Homes for First-time Buyers

The Economic Case for a Government-Supported Shared Equity Scheme

HOME BUILDERS FEDERATION

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1 First-time buyer (FTB) numbers are close to record low levels, with around 80% of successful FTBs reliant on some form of financial assistance from the 'Bank of Mum and Dad', and the average age of unassisted FTBs now 37.

2 Very weak growth in real post-tax incomes, and the likelihood that mortgage availability and higher LTV mortgages will remain very restricted well into the future and may even tighten in 2011, creating a huge deposit hurdle for FTBs (the average FTB deposit is currently around £30-33,000), all point to the need for some form of public support for FTBs, at least until mortgage availability is restored.

3 Within the National Affordable Housing Programme (NAHP) budget agreed for the Spending Review period, investment in a shared-equity scheme modelled on the successful HomeBuy Direct would offer a cost-effective, efficient way to support housing supply and Affordable Housing and increase access to home ownership. By contrast, funding for social rented housing requires grant, at a much greater cost per dwelling, and therefore produces far fewer dwellings for any given amount of money. Because the home building and lending industries are already familiar with HBD, investment in such a scheme would produce rapid results.

4 HBD has been very successful over the last 12-18 months, with approaching 10,000 new home sales to first-time buyers expected by the 30th September deadline, representing around 9% of private sector housing completions over the 15-month operational period of the scheme.

5 The current scheme has averaged around 650 sales per month. The average HCA equity share investment was just under £24,000 per dwelling. Therefore under the current terms the Government would be able to generate 8,300 new home sales per year to FTBs from an annual investment of under £200m, generating around £1.3bn of new home sales and 8,000 net jobs. By contrast, based on the average grant per dwelling in the first quarter (£59,000), £200m funding for social rented housing would produce approximately 3,400 dwellings, less than half as many, and this would be grant not investment.

6 A shared-equity scheme modelled on HBD would have two major benefits for first-time buyers: it increases access to home ownership by closing the deposit gap; and it makes homes more affordable. (The alternative, a very high LTV mortgage, even if available, would be much more expensive.)

7 Because it requires only a 15% investment per dwelling by the public sector, matched by a comparable investment by the home builder, the scheme represents excellent value for money. In time, as buyers redeem their shares, and as the interest rate begins to kick in after five years, funds will begin to flow back to the HCA for recycling into further shared-equity sales or other forms of Affordable Housing. Most 15% HCA investments are likely to be redeemed at higher house prices, generating a positive return for the Exchequer.

8 The scheme generally runs very smoothly because it was jointly designed by the HCA, home builders and lenders, and it is fully integrated into home builders' normal site marketing activity. In addition, the cost of marketing the scheme is almost entirely born by the private sector, not the Government.

9 In designing a replacement shared-equity scheme, while it is very important to maintain the essential characteristics of the current scheme now that they are understood and accepted by lenders, home builders, housing associations, financial advisors and home buyers, the terms could be made more flexible (e.g. amending the 70/15/15 split or the interest-free 5-year period). In addition, the public cost of administering the scheme (£1,500 per dwelling) could be significantly reduced or eliminated if handled by the private sector, allowing HCA funds to go further.

10 To illustrate the impact of revised terms, if the average HCA investment was cut to 10% (from the current 15%), £200m would fund 12,500 first-time buyer sales (against 8,300 at 15% and 3,400 social rented units for the same level of funding). If the £1,500 per dwelling paid to HomeBuy Agents was saved completely by allowing the private sector to carry out this function (probably through approved Independent Financial Advisors), this money would produce an extra 520 sales at a 15% HCA share, or nearly 1,200 additional sales at a 10% HCA share.