

[Embargoed until 28/10/2010 00:00]

# Broken Ladder



A Report into the Affordability Gap  
Faced by First Time Buyers

28 OCT 2010





E R

Bank of England  
I PROMISE TO PAY THE BEARER ON DEMAND  
462192  
London  
For the Gov<sup>rs</sup> and Comp<sup>rs</sup>  
of the BANK of ENGLAND

7 462191  
London  
the Gov<sup>rs</sup> and Comp<sup>rs</sup>  
the BANK of ENGLAND

England  
ON DEMAND THE SUM OF  
TWENTY  
Pounds  
Andrew Bailey  
Chief Cashier  
VERNOR AND COMPANY OF THE BANK OF ENGLAND

## KEY FINDINGS

- Across the UK, first time buyers aged between 22 and 29 have to save 45% of their take home pay every month for 5 years to afford a deposit.
- In London first time buyers aged between 22 and 29 have to save around 60% of their take home pay every month for 5 years.
- Across the UK, first time buyers aged between 30 and 39 have to save 35% of their take home pay every month for 5 years to afford a deposit.
- In London first time buyers aged between 30 and 39 have to save around 45% of their take home pay every month for 5 years.

*These figures do not take into account any bills, living expenses or even student loan repayment.*

### When average private rent is taken into account:

- First time buyers across the UK who are aged between 22-29 and also saving for a deposit will have just 13% of their monthly net income remaining for council tax, bills and living expenses.
- In London, first time buyers aged between 22 and 29 cannot pay their rent and save for a deposit – this would cost 10% more than their net monthly income.

*The average deposit across the UK is 230% that of average salaries – almost 300% in London.*



**In 2009 there were fewer homes built than in any peacetime year since 1924.**

## BROKEN LADDER

The average age of a first time buyer purchasing without financial assistance has now gone up to 37.

Nearly a third of men and a fifth of women aged 20-34 are living with their parents.

In 2007 first time buyers' numbers fell to their lowest level for 30 years, they are yet to recover significantly.

A YouGov and Council of Mortgage Lenders survey revealed that the biggest problem in housing is seen as the fact that young people cannot afford to buy, or take on too much debt to do so, cited by 80% of respondents.

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## Background

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Over the last couple of years there has been much written about the plight facing young people trying realise their aspirations to own a home. This aspiration is as strong as ever with most surveys showing around 80% of households want to be owner-occupiers. Constant references are made to the increasing age of the first time buyer, high house prices, mortgage availability and the size of deposits needed as lenders tightened criteria for borrowing. It is generally accepted that servicing mortgages is not the problem – most private rent is at a similar level to that of mortgage repayments – but that the first hurdle, the deposit, is holding thousands of people back.

What hasn't been investigated fully is the real effect of the affordability gap which has opened up – what saving for a house means in literal terms to the budgets of young people.

This report sets out to reveal the true cost of saving for a deposit in the current climate – and how difficult it is. Some first time buyers are able to access finance through their parents who themselves are having to make financial sacrifices to enable their children to access housing. In 2009, 90% of first time buyers needed support from their families. 'Those that don't have that help face a hard task ahead of them – in some cases impossible.

To calculate how difficult it is for young people to save for the deposit [sources in appendix] the report identified average house prices across the regions in England to find average deposits.

The figures used for house prices are the most recent mix-adjusted Q2 figures from CLG and deposits were calculated using the Council of Mortgage Lenders' statistics from end Q2 – average Loan to Value for first time buyers was 76%.

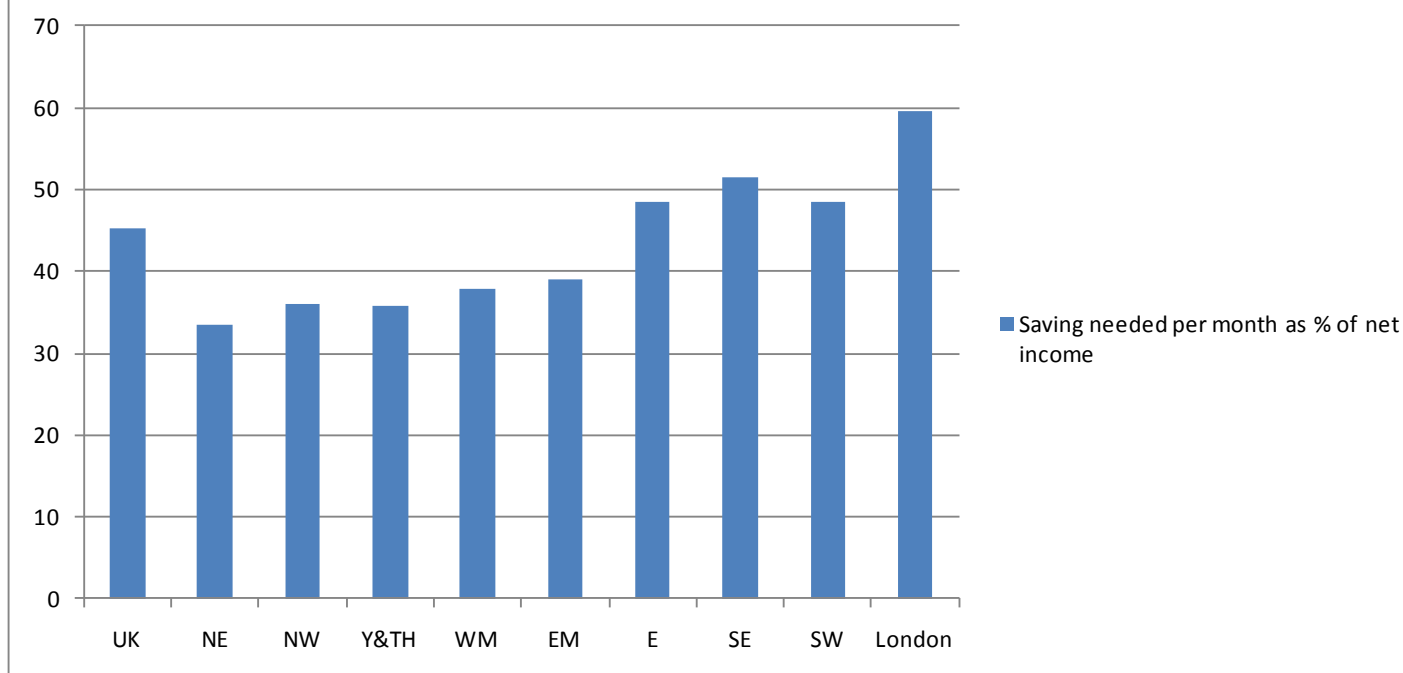
The study then used the most recent figures for average salaries across the regions in England, taking age groups 22-29 and 30-39.

By taking the net (i.e. take home) monthly income – excluding any student loan payments – of young people in each region it was possible to analyse the true ability of them to save the necessary amount for a deposit over a five year period.

## Facts – Percentage of net monthly income needed to save for a deposit

AGED 22-29				5 Year Saving			
Region	Ave House Price for First Time Buyer (£)	Deposit Needed (£)	Average net monthly income (£)	Savings necessary per year (£)	Savings necessary per month (£)	Saving needed per month as % of net income	Months needed to save with no outgoings
UK	155139.8	37233.55	1368.26	7446.71	620.56	45	27
NE	105941.4	25425.94	1263.38	5085.19	423.77	34	20
NW	117268.4	28144.42	1300.24	5628.88	469.07	36	22
Y&TH	114362.37	27446.97	1277.36	5489.39	457.45	36	21
WM	119273.39	28625.61	1261.31	5725.12	477.09	38	23
EM	126491.32	30357.92	1296.79	6071.58	505.97	39	23
E	161760.92	38822.62	1335.72	7764.52	647.04	48	29
SE	182501.78	43800.43	1414.44	8760.09	730.01	52	31
SW	154397.49	37055.4	1274.14	7411.08	617.59	48	29
London	259931.36	62383.53	1747.76	12476.71	1039.73	59	36

**Saving needed per month as % of net income - aged 22-29**

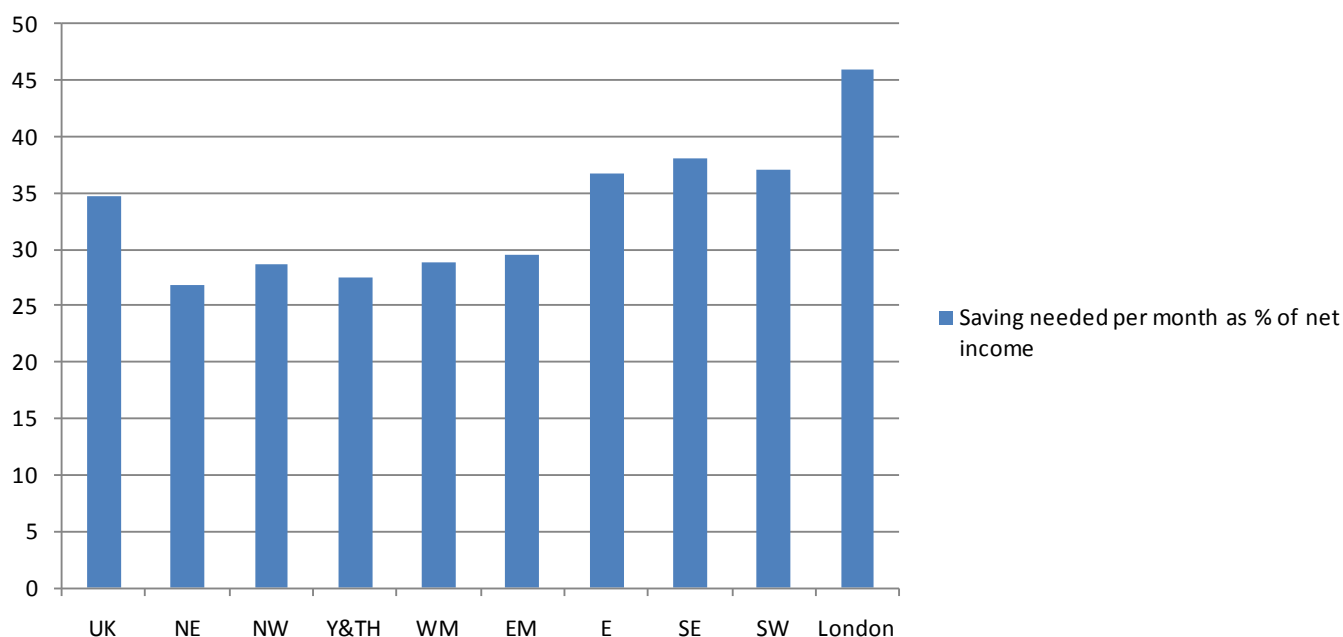


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## Facts – Percentage of net monthly income needed to save for a deposit

AGED 30-39				5 Year Saving			
Region	Ave House Price for First Time Buyer (£)	Deposit Needed (£)	Average net monthly income (£)	Savings necessary per year (£)	Savings necessary per month (£)	Saving needed per month as % of net income	Months needed to save with no outgoings
UK	155139.8	37233.55	1368.26	7446.71	620.56	45	16
NE	105941.4	25425.94	1263.38	5085.19	423.77	34	17
NW	117268.4	28144.42	1300.24	5628.88	469.07	36	17
Y&TH	114362.37	27446.97	1277.36	5489.39	457.45	36	17
WM	119273.39	28625.61	1261.31	5725.12	477.09	38	18
EM	126491.32	30357.92	1296.79	6071.58	505.97	39	22
E	161760.92	38822.62	1335.72	7764.52	647.04	48	23
SE	182501.78	43800.43	1414.44	8760.09	730.01	52	22
SW	154397.49	37055.4	1274.14	7411.08	617.59	48	28
London	259931.36	62383.53	1747.76	12476.71	1039.73	59	36

**Saving needed per month as % of net income - aged 30-39**



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# Saving while Renting (Privately)

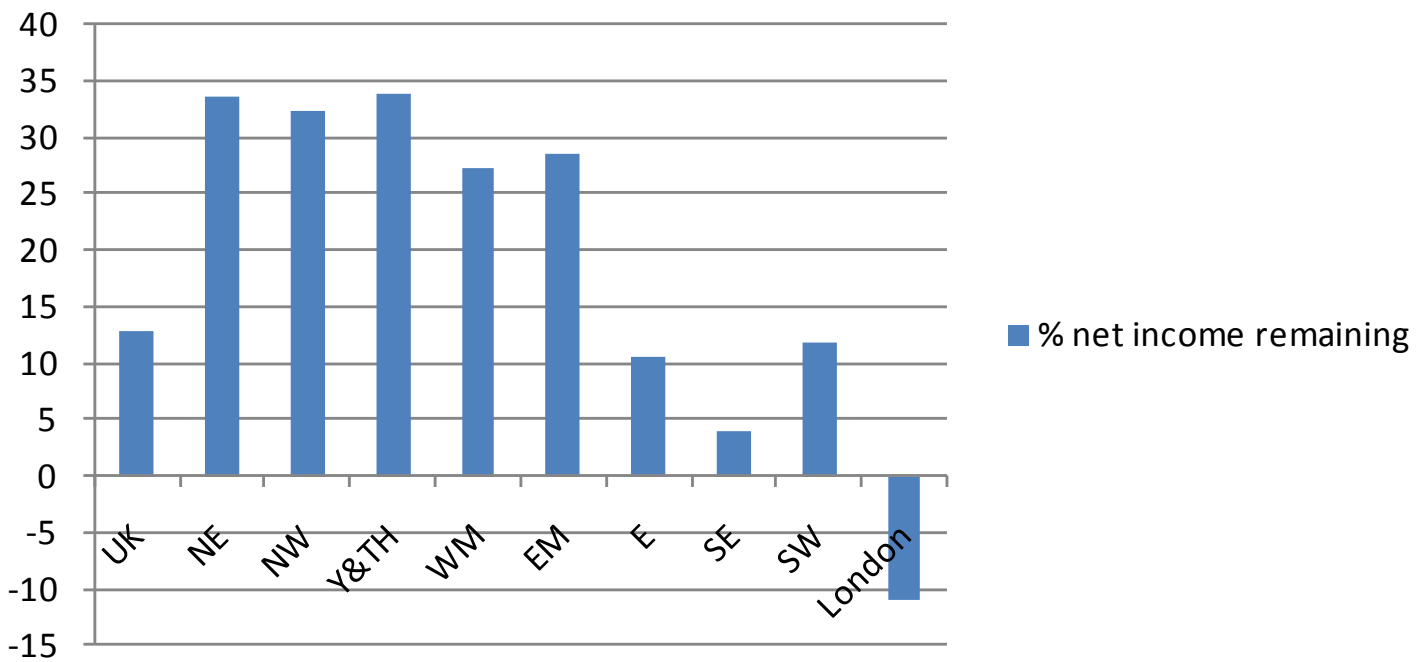
AGED 22-29							Private Rent		
Region	Ave House Price for First Time Buyer (£)	Deposit Needed (£)	Average net monthly income (£)	Savings necessary per month (£)	Saving needed per month as % of net income	Average private rent payment per month (£)	Average Rent as % of net monthly income	Total % of rent and savings	% net income remaining
UK	155139.8	37233.55	1368.26	620.56	45	574	42	87	13
NE	105941.4	25425.94	1263.38	423.77	34	417	33	67	33
NW	117268.4	28144.42	1300.24	469.07	36	411	32	68	32
Y&TH	114362.37	27446.97	1277.36	457.45	36	388	30	66	34
WM	119273.39	28625.61	1261.31	477.09	38	440	35	73	27
EM	126491.32	30357.92	1296.79	505.97	39	422	33	72	28
E	161760.92	38822.62	1335.72	647.04	48	548	41	89	11
SE	182501.78	43800.43	1414.44	730.01	52	627	44	96	4
SW	154397.49	37055.4	1274.14	617.59	48	507	40	88	12
London	259931.36	62383.53	1747.76	1039.73	59	900	51	111	-11

AGED 30-39							Private Rent		
Region	Ave House Price for First Time Buyer (£)	Deposit Needed (£)	Average net monthly income (£)	Savings necessary per month (£)	Saving needed per month as % of net income	Average private rent payment per month (£)	Average Rent as % of net monthly income	Total % of rent and savings	% net income remaining
UK	155139.8	37233.55	1783.87	620.56	35	574	32	67	33
NE	105941.4	25425.94	1577.91	423.77	27	417	26	53	47
NW	117268.4	28144.42	1632.25	469.07	29	411	25	54	46
Y&TH	114362.37	27446.97	1660.13	457.45	28	388	23	51	49
WM	119273.39	28625.61	1655.88	477.09	29	440	27	55	45
EM	126491.32	30357.92	1710.22	505.97	30	422	25	54	46
E	161760.92	38822.62	1759.32	647.04	37	548	31	68	32
SE	182501.78	43800.43	1921.53	730.01	38	627	33	71	29
SW	154397.49	37055.4	1664.5	617.59	37	507	30	68	32
London	259931.36	62383.53	2265.15	1039.73	46	900	40	86	14

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% net income remaining, shows a signifact loss in London.

## % net income remaining



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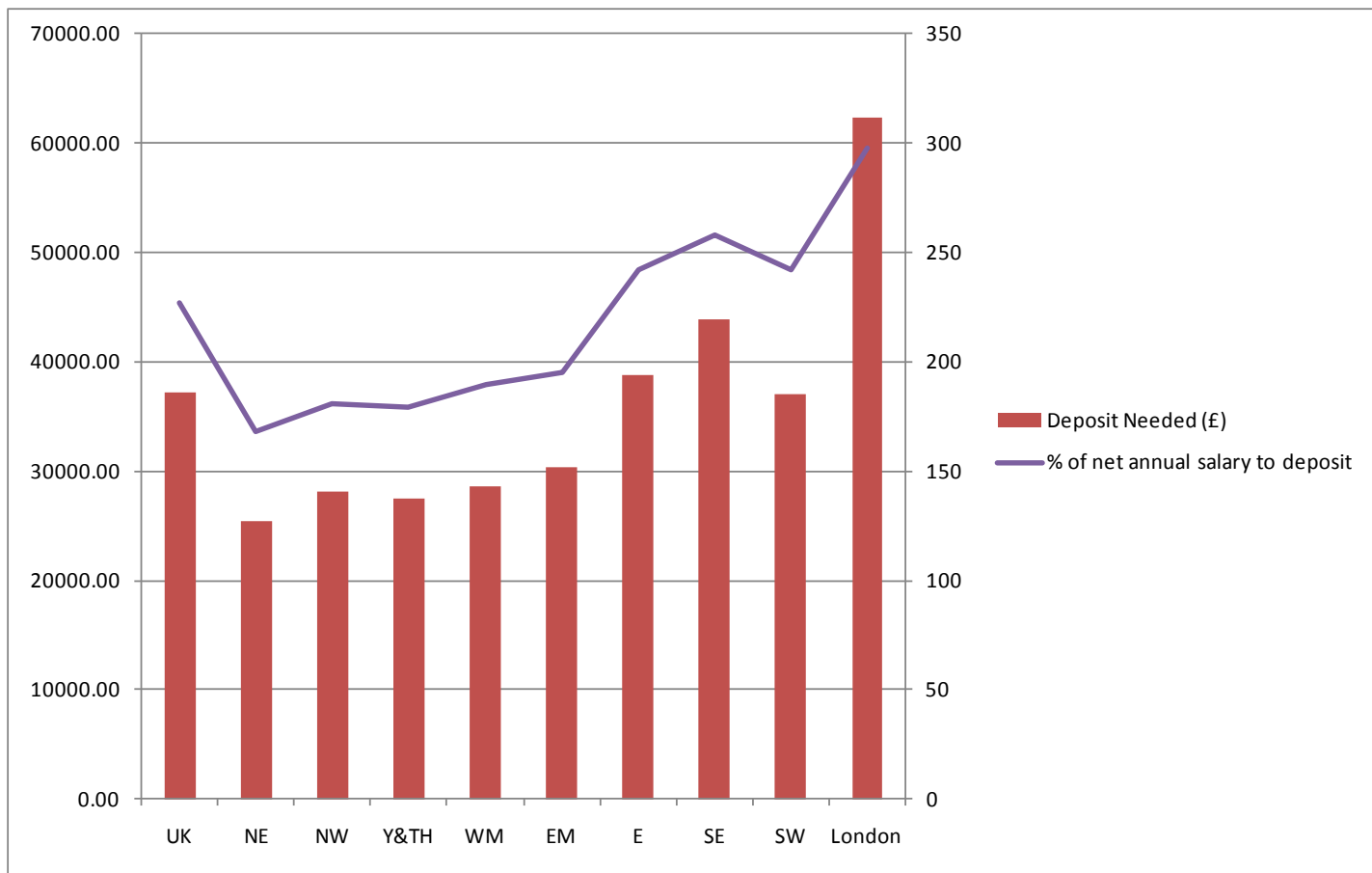
## Percentage Annual Salary to Deposit

AGED 22-29				
Region	Ave House Price for First Time Buyer (£)	Deposit Needed (£)	Average Net Annual Salary (£)	% of net annual salary to deposit
UK	155139.8	37233.55	16419.17	227
NE	105941.4	25425.94	15160.61	168
NW	117268.4	28144.42	15602.9	180
Y&TH	114362.37	27446.97	15328.28	179
WM	119273.39	28625.61	15135.77	189
EM	126491.32	30357.92	15561.5	195
E	161760.92	38822.62	16028.63	242
SE	182501.78	43800.43	16973.24	258
SW	154397.49	37055.4	15289.64	242
London	259931.36	62383.53	20973.17	297

AGED 30-39				
Region	Ave House Price for First Time Buyer (£)	Deposit Needed (£)	Average Net Annual Salary (£)	% of net annual salary to deposit
UK	155139.8	37233.55	21406.49	174
NE	105941.4	25425.94	18934.91	134
NW	117268.4	28144.42	19586.96	144
Y&TH	114362.37	27446.97	19921.61	138
WM	119273.39	28625.61	19870.55	144
EM	126491.32	30357.92	20522.6	148
E	161760.92	38822.62	21111.86	184
SE	182501.78	43800.43	23058.35	190
SW	154397.49	37055.4	19974.05	186
London	259931.36	62383.53	27181.79	230

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# Percentage Annual Salary to Deposit and Deposit Needed – Aged 22-29



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## Case-study



Katie Buckett, aged 26, lives with her boyfriend Matt in Battersea, South West London. They are currently renting a one bedroom flat and paying £1200 a month. After two and a half years together they decided to try and buy somewhere.

**“we have no chance of buying a home for many years to come, despite the fact we are earning more than many people our age.”**

Katie works in PR and her partner is a railway infrastructure engineer and between them they earn around £80,000.

Since getting together they have saved hard and managed to build up a nest egg of around £14000. This they hoped would help them take their first step onto the property ladder.

However, to have any chance of getting a mortgage, the bank told them that they needed a 25% deposit – which for the average First Time Buyer home in the capital equates to around £62,383.

But, whilst paying rent of £1200 a month, plus other monthly outgoings of around £2300, they have found it impossible to save more than around £760 a month.

This means that it will take those just over five years to save the deposit required for a £250,000 property in London, despite having £14,000 saved already.

Speaking today, Katie said;

“We have saved really hard for the past 2 years and had built up a nest egg we thought would enable us to get a mortgage and buy our first home together. But when we went to the bank to apply, we were basically laughed at.”

“The amount we need to save is just frightening. We still have to live, pay rent and bills. It’s pretty depressing and basically it seems we have no chance of buying a home for many years to come, despite the fact we are earning more than many people our age.”

**Katie and Matt’s monthly income and outgoings.**

Outgoings	Amount (£)
Rent	1200
Household Bills & Phones	330
Student Loan	350
Other Loans	400
Gym	40
Food	500
Travel	180
Clothes	100
Socialising	400
<b>Total</b>	<b>3500</b>
<b>Income</b>	<b>4260</b>
<b>Savings</b>	<b>760</b>

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## Policy Environment & Solutions

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These results reveal how difficult, if not impossible, it is for the country's young people to access home ownership. The requirement to get a deposit of around 25% coupled with the lack of new homes being built to meet demand is breaking the property ladder and affecting the wider market.

First-time buyers are vital to the housing market – they are the drivers of sales in chains across the country and without them transactions slow, the market atrophies. Those who cannot access home-ownership find accommodation in a private rented sector which is itself being put under increasing pressure. But private rents themselves, having risen over 60% since 1997<sup>1</sup> - are preventing the necessary savings that will enable the security of owner-occupation that most young families crave.

First time buyers who can't access owner occupancy will also, inevitably, in turn put pressure on social housing which is currently creaking under the weight of existing need – there are 1.7million families on the social housing waiting list<sup>2</sup>.

The Government's housing policy is based on the overriding theme of localism; they have scrapped central housing targets, removed regional planning and given power over housing and planning to local authorities.

Ministers have consistently confirmed that they want to build more homes than were constructed under the Labour Government in making these changes.

There is concern, however, that having scrapped housing targets five months ago there has not been a quick enough introduction of the promised national planning framework and house building incentive – The New Homes Bonus. Even Local Authorities share this unease. A report to the Conservative-Run, NW Leicestershire District Council states "the revocation of the RSS has taken away this requirement and has created a potential policy vacuum"<sup>3</sup>

This report does not look at the pros and cons of the new system – and there is no doubt that the previous planning system was not succeeding in delivering enough homes – but housing delivery, crucial to meeting demand from first time buyers, is not yet increasing and in many areas has actually fallen.

Concurrently, mortgage lending is significantly constrained and yet the FSA has proposed new regulations on mortgage lending that will restrict funding still further. The CML analysis states that if the FSA regulations currently being consulted on had been in place four years ago two thirds of the already depleted number of first time buyers who did manage to get a loan in that period would have been excluded.

So, the ladder for first time buyers is broken and there are two simple solutions – ensuring that mortgage finance is not restricted still further and, vitally, building the homes that are desperately needed across the country.

1 DCLG Live Table 731

2 DLG Live Table 600

3 [http://www.nwleics.gov.uk/files/documents/cabinet\\_report\\_31\\_august\\_20101/Cabinet%20Report%2031%20August%202010.pdf](http://www.nwleics.gov.uk/files/documents/cabinet_report_31_august_20101/Cabinet%20Report%2031%20August%202010.pdf)

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## Quotes:

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Stewart Baseley, Executive Chairman of the HBF, said:

“These figures reveal the extent of our housing crisis, first-time buyers - the life-blood of the housing market - are almost entirely shut out. The lack of mortgage availability is further strangling a market already choking on a lack of supply – we desperately need an increase in lending and a properly functioning and sustainable mortgage market.”

“At the same time, the Government must ensure that the new planning policy and incentives they are basing the success of their housing plans on are put in place immediately. Without more houses and more mortgages, young families will be unable to have the security of a roof over their heads and the housing crisis will very quickly reach the point of no return.”



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## Appendix – Sources

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Average House Prices

CLG Live Tables

Table 508 Housing market: mix-adjusted house prices, by new/other dwellings, type of buyer and region, United Kingdom, from Quarter 2 1992

<http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/housingmarket/livetables/housepricestables/mixadjustedprices/>

Average Deposit

CML Release August 2010

<http://www.cml.org.uk/cml/media/press/2682>

Average Salaries

Annual Survey of Hours and Earnings (ASHE) - 2009 Results

<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15313>

Average Private Rent

CLG Live Tables

Table 731 Rents, lettings and tenancies: private tenancies and rents, by type of tenancy

<http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/rentslettings/livetables/>

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