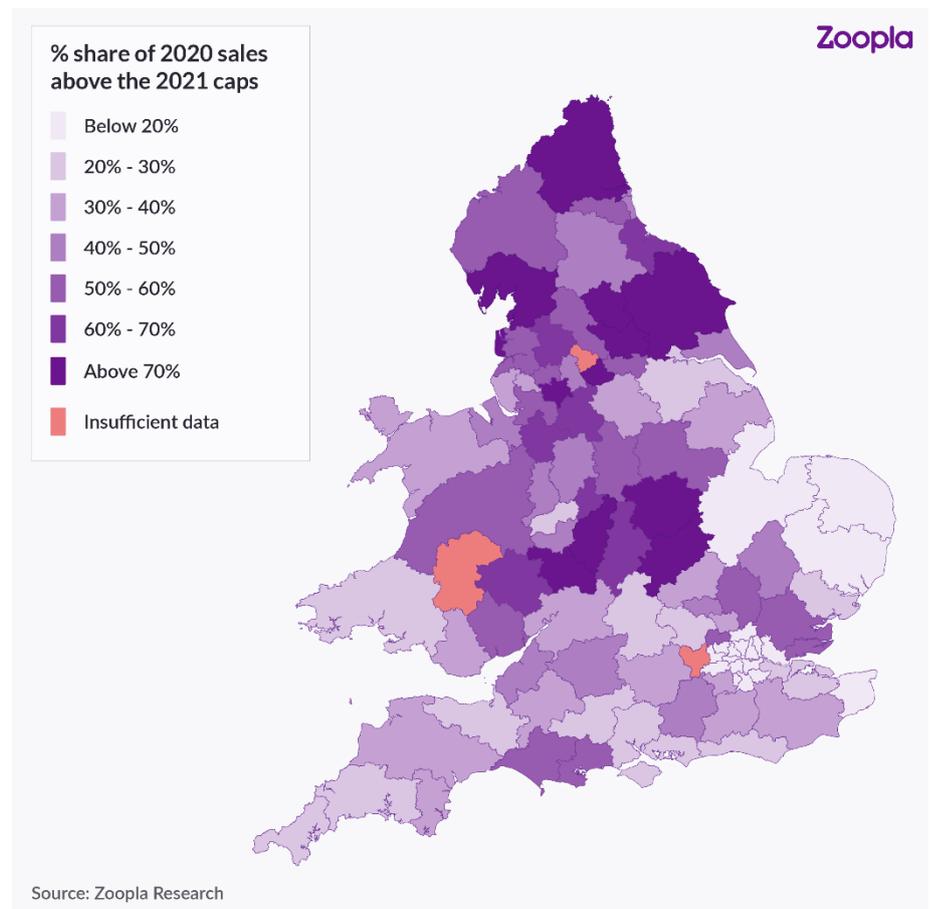
The map below shows the proportion of sales in 2020 above the 2021 cap by postcode area that were previously eligible for Help to Buy under the 2013-21 programme. The areas highlighted pink have been excluded from the analysis owing to low sample counts (less than 20 sales in the year).

Apart from London, where the £600,000 threshold has remained the same, the impact of the price caps change can be seen nationally with the Midlands and the North most affected.

Although only 5% of all new homes sales nationally, two-thirds of transactions in the North East fall outside of the caps with Newcastle-upon-Tyne seeing 78% of sales above the cap. The Midlands and North account for a larger share of new homes sales at 41% but have a similar proportion of new homes above the cap at just under 60%.

The South and Wales see just over a third of new homes sales above their respective caps, with the London commuter belt areas having the highest share of new homes no longer eligible for Help to Buy.

Share of 2020 sales over regional price caps



Conclusion

Housebuilders have reported strong forward-sales in advance of the caps changing supported by demand caused by buyers looking to benefit from the stamp duty holiday and the search for space following COVID-19

As such, consideration around the new price caps may be pushed back slightly. Once they come to the fore again however, our analysis suggests that schemes which have relied on Help to Buy to assist buyer uptake across all price bands may see a sharper impact from the new price caps.

The new caps will likely prompt some reflection around unit mix, or for those schemes where this is not possible, more focus on engaging buyers who have ready access to more sizeable deposits and mortgage finance for larger, 'above-cap' new homes.

In the longer term, builders are faced with a dilemma: in the absence of HTB how will the industry maintain delivery, especially in the South and London where the affordability gap still presents a barrier to homeownership? An industry-led response may be the answer but whether it will have the same reach and scale as Help to Buy is uncertain.

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