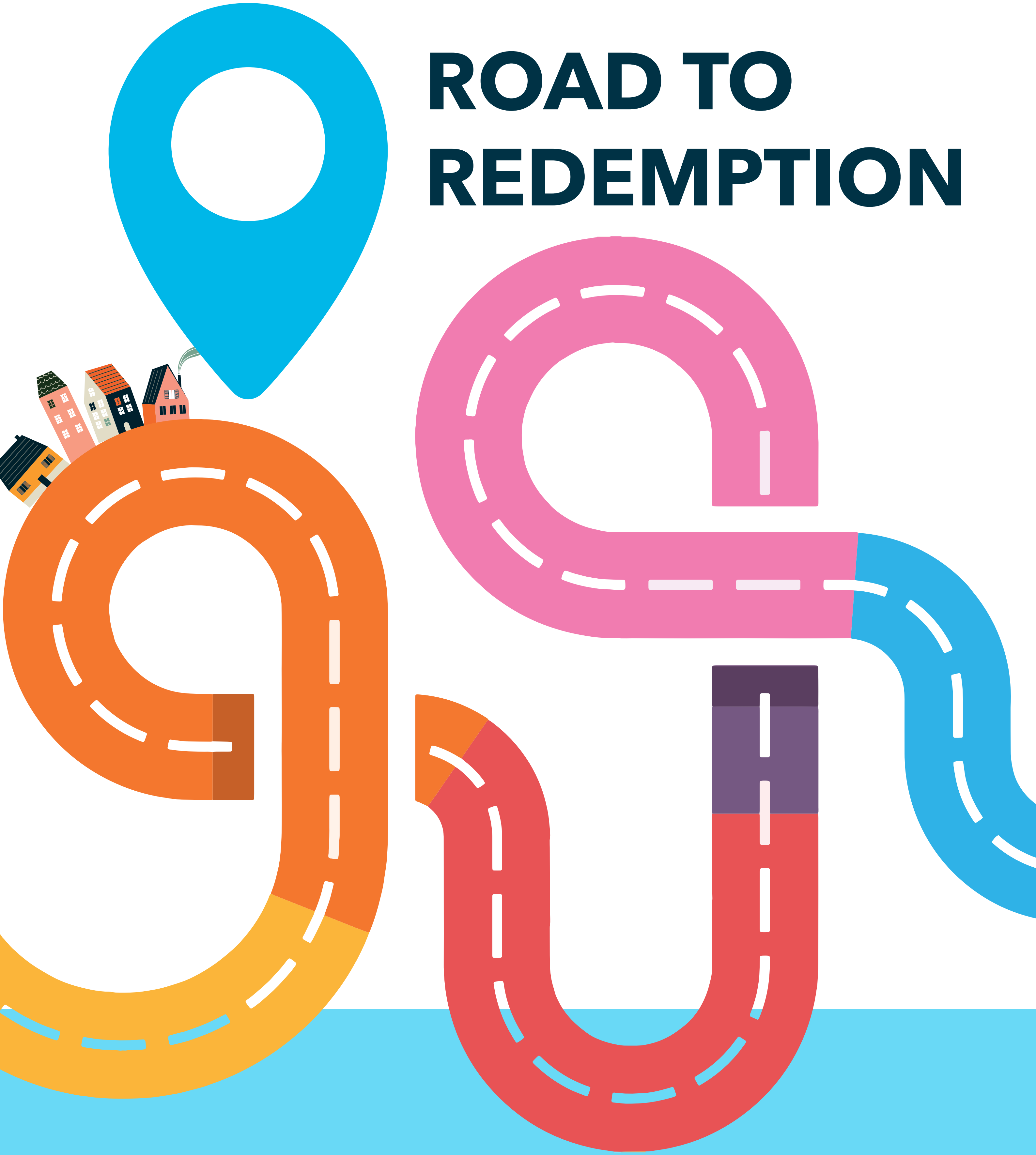
ROAD TO REDEMPTION



ANALYSING TAXPAYER RETURNS ON HELP TO BUY EQUITY LOANS

MAY 2021

HBF
HOME BUILDERS FEDERATION

EXECUTIVE SUMMARY

The Help to Buy: Equity Loan scheme 2013-2021 is credited as a major driver of increased housing supply and helping first-time buyers onto the property ladder. Since its introduction, net housing supply in England has increased by 95% and the scheme has supported nearly 300,000 buyers, with take up increasing year-on-year.

The scheme in its original form closed on 31 March 2021, and has been replaced by a much more restrictive scheme. Previous analysis predicts that the new scheme will have a disproportionately negative impact on homebuyers in northern and midlands regions.

Despite the successes of the scheme, it has often garnered criticism for its cost and perceived impact on house prices. There has been very little analysis of this argument until recently, due mainly to a lack of data. This report aims to address these claims and, using data made available by Homes England in late 2020, finds that the scheme has generated a good financial return for taxpayers. The data shows that:

- As of March 2020, 49,020 Help to Buy Equity Loans had been fully repaid by homeowners. This includes around 60% of the loans issued in the first two years of the scheme.
- By March 2020, just under £2.5bn had been paid back to the Government by buyers who had used the scheme with those equivalent loans worth £2.25bn at the time of their origination
- Repaid loans so far total almost £250 million more than the original value of the Government's equity loans, generating a return of more than 10%
- Loans repaid in 2019/20 alone generated a £66 million return on investment (7.5% more than the original value of loans).

An analysis of house price data for new builds and existing homes shows no evidence that Help to Buy has inflated new house prices, with prices of new builds consistently tracking the wider housing market trends since the introduction of the scheme.

This report also finds that the scheme has – and continues to – achieved the objectives set for it in 2013: increase the supply of low-deposit mortgages for creditworthy households; increase the supply of new housing; and contribute to economic growth – and has given millions back to the Exchequer to reinvest in public spending.

INTRODUCTION

The Help to Buy scheme has attracted considerable attention since its introduction in April 2013. It has been credited as a major driver of the most significant increase in housing supply ever recorded and achieved high levels of popularity among homebuyers but it has also received criticism for its focus, its perceived impact on house prices and its cost.

This report aims to address all of these matters, exploring the eight-year lifespan of the scheme, and, for the first time, present a full analysis of the return on investment that taxpayers have received by interrogating the latest data on Help to Buy equity loan redemptions.

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BACKGROUND

Announced at the 2013 Budget, the Help to Buy Equity Loan Scheme was established to accelerate the recovery of home building and improve the mortgage deposit and affordability prospects of first-time buyers following the Global Financial Crisis of the late 2000s.

The scheme granted an equity loan worth up to 20% (40% in London) of the value of a new build home up to a maximum purchase price of £600,000, whilst the buyer provides a deposit of at least 5% and a mortgage from a main lender of up to 75% (55% in London). The loan is interest free for five years, after which interest payments are due.

HELP TO BUY WAS ESTABLISHED WITH THREE MAIN OBJECTIVES:

1. Increase the supply of low-deposit mortgages for creditworthy households
2. Increase the supply of new housing
3. Contribute to economic growth

THE SCHEME HAS PROVEN TO BE SUCCESSFUL WHEN MEASURED AGAINST THESE OBJECTIVES:

- 55% of all Help to Buy purchasers to date, almost 160,000 households, have purchased with a deposit of up to 5% and this rises to 88% of buyers purchasing with a deposit of up to 10%
- By 2019/20 supply had increased by 95% since the trough in 2012/13.
- Estimates of the economic benefits of new housing supply suggest that the 51,386 homes purchased with support from the scheme in 2019/20 supported or sustained around 160,000 jobs.

As well as addressing deposit and affordability issues, the Help to Buy Equity Loan scheme also intended to provide a stimulus to the house building industry and the housing market by encouraging developers to build more new homes through an increase in effective demand.

Prior to the scheme's introduction, mortgage availability was deemed by home builders to be the predominant barrier to housing delivery. In a survey of builders at the end of 2012, 8 in 10 developers considered mortgage availability and terms to be a major constraint on investment. With the introduction of Help to Buy, almost overnight, there was a clear shift away from an emphasis on the demand constraints that preoccupied house builders and influenced investment decisions, and the proportion of developers reporting mortgage availability as a major constraint had dropped to 10% by the start of 2014.

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SCHEME TAKE UP

Help to Buy was initially intended as a short-term project. The Government allocated £3.5 billion across the three years 2013-14 to 2015-16. Due to the scheme's popularity, Government extended Help to Buy beyond the originally planned 2016 end date. In 2016, the maximum equity loan available through Help to Buy was increased from 20% to 40% for purchasers in London.

The extended original scheme closed to new applications in December 2020 and will formally close in spring 2021. It was replaced by a new, more restrictive scheme in April 2021 which is exclusive to first-time buyers and introduces regionally-based price caps. Previous analysis by HBF and other researchers has suggested that the caps will have a disproportionate impact on Help to Buy completions for first-time buyers in northern and midlands regions, with particularly stark effects likely in the North East, West Midlands and East Midlands.

By the end of the eight-year lifespan of the original scheme, it had supported around a third of a million households onto the housing ladder with a new home.

Help to Buy transactions have accounted for an estimated 30-40% of all new build transactions since its launch and take up of the scheme has increased year-on-year.

> By the end of the eight-year lifespan of the original scheme, it will have supported around a third of a million households onto the housing ladder with a new home.

WHO HAS USED THE SCHEME, WHERE AND WHAT SORT OF HOMES HAVE BEEN PURCHASED?

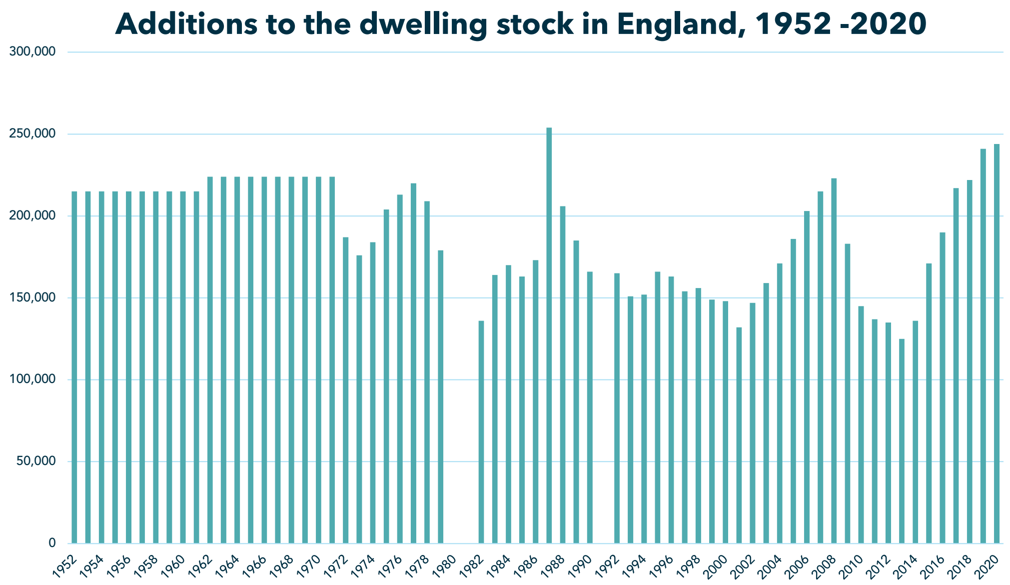
The most recent Government data on Help to Buy transactions reports that:

- 82% of households using the scheme during the last year were first-time buyers
- More than half of all purchasing households had a total household income of under £50,000 per annum and 88% had a total household income of under £80,000 - £80,000 is the current national threshold for eligibility for Shared Ownership affordable housing (£90,000 in London)
- In 2020, the median household incomes for purchasers were £53,000 for first-time buyer households and £61,000 for non-FTB households
- In 2020, the average purchase price for the scheme outside London was £273,000 and £445,000 in the capital
- 8 in 10 buyers used Help to Buy to purchase a home for under £350,000
- 63% of all homes purchased with the scheme's support have been either detached or semi-detached houses

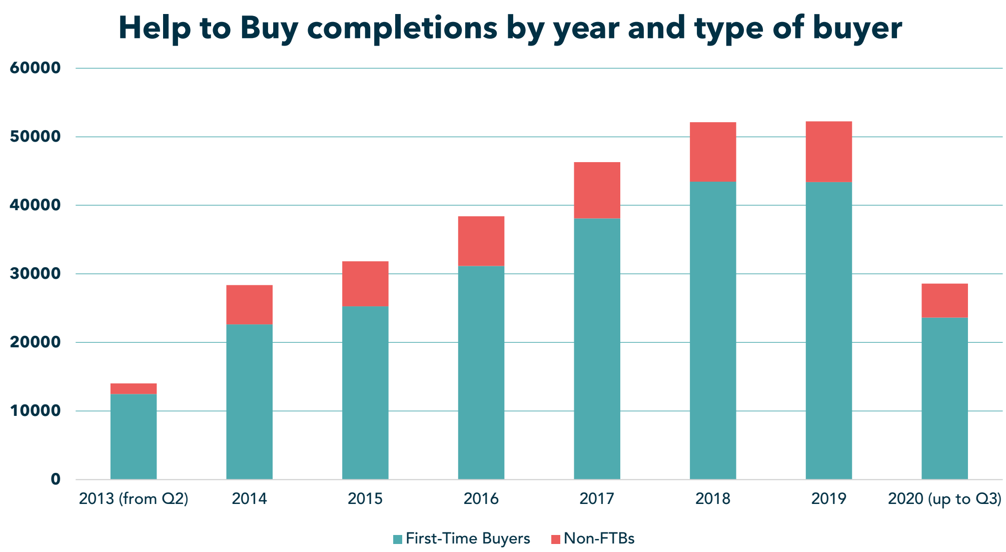
IMPACT

Housing supply was slow to recover from the 2008 financial crash. Net additions to the housing stock fell to 124,000 in 2012/13, the lowest peacetime figure ever recorded. By converting demand for housing into effective demand for new homes, the scheme initially resulted in increased activity in the new build sales market before quickly feeding through into big boosts in investment from home builders and more new homes at all stages in the housing pipeline.

By 2019/20, net housing supply had grown to almost 250,000 additional homes per year, exceeding the numbers seen even in the housing boom years of the 1950s and 1960s.



Help to Buy is a key driver in getting first time buyers on to the property ladder. Since its launch in 2013, Help to Buy has supported around 300,000 households to purchase a new build home with a 5% deposit. Most of the home purchases under the scheme were made by First Time Buyers, accounting for more than 240,000 Help to Buy completions.

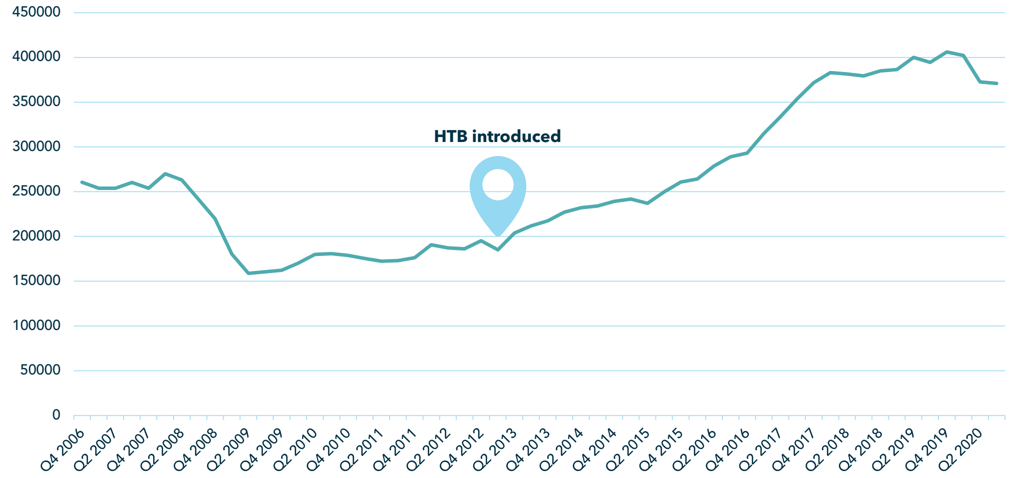


Help to Buy has opened up home ownership to buyers in London. In February 2016, the maximum equity loan was increased from 20% to 40%. Of the Help to Buy purchases in the capital completed since then, 78% were made with an equity loan of exactly 40% of the purchase price, showing that most Londoners used the full 40% equity loan available to them.

Help to Buy is seen as a major support to house building not just directly in terms of Help to Buy sales, but also in terms of its positive impact on the overall market. It is seen as boosting confidence amongst consumer and lenders (as well as developers) and has helped ensure much stronger lender support for the new build market. Lenders have joined the scheme in increasing numbers recognising it as a vehicle to enable low-risk medium Loan to Value lending.

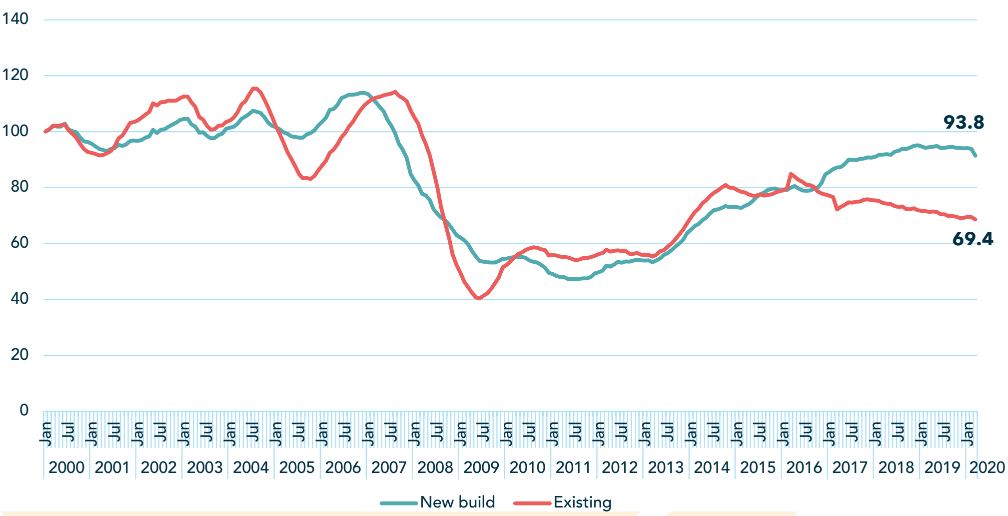
The impact of reducing the risk of planning and development for home builders through improved visibility of effective demand, has led to a sustained period of record investment in land and labour for future housing delivery. Before the introduction of Help to Buy, annual planning permissions were running at between 180,000 and 200,000 per year. By the end of 2015, home builders' increased confidence can be seen translated into physical investment as planning permissions numbers exceeded pre-financial crash. By 2017, the annual run rate had exceeded 300,000 per year and has stayed above 350,000 per year for the past two and a half years.

Annualised planning permissions in England, Q4 2006 to Q3 2020 (HBF Housing Pipeline)

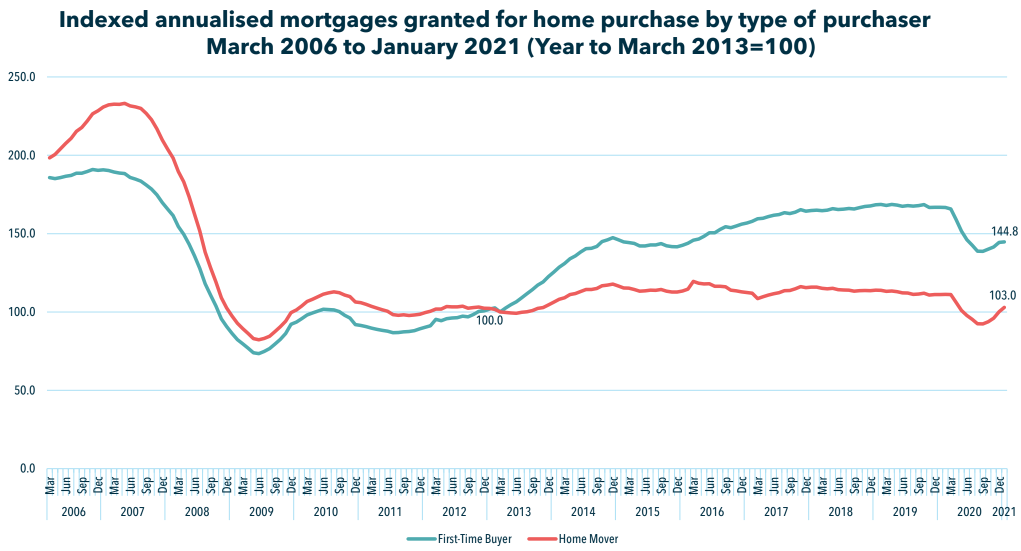


Since the introduction of Help to Buy, the new build housing market has consistently outperformed the secondary housing market. The key driver of this outperformance is the scheme itself. While the long-term historical picture sees the new build housing market broadly track the wider market, a disconnection can be seen between the two areas from 2016 onwards as housing supply really began to ramp up. By early 2020, new build sales were broadly consistent with activity rates at the beginning of the century whereas annualised transactions in the second-hand market remained 30% down on 2000 levels.

Indexed annualised transactions by type of property, January 2000 to March 2020 (100=Year to January 2000)



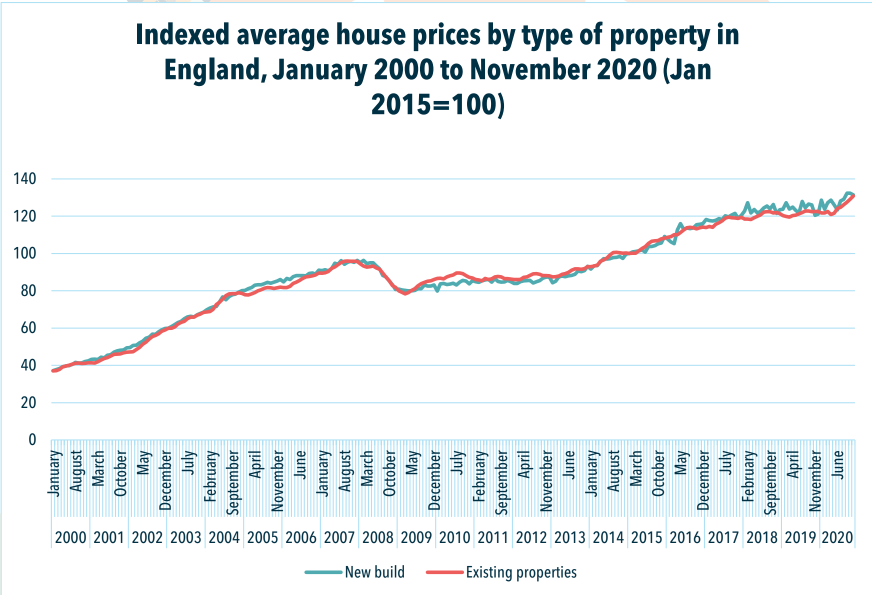
This phenomenon plays out even more starkly when we consider the housing market activity of first-time buyers compared with home movers. While there are more factors involved here, from around spring 2013 –the time that Help to Buy was introduced – first-time buyer activity in the housing market began to increase. The chart below explores this by looking at the mortgage market and the gradual disconnection between first-time buyers and home movers.



HAS HELP TO BUY RESULTED IN NEW BUILD HOUSE PRICE INFLATION?

One common criticism of Help to Buy has been around its impact on new build house prices. It is argued by some that the scheme results in new homes being overvalued. In responding to this, it should first be noted that new homes represent a small fraction of the overall housing market and so, to a very large extent, new build house prices are driven by wider housing market dynamics and the economic landscape more generally. It is also, therefore, unrealistic to contest that the market for new homes drives the pricing of existing properties.

The chart below, using paid price data from the Land Registry shows a strong correlation between prices in the new homes and existing homes markets even despite a much larger proportion of new homes comprising larger family homes in recent years compared with the early 2000s when around 50% of all new properties were flats.



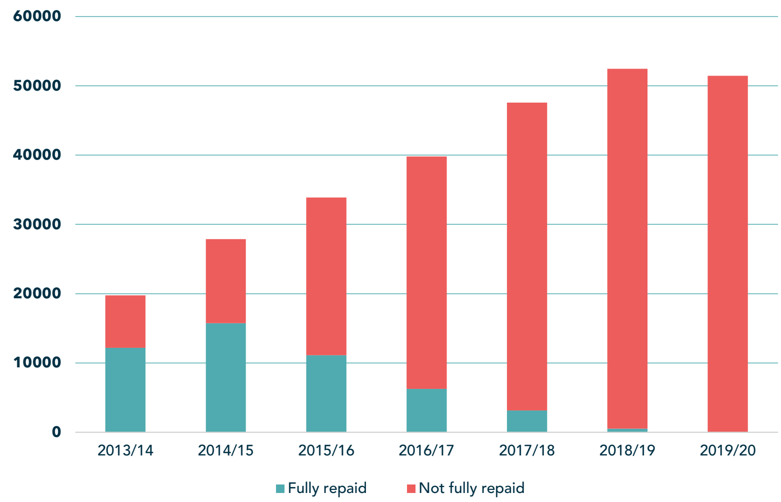
REDEMPTIONS

Until recently, there was little information available to determine how beneficial, or otherwise, the Help to Buy scheme has been for taxpayers. Although it was clear that the scheme was successful at getting buyers onto the housing ladder and increasing housing supply, there was some dispute over whether this investment had been worth the cost to the Exchequer. Homes England predicted total redemptions to equal the amount loaned by 2031-32, and to have made a positive return on investment by the time all loans are repaid by 2048 (realistically much earlier).

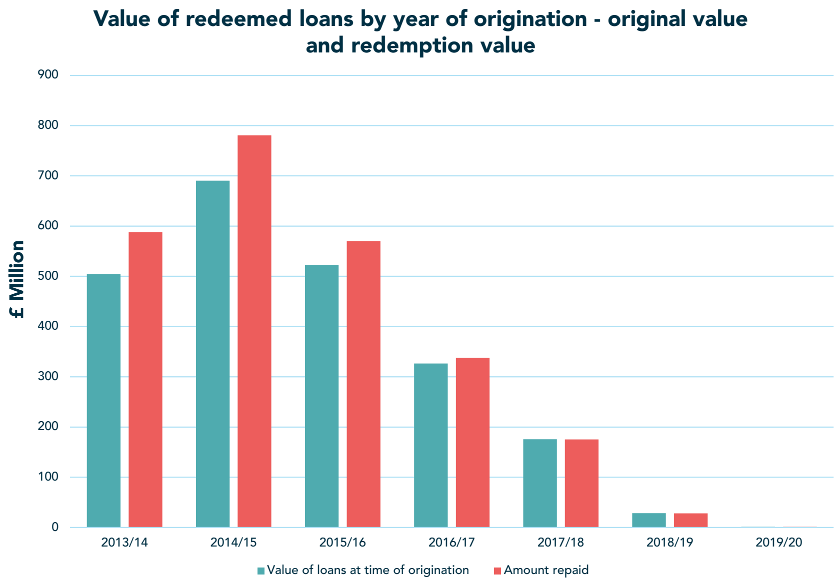
In November 2020, Homes England's Annual Report included new data, clearly setting out the significant returns on investment that the Exchequer has seen from loan repayments.

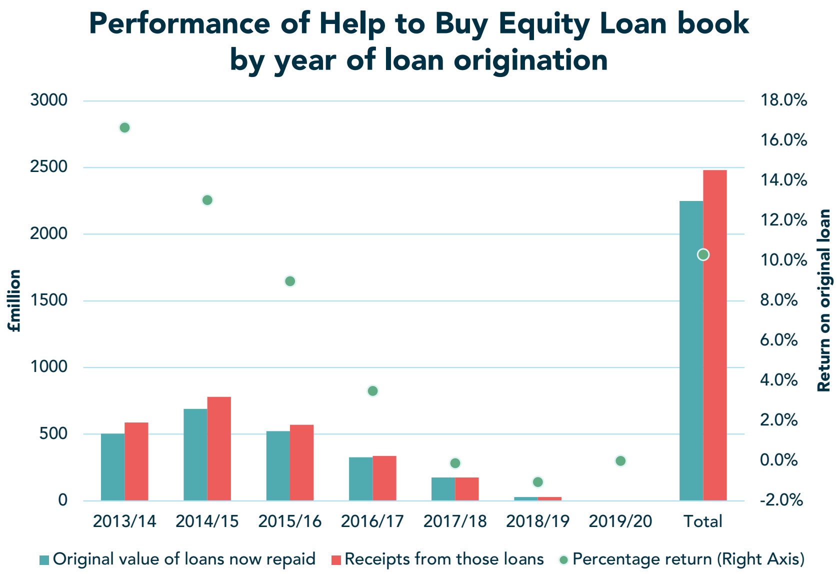
As of March 2020, 49,020 Help to Buy Equity Loans had been fully repaid by homeowners. This includes around 60% of the loans issued in the first two years of the scheme. The far lower rates of full redemption among loans issued in later years can be explained by the fact that the terms of Help to Buy see homebuyers liable for 0% interest on the Equity Loan element of their financing for the first five years. Typically, by that point or shortly thereafter homeowners, if still residing in the property, will refinance, redeeming their Help to Buy loan in the process and moving to a more traditional mortgage arrangement. Experience to date, as demonstrated by these official figures, shows that at the point at which interest becomes payable, the vast majority of homeowners elect to redeem their equity loan, usually with a return of around 10% more than the original equity loan value.

Loan repayment status at March 2020 by year of origination



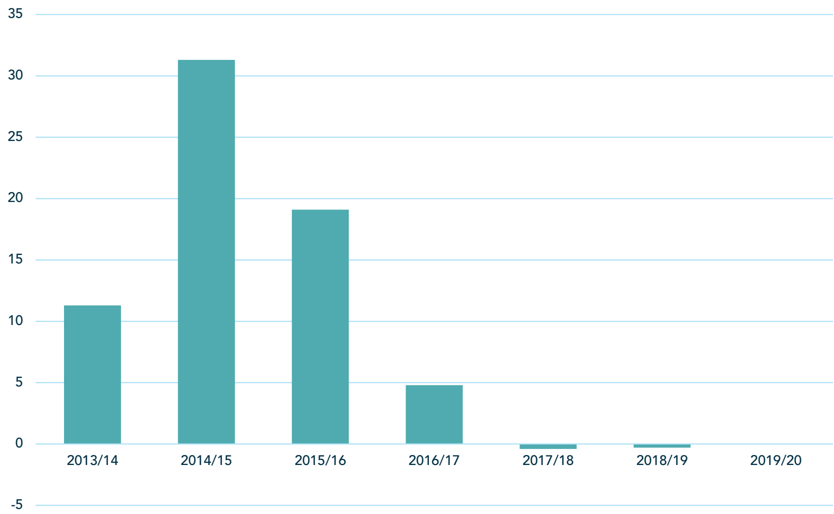
Up to March 2020, total repayments on Help to Buy Equity Loans totalled £2.48 billion. This is a 10.3% increase (£232 million) on the £2.25 billion value of the loans at origination.





The 18,375 loans repaid in 2019/20 alone had an initial value of £875million. These were repaid at a generating receipt for the Exchequer of £941 million, a £66 million return on the original investment and support offered to homebuyers. Exploring just the receipts for 2019/20 show very few redemptions for that same year and the two years prior with these few repayments realising around a break even position for the Exchequer. Double digit cash returns on investment can be seen for the years 2013/14, 2014/15 and 2015/16 with the percentage return coming in at 13.7%, 12.5% and 9.0% respectively for the loans originated in these years and repaid in 2019/20.

Exchequer returns on loans repaid during 2019/20 by year of origination



The repayment statistics, and gains for the Exchequer, are set out in the table below.

Cumulative equity loans repaid up to March 2020

FY	Loans repaid	Original loans now repaid total (£m)	Receipt from repaid loans (£m)
2013/14	12,193	504.0	588.0
2014/15	15,747	690.4	780.4
2015/16	11,127	522.9	569.9
2016/17	6,262	326.4	337.8
2017/18	3,147	175.6	175.4
2018/19	516	28.4	28.1
2019/20	28	1.4	1.4
TOTAL	**49,020**	**2,249**	**2,481**

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 built in England and Wales and most of our members are small or medium-sized enterprises.

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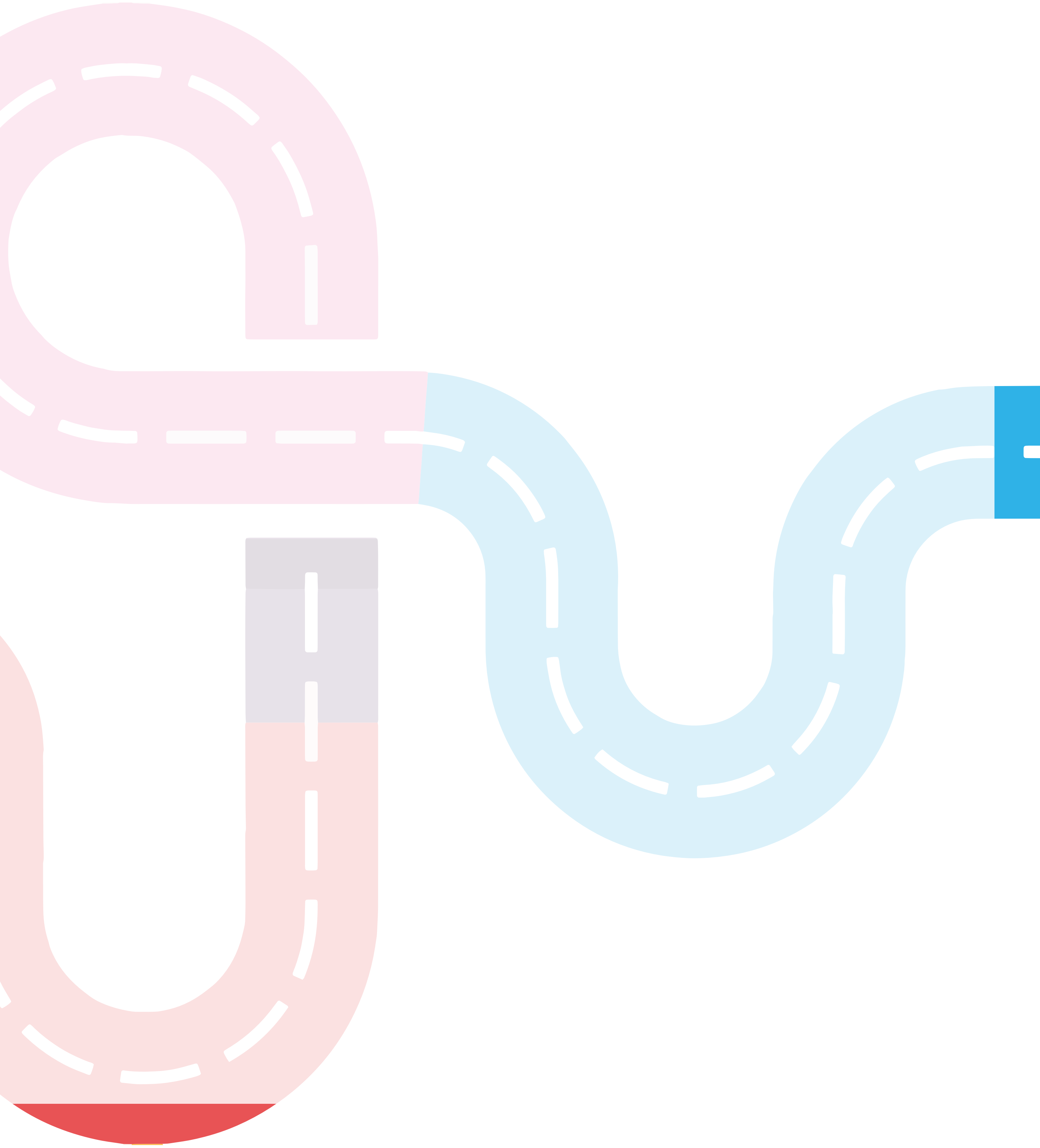

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