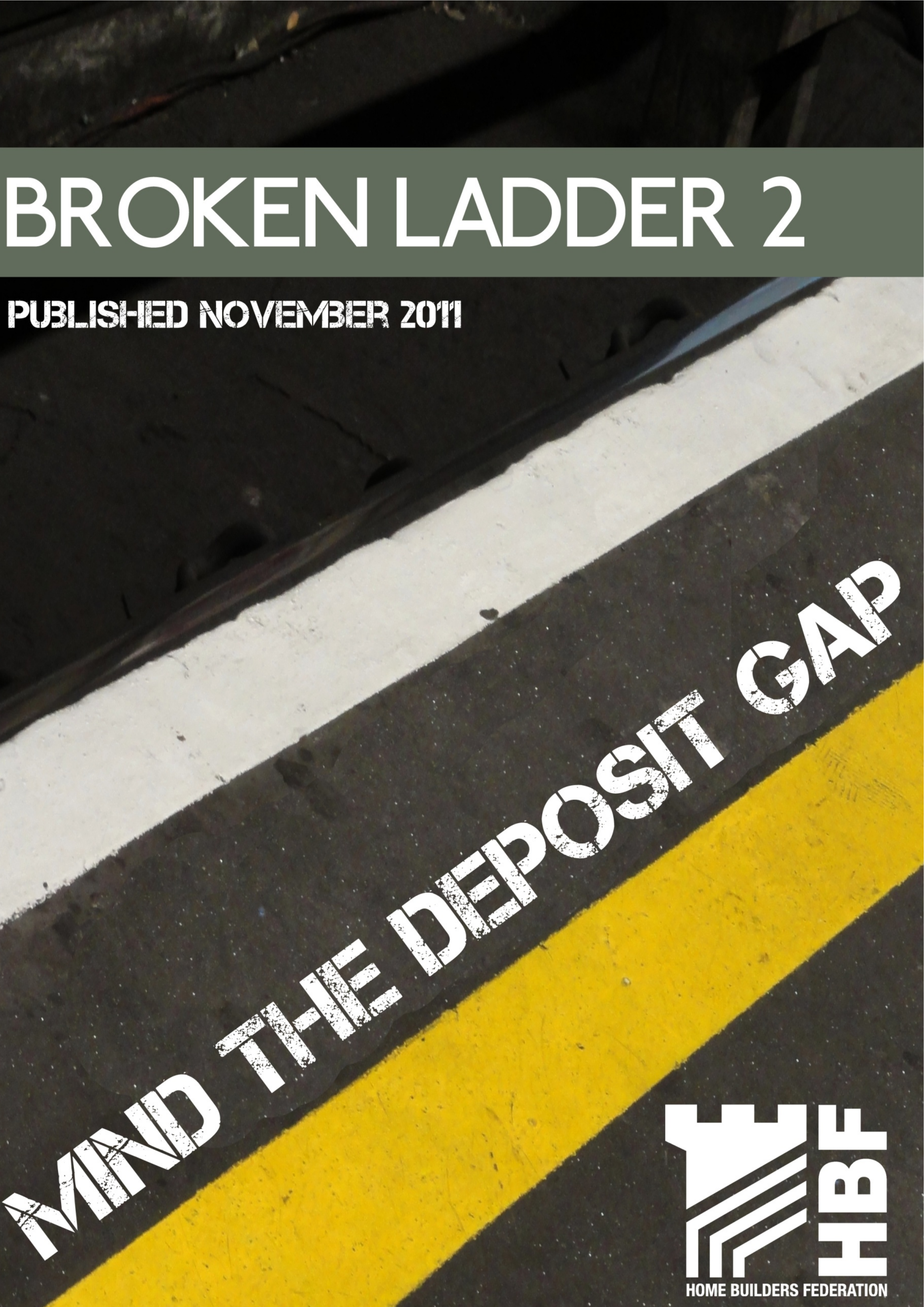
BROKEN LADDER 2

PUBLISHED NOVEMBER 2011



MIND THE DEPOSIT GAP

HOME BUILDERS FEDERATION

Key Findings

The current position for aspiring first time buyers* is that:

ACROSS ENGLAND:

- **22-29 year old first time buyers' deposits are more than four and a half times their discretionary** annual income**
- **30-39 year old first time buyers' deposits are almost three times discretionary annual income**

ACROSS ENGLAND TO REACH A DEPOSIT:

- **22-29 year old first time buyers have to save 50% of their discretionary income for nine and a half years**
- **22-29 year old first time buyers have to save all of their discretionary income for four and a half years**
- **30-39 year old first time buyers have to save 50% of their discretionary income for almost six years**
- **30-39 year old first time buyers have to save 59% of their discretionary income every month to reach a deposit within 5 years**

REGIONALLY:

- **in London deposits for 22-29 year olds are almost ten times discretionary annual income**
- **it is impossible for 22-29 year olds to save a deposit in five years across the South and East of England and impossible in London to reach a deposit in ten years**
- **30-39 year olds in London need to save, virtually impossible, 92% of their discretionary income for five years.**

Action is needed to tackle this size of obstacle to first time home ownership. Failure to address it will lead to serious social and economic consequences throughout the country.

on average incomes for their age group and seeking to buy an averagely priced first home

***** "discretionary annual income" in this report is net (post-tax) income minus average private rent, utilities and council tax. It does not include any other costs, for example, food, travel, clothing, student loans.***

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Background

While owner occupancy is still the most popular form of tenure – with over 80% of the population aspiring to own their own home – the number of people actually getting a foot on the property ladder has fallen considerably since around 2003 (see Fig 1).

First-time buyers are vital to the housing market and 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, are preventing the necessary level of saving that will provide the security of owner-occupation that most young families crave.

First time buyers who can't access owner occupancy either move instead into the private rented sector or will, inevitably, 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.

Alongside the obvious social benefits of increasing housing supply, house-building is very important for the economy. As well as boosting local employment – each house built creates one and half direct jobs and many more in the supply chain – it doesn't rely on imports and is therefore an effective and sustainable source of internal economic growth.

Perhaps most worryingly for the long term future of our country and its economy, our research has revealed that younger generations have put off starting families and pensions as they struggle to save up for a home of their own.

Interest rates, and therefore the costs of servicing mortgages, have remained relatively low but the deposit gap is preventing young people from accessing the housing market. The tightening of lending criteria following the bursting of the credit bubble has meant that that the average fist-time buyer deposit is currently around 20% of the purchase price. House prices fell during the bursting of the credit bubble, but – reflecting the overall shortfall in housing supply - they have remained high in historic terms while the average house price to earnings ratio has also stayed relatively high.

This deposit requirement has locked many first time buyers out of the housing market with the current average deposit – taking the Government's own figures – of more than £30,000 across the country.

While we are very clear that there should not be a return to the comparatively lax lending practices of the mid-2000s and that a degree of saving to buy a house is sensible, this report aims to demonstrate just how difficult it has become for younger generations to buy their first home. We believe that a significant increase in supply over the coming years is vital to solving this affordability and housing crisis.

Fig 1. The number of first time buyers in the UK has fallen drastically since around 2003

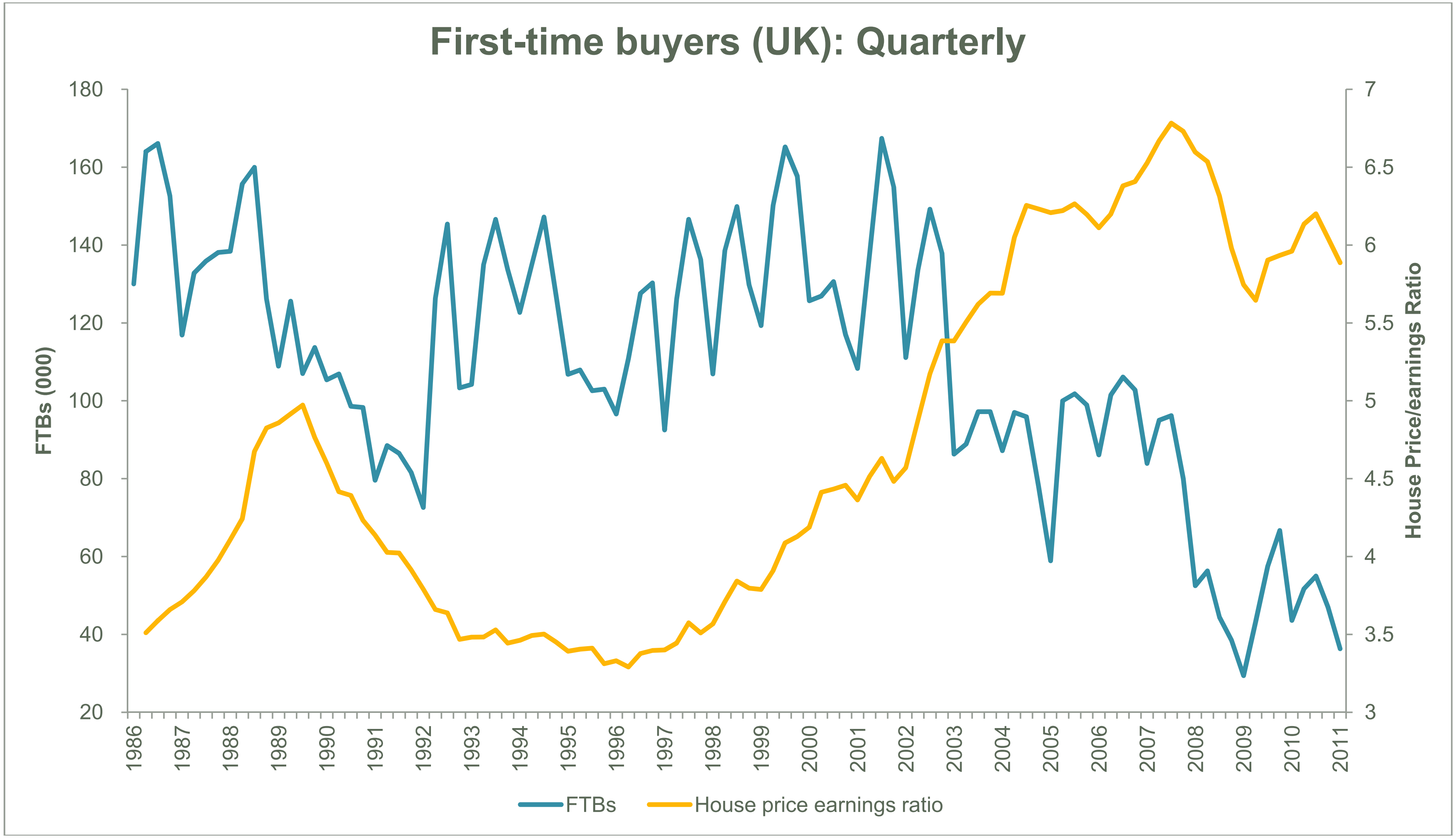
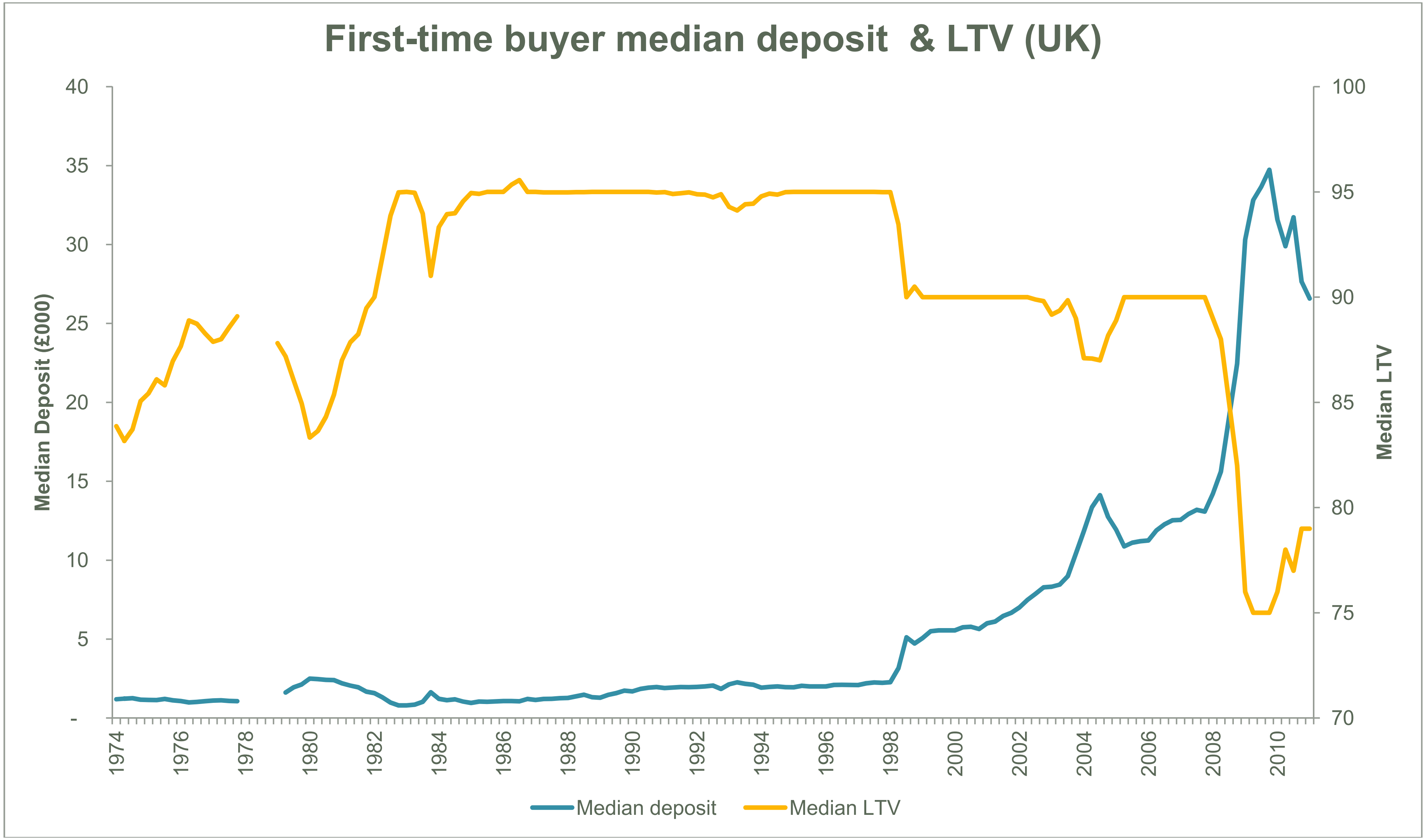


Fig 2. The median deposit soared alongside the house price bubble while the median LTV mortgage has plummeted since the bubble burst



Take Home Pay

To illustrate how difficult it is for young people to save for a deposit, we have undertaken research into take home pay and discretionary available income once bills have been taken into account.

Age 22-29				
Region	**Ave (median) gross weekly income (£)[1]**	**Ave (median) gross annual income (£)**	**Ave (median) net annual income (£)**	**Ave (median) net monthly income – i.e. take home pay (£)**
UK/England*	364.10	18933.20	15236.58	**1269.72**
NE	331.60	17243.20	14087.38	**1173.95**
NW	339.20	17638.40	14356.11	**1196.34**
Y&TH	345.00	17940.00	14561.20	**1213.43**
WM	336.10	17477.20	14246.50	**1187.21**
EM	345.00	17940.00	14561.20	**1213.43**
E	356.40	18532.80	14964.30	**1247.03**
SE	384.50	19994.00	15957.92	**1329.83**
SW	344.80	17929.60	14554.13	**1212.84**
London	479.10	24913.20	19302.98	**1608.58**

Age 30-39				
Region	**Ave (median) gross weekly income (£)[1]**	**Ave (median) gross annual income (£)**	**Ave (median) net annual income (£)**	**Ave (median) net monthly income – i.e. take home pay (£)**
UK/England*	473.1	24601.2	19090.82	**1590.9**
NE	412.1	21429.2	16933.86	**1411.16**
NW	436.3	22687.6	17789.57	**1482.46**
Y&TH	436.4	22692.8	17793.1	**1482.76**
WM	432.1	22469.2	17641.06	**1470.09**
EM	430.7	22396.4	17591.55	**1465.96**
E	448.5	23322	18220.96	**1518.41**
SE	505.4	26280.8	20232.94	**1686.08**
SW	425.9	22146.8	17421.82	**1451.82**
London	651.6	33883.2	25402.58	**2116.88**

[1] **ONS Stats* - Table WGOR Age.1a Weekly pay - Gross (£) - For all employee jobs: United Kingdom, 2010**

*The ONS Stats for weekly pay are calculated for the UK (and government office regions) only – not England. As housing is a devolved issue and the other statistics are for England we have had to use these UK stats to represent a figure for England in later tables. This is not ideal and the median wage across the UK may be slightly lower than that of just England but given the population differences across the countries its accuracy remains acceptable.

Discretionary income

Using median rent for a one-bedroom home in the private rented sector, average council tax and average annual utility bills- gas, electricity, water - *discretionary income* can be calculated. It should be noted that these deductions to income do not include student loan repayments, telephone bills, travel costs, food or clothing.

Age 22-29

Region	Ave (median) net income p.c.m. (£)	Median rent p.c.m. - 1 bed (£)[2]	Average utility bills p.c.m. (£)[3]	Average council tax p.c.m. (£)[4]	Discretionary income after bills p.c.m. (£)
England	1269.72	495.00	119.00	99.65	**556.07**
NE	1173.95	395.00	119.00	88.36	**571.59**
NW	1196.34	415.00	119.00	90.65	**571.69**
Y&TH	1213.43	390.00	119.00	87.34	**617.09**
WM	1187.21	420.00	119.00	92.83	**555.39**
EM	1213.43	395.00	119.00	94.97	**604.46**
E	1247.03	480.00	119.00	107.78	**540.25**
SE	1329.83	565.00	119.00	114.47	**531.36**
SW	1212.84	475.00	119.00	105.97	**512.87**
London	1608.58	950.00	119.00	101.15	**438.43**

Age 30-39

Region	Ave (median) net income p.c.m. (£)	Median rent p.c.m. - 1 bed (£)	Average utility bills p.c.m. (£)	Average council tax p.c.m. (£)	Discretionary income after bills p.c.m. (£)
England	1590.90	495.00	119.00	99.65	**877.25**
NE	1411.16	395.00	119.00	88.36	**808.80**
NW	1482.46	415.00	119.00	90.65	**857.81**
Y&TH	1482.76	390.00	119.00	87.34	**886.42**
WM	1470.09	420.00	119.00	92.83	**838.27**
EM	1465.96	395.00	119.00	94.97	**856.99**
E	1518.41	480.00	119.00	107.78	**811.63**
SE	1686.08	565.00	119.00	114.47	**887.61**
SW	1451.82	475.00	119.00	105.97	**751.85**
London	2116.88	950.00	119.00	101.15	**946.73**

[2] http://www.voa.gov.uk/corporate/statisticalReleases/110929_PrivateResidentialRentalMarketStatistics.html
[3] http://www.decc.gov.uk/en/content/cms/statistics/energy_stats/prices/prices.aspx
http://www.ofwat.gov.uk/consumerissues/chargesbills/prs_inf_charges2011-12.pdf
[4] Table 4 http://www.communities.gov.uk/documents/statistics/pdf/1870215.pdf (Average Council Tax per dwelling)

Deposits

The average first time buyer deposit is currently 20%[5] which for an average first time buyer home equates to between £19,000 and £53,000 across the different regions in England. These deposits across the age range are well over 100% of average annual net income levels and for those aged between 22 and 29, in four regions – and the UK in general – they are more than twice average annual take home pay.

Age 22-29				
Region	Ave (median) net annual Income (£)	Average house price (£)[6]	Deposit at 20% (£)	Deposit as a percentage of average net annual income
UK/England*	15,237	156,463	31,293	**205**
NE	14,087	99664	19,933	**141**
NW	14,356	110,910	22,182	**155**
Y&TH	14,561	108,779	21,756	**149**
WM	14,247	120,120	24,024	**169**
EM	14,561	113,467	22,693	**156**
E	14,964	159,809	31,962	**214**
SE	15,958	178,294	35,659	**223**
SW	14,554	149,257	29,851	**205**
London	19,303	261,039	52,208	**270**

Age 30-39				
Region	Ave (median) Net annual Income (£)	Average house price (£)	Deposit at 20% (£)	Deposit as a percentage of average net annual income
UK/England*	19,091	156,463	31,293	**164**
NE	16,934	99664	19,933	**118**
NW	17,790	110,910	22,182	**125**
Y&TH	17,793	108,779	21,756	**122**
WM	17,641	120,120	24,024	**136**
EM	17,592	113,467	22,693	**129**
E	18,221	159,809	31,962	**175**
SE	20,233	178,294	35,659	**176**
SW	17,422	149,257	29,851	**171**
London	25,403	261,039	52,208	**206**

[5] CML Table ML2 – Ave advance in 2011

[6] DCLG Live Tables: Table 508 Housing market: mix-adjusted house prices, by new/other dwellings, type of buyer and region, United Kingdom, from Quarter 2 19921,2,3 (Taking average of Q1 and Q2 2011 mix-adjusted house price for first time buyers)

Deposits – the reality

Of course, the true picture of deposits has to take into account utility and other bills that are paid out of net annual income. The tables below reveal the size of deposits relative to *discretionary income* (i.e. after utilities, rent and council tax). The startling truth is that for 22-29 year olds the average deposit in London is equal to almost 10x the annual discretionary income. Across the age ranges the deposit requirement is at least twice average annual discretionary income and often much more.

Age 22-29					
Region	Average house price (£)	Deposit at 20% (£)	Discretionary income after bills p.c.m. (£)	Annual discretionary income (£)	Deposit as a % of annual discretionary income
England	156,463	31,293	556	6,673	469
NE	99,664	19,933	572	6,859	291
NW	110,910	22,182	572	6,860	323
Y&TH	108,779	21,756	617	7,405	294
WM	120,120	24,024	555	6,665	360
EM	113,467	22,693	604	7,254	313
E	159,809	31,962	540	6,483	493
SE	178,294	35,659	531	6,376	559
SW	149,257	29,851	513	6,154	485
London	261,039	52,208	438	5,261	992

Age 30-39					
Region	Average house price (£)	Deposit at 20% (£)	Discretionary income after bills p.c.m. (£)	Annual discretionary income (£)	Deposit as a % of annual discretionary income
England	156,463	31,293	877	10,527	297
NE	99,664	19,933	809	9,706	205
NW	110,910	22,182	858	10,294	215
Y&TH	108,779	21,756	886	10,637	205
WM	120,120	24,024	838	10,059	239
EM	113,467	22,693	857	10,284	221
E	159,809	31,962	812	9,740	328
SE	178,294	35,659	888	10,651	335
SW	149,257	29,851	752	9,022	331
London	261,039	52,208	947	11,361	460

Saving up

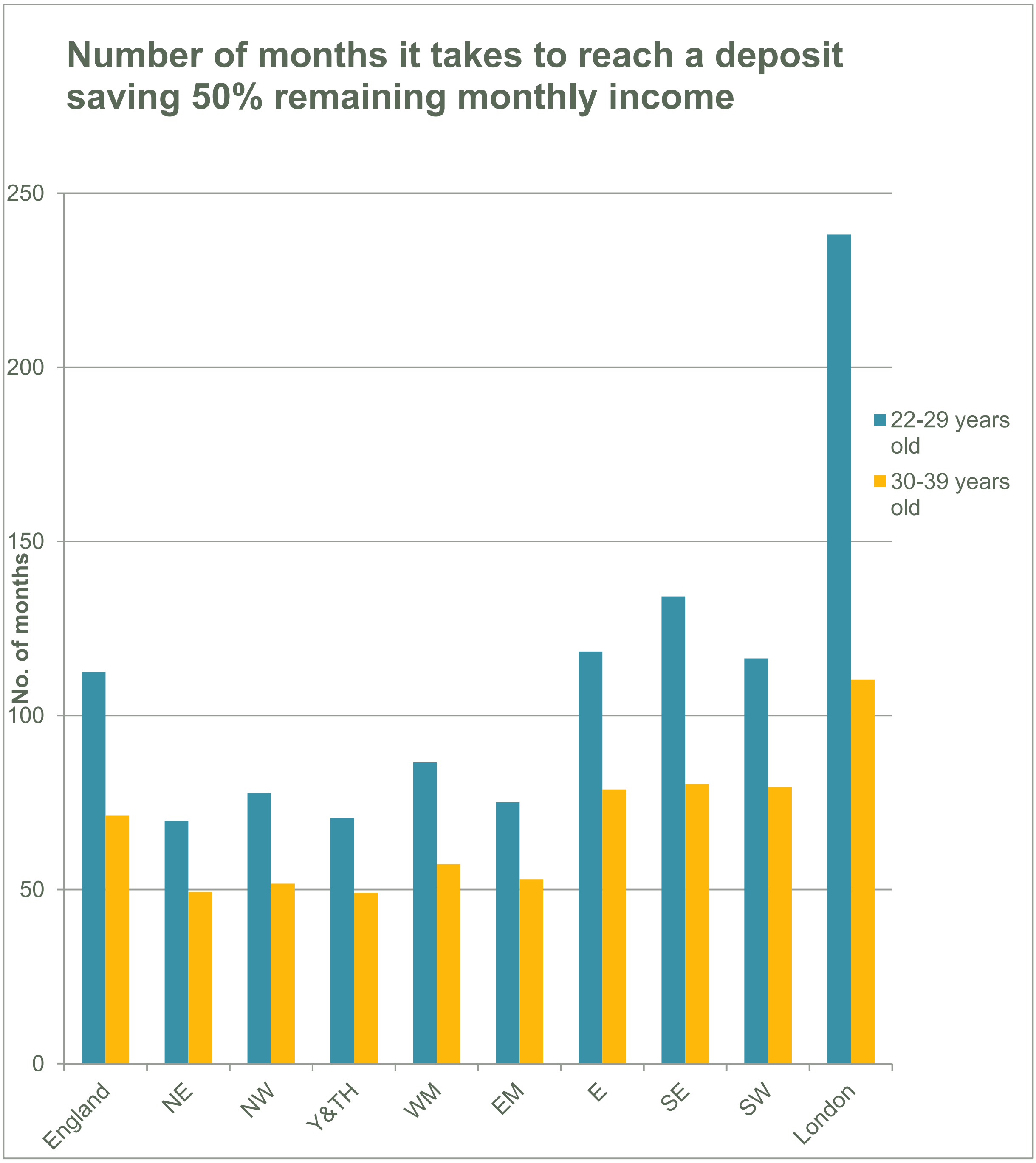
So how difficult is it to save for a deposit? It might be argued that young people should be saving 20% of their discretionary income after rent, utilities and council tax (which still doesn't include essentials such as food, clothing, travel, student loan) – or maybe even 50%?

Across England, for young people in their twenties it would take nine and a half years saving half of their discretionary income to put together a deposit – in London it would take a staggering 20 years. Even if young people didn't eat, travel or clothe themselves and saved **all** of their discretionary income it would take them 56 months - four and a half years - to save a deposit.

Even with higher salaries, thirty-somethings have to save half their discretionary income for almost six years to gather a deposit, explaining why many are putting off starting families and pensions.

Age 22-29					
Region	Discretionary income after bills p.c.m. (£)	Average house price (£)	Deposit at 20% (£)	No of months saving 100% of monthly discretionary income	No of months saving 50% discretionary net income
England	556.07	156,463	31,293	**56**	**113**
NE	571.59	99664	19,933	**35**	**70**
NW	571.69	110,910	22,182	**39**	**78**
Y&TH	617.09	108,779	21,756	**35**	**71**
WM	555.39	120,120	24,024	**43**	**87**
EM	604.46	113,467	22,693	**38**	**75**
E	540.25	159,809	31,962	**59**	**118**
SE	531.36	178,294	35,659	**67**	**134**
SW	512.87	149,257	29,851	**58**	**116**
London	438.43	261,039	52,208	**119**	**238**

Age 30-39					
Region	Discretionary income after bills p.c.m. (£)	Average house price (£)	Deposit at 20% (£)	No of months saving 100% of monthly discretionary income	No of months saving 50% discretionary net income
England	877.25	156,463	31,293	**36**	**71**
NE	808.80	99664	19,933	**25**	**49**
NW	857.81	110,910	22,182	**26**	**52**
Y&TH	886.42	108,779	21,756	**25**	**49**
WM	838.27	120,120	24,024	**29**	**57**
EM	856.99	113,467	22,693	**26**	**53**
E	811.63	159,809	31,962	**39**	**79**
SE	887.61	178,294	35,659	**40**	**80**
SW	751.85	149,257	29,851	**40**	**79**
London	946.73	261,039	52,208	**55**	**110**



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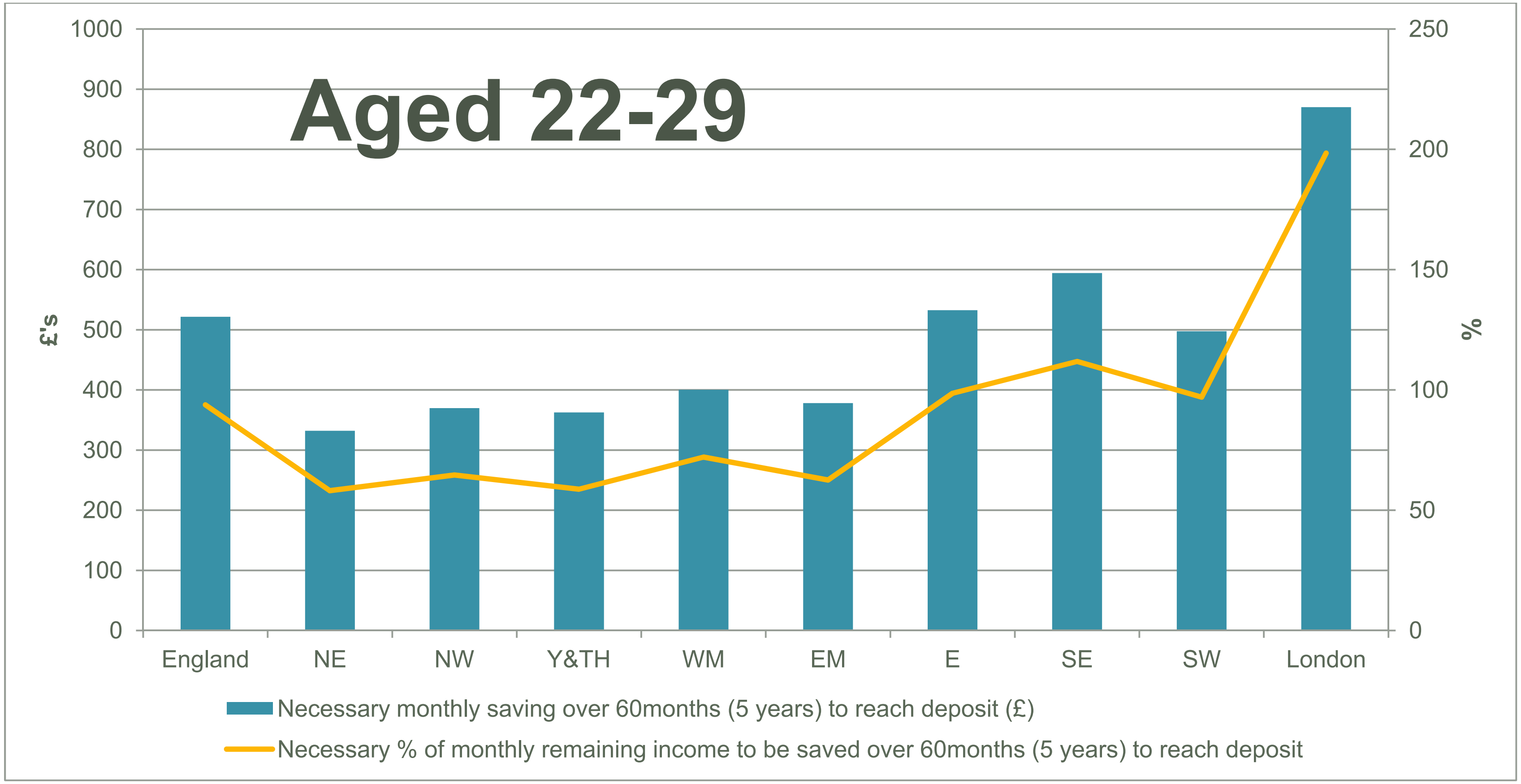
Taking a reasonable time frame to save a deposit – five years – it is possible to see how difficult - and in places impossible - it is for the average young person aged 22-29 to save up for a deposit if current requirements don't change. In the South East and London once rent, utilities and council tax are taken into account the discretionary income is not enough to put together a deposit over 60 months. Given the need to eat, travel and clothe oneself it's practically impossible in the East and South West of England too – that's half the country in which it is impossible to save a deposit over five years.

Even taking a longer timeframe – ten years – unless the scale of deposit required is reduced, young people in London will still be unable to save for a deposit while across the country they will need to put aside between a third and a half of their discretionary income every month.

Age 22-29							
Region	Net discretionary income after bills p.c.m. (£)	Average house price (£)	Deposit at 20% (£)	Necessary monthly saving over 60months (5 years) to reach deposit (£)	Necessary % of monthly discretionary income to be saved over 60 months (5 years) to reach deposit	Necessary monthly saving over 120 months (10 years) to reach deposit (£)	Necessary % of monthly discretionary income to be saved over 120 months (10 years) to reach deposit
England	556.07	156,463	31,293	521.54	**94**	260.77	**47**
NE	571.59	99,664	19,933	332.21	**58**	166.11	**29**
NW	571.69	110,910	22,182	369.70	**65**	184.85	**32**
Y&TH	617.09	108,779	21,756	362.60	**59**	181.30	**29**
WM	555.39	120,120	24,024	400.40	**72**	200.20	**36**
EM	604.46	113,467	22,693	378.22	**63**	189.11	**31**
E	540.25	159,809	31,962	532.70	**99**	266.35	**49**
SE	531.36	178,294	35,659	594.31	**112**	297.16	**56**
SW	512.87	149,257	29,851	497.52	**97**	248.76	**49**
London	438.43	261,039	52,208	870.13	**198**	435.07	**99**



For those in their thirties who want to save for a deposit over five years it is still going to be a real struggle. Across England they will need to put aside at least 40% of their discretionary income every month with that figure around 60% in the South and reaching 92% in London despite relatively high earnings. Even saving over a ten year period, meeting current deposit requirements would mean saving a third of discretionary income, every single month in the more expensive areas of the country.

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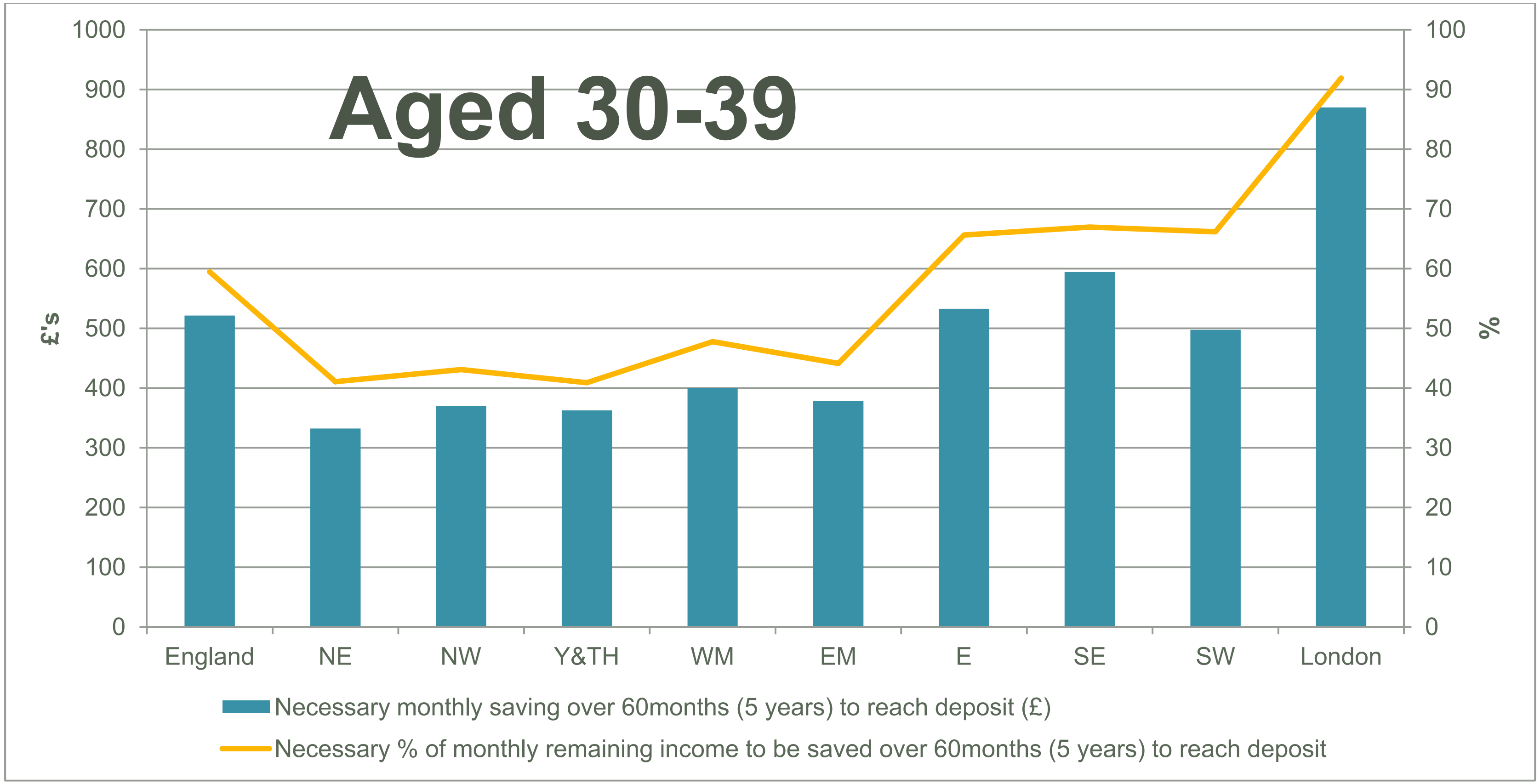
Age 30-39							
Region	Net discretionary income after bills p.c.m. (£)	Average house price (£)	Deposit at 20% (£)	Necessary monthly saving over 60months (5 years) to reach deposit (£)	Necessary % of monthly discretionary income to be saved over 60 months (5 years) to reach deposit	Necessary monthly saving over 120 months (10 years) to reach deposit (£)	Necessary % of monthly discretionary income to be saved over 120 months (10 years) to reach deposit
England	877.25	156,463	31,293	521.54	**59**	260.77	**30**
NE	808.80	99,664	19,933	332.21	**41**	166.11	**21**
NW	857.81	110,910	22,182	369.70	**43**	184.85	**22**
Y&TH	886.42	108,779	21,756	362.60	**41**	181.30	**20**
WM	838.27	120,120	24,024	400.40	**48**	200.20	**24**
EM	856.99	113,467	22,693	378.22	**44**	189.11	**22**
E	811.63	159,809	31,962	532.70	**66**	266.35	**33**
SE	887.61	178,294	35,659	594.31	**67**	297.16	**33**
SW	751.85	149,257	29,851	497.52	**66**	248.76	**33**
London	946.73	261,039	52,208	870.13	**92**	435.07	**46**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London
Necessary monthly saving over 60months (5 years) to reach deposit (£)
Necessary % of monthly remaining income to be saved over 60months (5 years) to reach deposit

Policy environment

We are currently experiencing a housing crisis of supply and affordability. In the short term this has been caused by the significantly reduced levels of mortgage finance and the relatively low loan-to-value terms offered by most mortgage lenders. In the long term it is vital that as mortgage lending returns to more normal levels the continuing lack of housing supply does not create the next house price bubble.

While the absence of mortgage finance is itself a short term constraint for house building, increasing housing supply in the long term will require a planning system within which much more permissioned land is brought forward for development. This is particularly important in the current economic climate as the Government lacks the money to invest in large-scale public sector house-building.

Since the general election in 2010, the Coalition Government, in line with its manifesto, has been working to reform the planning system through its Localism Bill and consultation on the new, rationalised, national planning policy framework which will replace all current planning policy guidance. Eighteen months later the responses to the consultation into the proposed planning changes are still being considered; in the meantime a policy vacuum has developed.

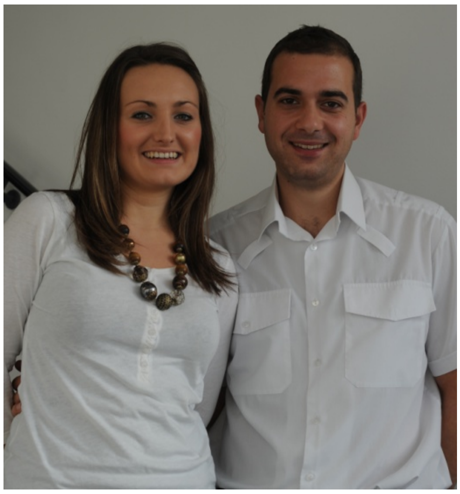
To increase affordability and supply the Government needs to support efforts to create a sustainable mortgage market – without returning to irresponsible lending practices – and put in place a National Planning Policy Framework which is pro sustainable development. Both of these steps must be taken as soon as possible.

Stewart Baseley, Executive Chairman HBF:

“This report reveals the extent of our housing crisis; first-time buyers - the life-blood of the housing market – are unable to access the property ladder in the way a healthy society requires and expects. The lack of mortgage availability and the huge deposit gap are stifling a market already starved of supply. We desperately need to return to realistic deposit requirements and a properly functioning and sustainable mortgage market.

“At the same time, the Government must ensure that the new planning policy they are relying on to increase house-building is truly pro sustainable development and is put in place as soon as possible. Without more homes and more mortgages, young families will lack the security of a roof over their heads and the housing crisis will risk reaching the point of no return.”

Case study



Jenny Dickens is 25 and her boyfriend Daniel Hursit is 29.

Jenny works in PR whilst Dan is a Police officer with British Transport Police and between them they earn around £66,000 per annum.

After two years together they decided to try and buy a home of their own. To be near to work and family, they are looking to buy in Enfield in North London where the average first time buyer home is around £220,000

"It is quite depressing that despite the fact we both work hard and have decent jobs we have to rely on my parents for a home."

Having been told by the bank that they would easily secure a mortgage with a 15% deposit they saved hard and, with the offer of help from both sides of the family, managed to save around £29,000.

However, when they went back to the bank, they were told they actually needed a 25% deposit, or a whopping £55,000.

However, whilst paying rent of £700 per month, plus other monthly outgoings of £2,300 they found it impossible to save more than £700 a month, which would have meant it would have taken them six and a half years in total to get the deposit they need.

To reduce the amount they are paying in rent and bills to allow them to save more money they have both moved back into Jenny's parent's home.

Speaking today, Jenny said;

"We have saved really hard for the past year, on top of what we were each saving as contingency before we decided to think about buying a house. Along with generous offers from both our parents to help supplement our deposit, we'd built up a nest egg that we thought would enable us to buy our first home. But when we went to the bank they basically laughed at us.

"The amount we need to save is frightening. Despite us both working, we have been forced to move back in with my parents to try and save more money, and hope to be able to put away about another £1,000 a month. It is quite depressing that despite the fact we both work hard and have decent jobs we have to rely on my parents for a home. We will have to save hard for many years to afford the deposit required."

Dan	
Salary	£43,000
Take home per month	**£2,362**
Rent	£500
Savings	£300
Bills	£815
Sky	£85
Phone	£50
Gym	£15
Child maintenance	£250
Living (socialising, clothes, holidays)	£300
Total spend	**£2,315**

Jen	
Salary	£23,000
Take home per month	**£1,500**
Rent	£200 (to parents)
Savings	£400
Bills	£815
Train fares	£280
Phone	£25
Gym	£25
Student loan	£100
Living (socialising, clothes, holidays)	£300
Total spend	**£1,430**

About HBF

The Home Builders Federation (HBF) is the representative body of the home building industry in England and Wales. The HBF's members account for some 80% of all new homes built in England and Wales in any one year, and include companies of all sizes, ranging from multi-national, household names through regionally based businesses to small local companies.

HOME BUILDERS FEDERATION

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