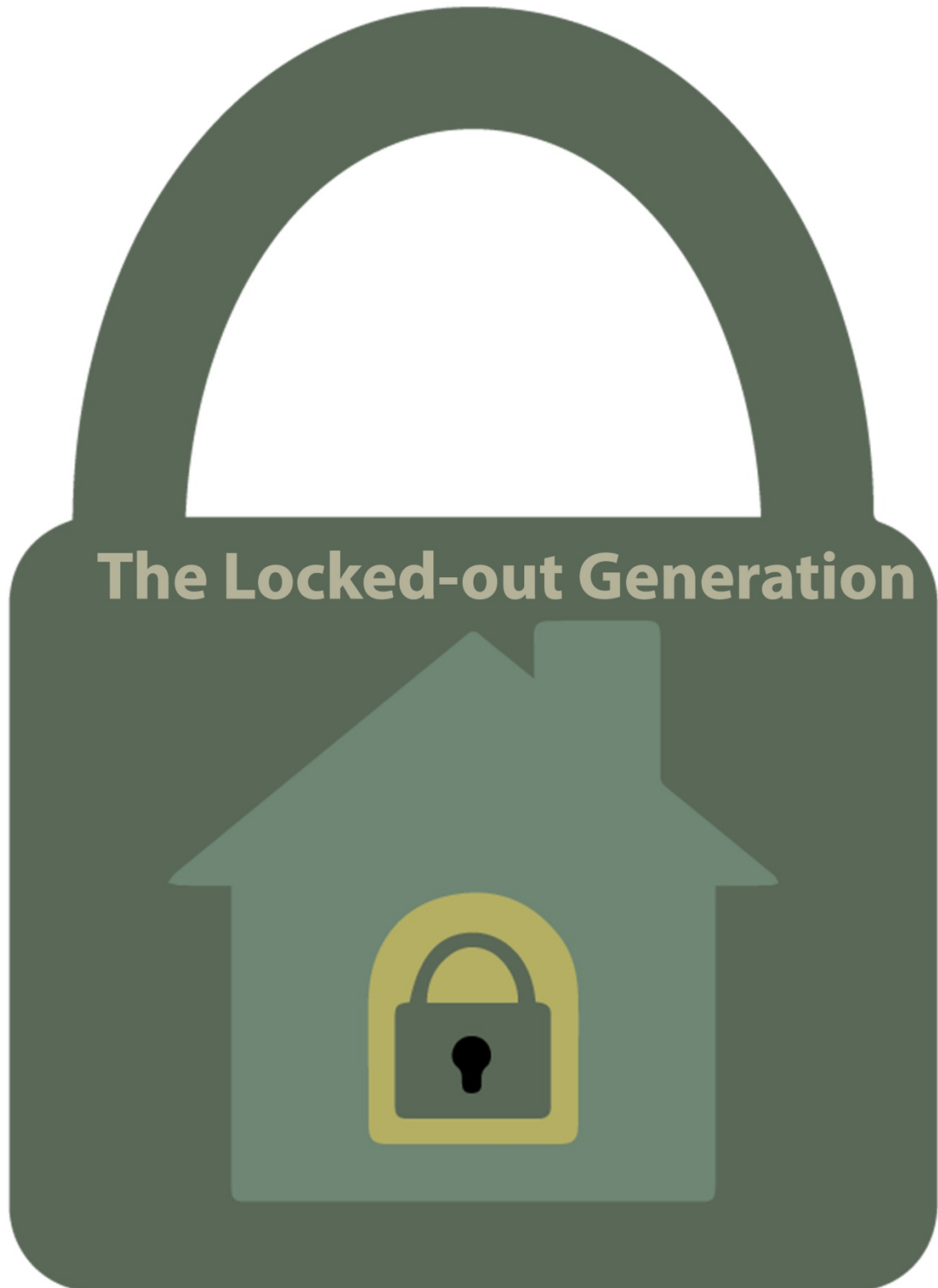


# Broken Ladder III

Feb 2013



**a decade of decline and the deposit gap**



## Key Findings:

### The deposit gap:

- For those aged between 22 and 29 across England, the average deposit is 229% of net annual salary – in London it is 300%
- For those aged between 30 and 39 across England, the average deposit is 176% of net annual salary – in London it is 232%

### A decade of decline:

In 2002 across England it took someone in their twenties putting aside a third of their net income 2.5 years to save a deposit. In 2012 it would take almost 7 years.

In 2002 across England it took someone in their thirties putting aside a third of their net income for 2 years to save a deposit. In 2012 it would take more than 5 years.

### Across England to reach a deposit:

- 22-29 year olds need to save 50% of their discretionary monthly income\* every month for more than ten years
- 30-39 year olds need to save 50% of their discretionary monthly income every month for six and a half years

### Regionally to reach a deposit:

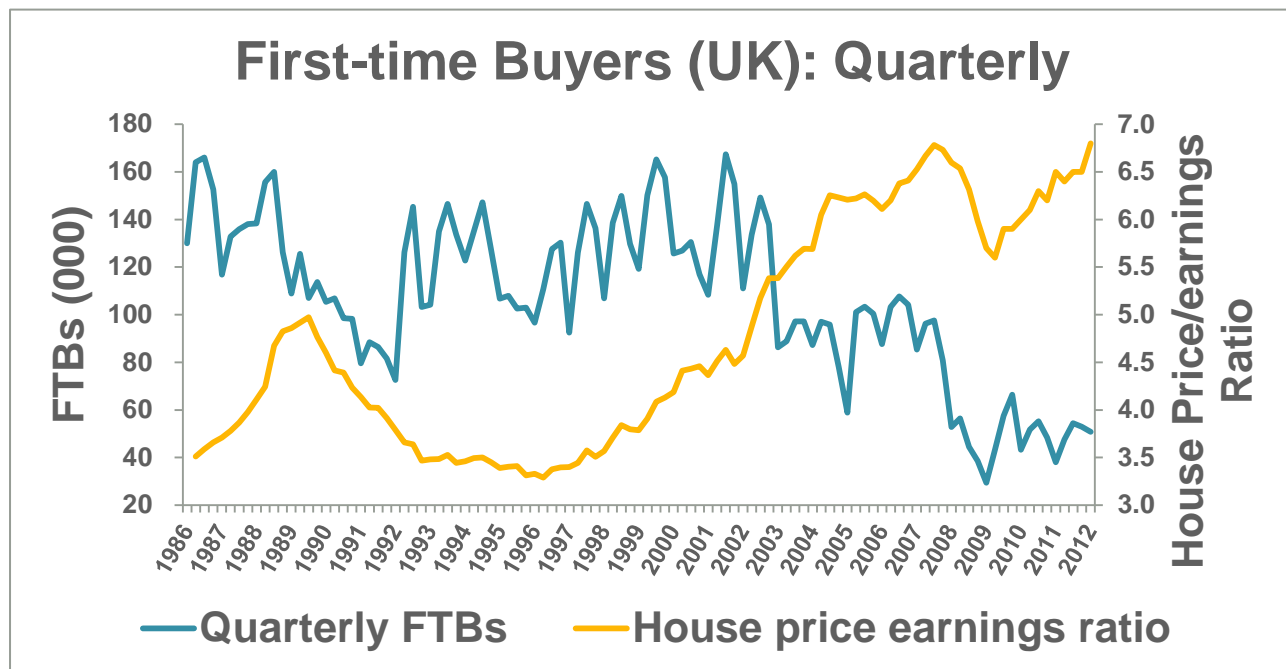
Region	Ave House Price for First Time Buyer (£) 2012	Deposit needed (£)	Months needed while saving 50% of discretionary income (aged 22-29)	Months needed while saving 50% of discretionary income (aged 30-39)
England	175,265	35053	126	77
North East	109,180	21836	74	51
North West	118,722	23744	83	55
Yorkshire & the Humber	119,078	23816	78	54
East Midlands	122,217	24443	82	55
West Midlands	129,332	25866	91	60
East	172,186	34437	132	83
London	292,328	58466	289	128
South East	195,726	39145	152	88
South West	160,225	32045	131	86

*\*Discretionary monthly income is net (post-tax) income minus average private rent, utility bills and council tax. It does not include any other costs, for example, food, travel, clothing, student loan repayment*

## Overview

Getting a foot on the property ladder has been something that young people have aspired to for decades. Statistics show that nothing has changed; around 80%<sup>1</sup> of households want to own their own homes. That dream of home ownership has come under severe attack over the last five years and shows little sign of recovery.

This report reveals how difficult it is for young people to get access to home ownership and offer a comparison over the last decade.



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 being put under increasing pressure. Private rents themselves, having risen over 60% since 1997, 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, 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.

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 reduction in lending following the bursting of the credit bubble has meant that that the average first-time buyer's deposit is currently 20% of the purchase price. House prices fell during the bursting of the credit bubble but they have remained high in historic terms while the average house price to earnings ratio has also stayed relatively high.

<sup>1</sup> [http://england.shelter.org.uk/\\_data/assets/pdf\\_file/0006/66435/Housing\\_aspirations\\_final.pdf](http://england.shelter.org.uk/_data/assets/pdf_file/0006/66435/Housing_aspirations_final.pdf)

This deposit requirement has locked many first time buyers out of the housing market with the current average deposit more than £35,000 across the England.

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

## Home-ownership through recent history

Year	Number of First Time Buyer Loans
1982	433800
1983	477600
1984	531300
1985	557800
1986	612700
1987	523700
1988	580300
1989	455200
1990	409200
1991	336200
1992	447600
1993	519500
1994	532100
1995	420300
1996	465300
1997	501500
1998	525200
1999	592400
2000	500200
2001	568200
2002	531800
2003	369600
2004	358100
2005	363800
2006	402800
2007	359900
2008	192300
2009	196600
2010	198600
2011	193000
2012 <sup>2</sup>	207600

Looking back at the last thirty years it is possible to see how the environment for first time buyers has changed dramatically. In 1982, first time buyer numbers went past 400,000 for the first time ever. Over the next 20 years the number of first time buyers averaged 500,000 annually.

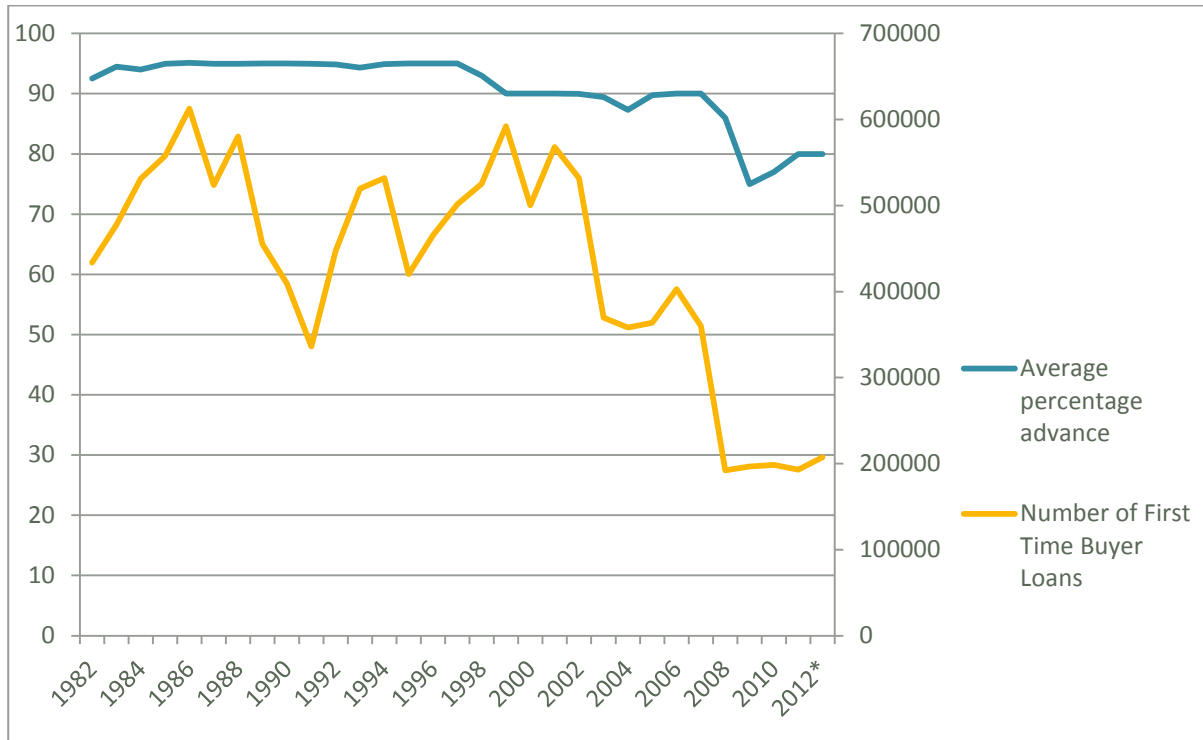
As house prices rose rapidly between 2003 and 2007 the average annual number of first time buyers fell back to 370,000 and in the last 5 years that number has been just 198,000.

Meanwhile the size of the deposit needed to get a foot on the ladder has been fairly constant up until the most recent economic crisis. Throughout the 17 years between 1982 and 1998 first time buyers needed an average of 5% deposit. From 1999 to 2007 that number rose to 10% and since 2008 first time buyers have on average needed 20% deposits.

Unsurprisingly there is a strong correlation between the average percentage advance and the number of first time buyers.

Year	Average percentage advance
1982	93
1983	94
1984	94
1985	95
1986	95
1987	95
1988	95
1989	95
1990	95
1991	95
1992	95
1993	94
1994	95
1995	95
1996	95
1997	95
1998	93
1999	90
2000	90
2001	90
2002	90
2003	89
2004	87
2005	90
2006	90
2007	90
2008	86
2009	75
2010	77
2011	80
2012*	80

<sup>2</sup> 2012 figures estimated using Q1-Q3 results



For a more complete look at the housing situation for first time buyers over the last 30 years it is possible to review the average price of the homes bought by first time buyers, the deposits paid by purchasers and the average annual salary of young people. Since 2009 deposits have been higher than annual salaries reflecting the struggle facing first time buyers.

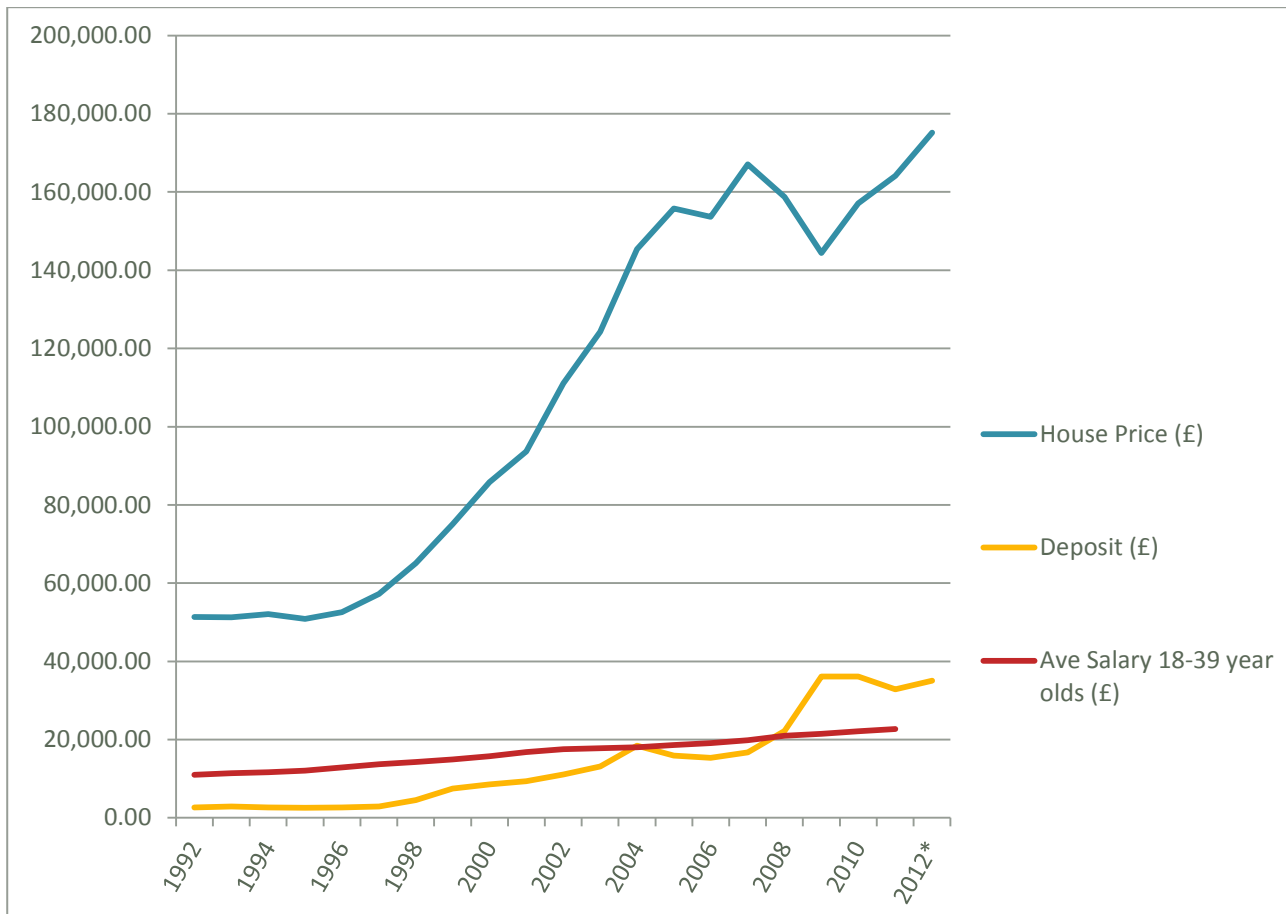
Year	House Price <sup>3</sup> (£)	% Deposit <sup>4</sup>	Deposit (£)	Ave Salary 18-39 year olds <sup>5</sup> (£)
1992	51,331.67	5	2,644	10,973
1993	51,252.25	6	2,896	11,415
1994	52,102.25	5	2,647	11,676
1995	50,866.75	5	2,543	12,051
1996	52,590.25	5	2,630	12,874
1997	57,249.00	5	2,862	13,665
1998	65,076.50	7	4,542	14,309
1999	75,089.75	10	7,509	14,940
2000	85,792.75	10	8,579	15,789
2001	93,639.25	10	9,364	16,784
2002	111,050.50	10	11,116	17,523
2003	124,261.25	11	13,110	17,793
2004	145,398.75	13	18,451	18,072
2005	155,776.00	10	15,947	18,590
2006	153,608.50	10	15,361	19,115
2007	167,049.79	10	16,705	19,843
2008	158,752.65	14	22,225	20,974
2009	144,435.49	25	36,109	21,453
2010	157,076.99	23	36,128	22,115
2011	164,128.97	20	32,826	22,665
2012(Q1-3)	175,184.38	20	35,037	

<sup>3</sup> ONS Live Table: Table 13 Housing market: mix-adjusted house prices, by new/other dwellings, type of buyer and region, United Kingdom, from Quarter 2 19921, 2, 3, 4

<sup>4</sup> CML table ML2 First-time buyers: lending and affordability – rounded numbers in the table above, specific numbers used in calculations

<sup>5</sup> ONS: Table WG0R Age.1a Weekly pay - Gross (£) - For all employee jobs: United Kingdom, 2002

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, in fact, the median wage across the UK may be slightly lower than that of just England but given the population differences across the countries we believe its accuracy remains acceptable.



## A decade of declining home-ownership

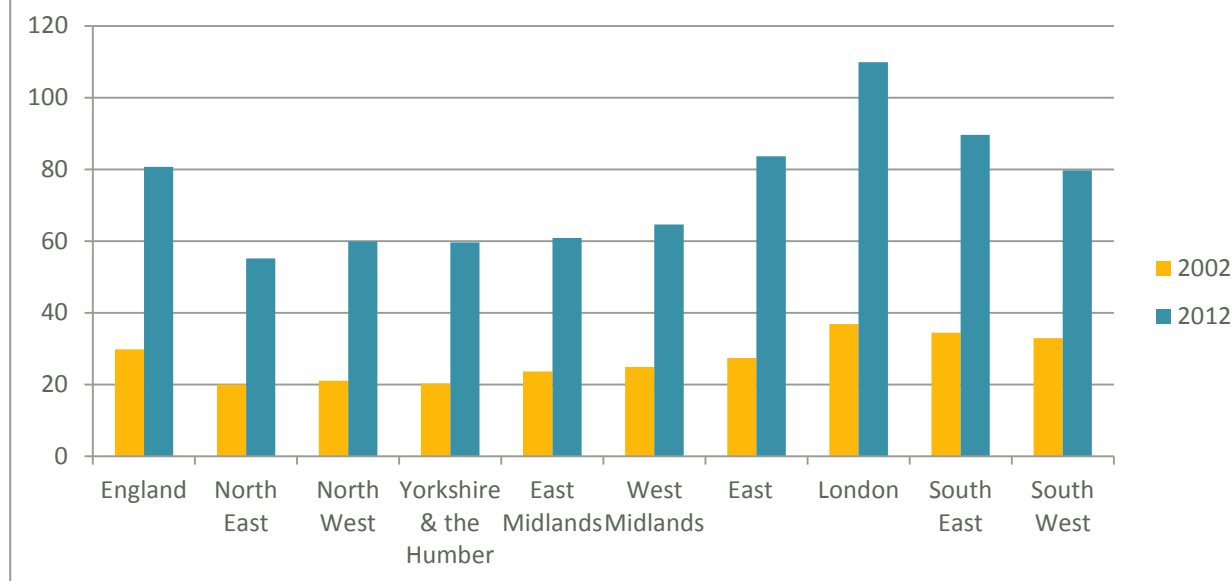
The last ten years have themselves seen huge pressure on affordability for first time buyers.

Region	2002				2012			
	Ave House Price for First Time Buyer (£)	Deposit needed (£)	Average net monthly income (£)	Months needed while saving 33% of net income	Ave House Price for First Time Buyer (£) 2012	Deposit needed (£)	Average net monthly income (£)	Months needed saving 33% of net income
<b>Aged 22-29</b>								
England	106394	10639	1071	30	175,265	35053	1274	83
North East	63857	6386	957	20	109,180	21836	1199	55
North West	69612	6961	993	21	118,722	23744	1199	59
Yorkshire & the Humber	66972	6697	991	20	119,078	23816	1212	59
East Midlands	80106	8011	1017	24	122,217	24443	1212	61
West Midlands	83723	8372	1008	25	129,332	25866	1208	64
East	98094	9809	1074	27	172,186	34437	1247	83
London	166378	16638	1353	37	292,328	58466	1623	108
South East	133606	13361	1163	34	195,726	39145	1326	89
South West	109188	10919	995	33	160,225	32045	1213	79

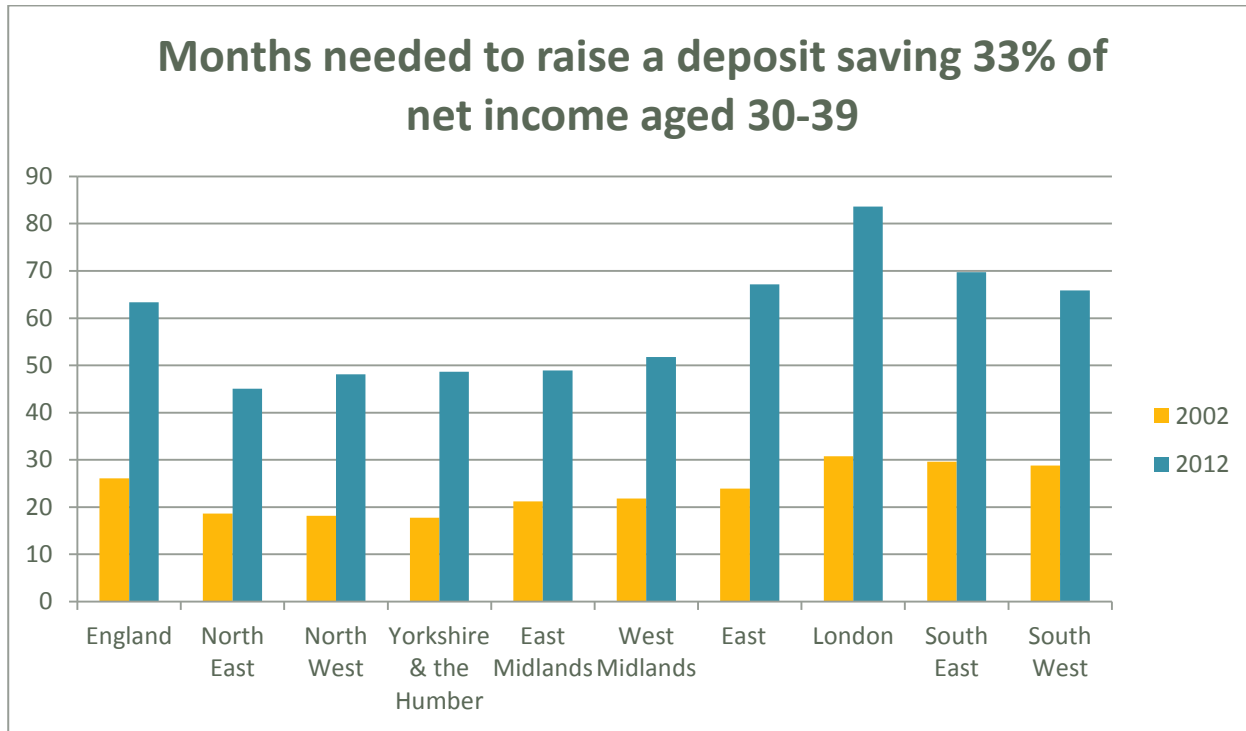
## Aged 30-39

Region	2002				2012			
	Ave House Price for First Time Buyer (£)	Deposit needed (£)	Average net monthly income (£)	Months needed while saving 33% of net income	Ave House Price for First Time Buyer (£) 2012	Deposit needed (£)	Average net monthly income (£)	Months needed saving 33% of net income
England	106394	10639	1224	26	175,265	35053	1623	65
North East	63857	6386	1027	19	109,180	21836	1467	45
North West	69612	6961	1150	18	118,722	23744	1493	48
Yorkshire & the Humber	66972	6697	1132	18	119,078	23816	1485	48
East Midlands	80106	8011	1132	21	122,217	24443	1508	49
West Midlands	83723	8372	1152	22	129,332	25866	1508	51
East	98094	9809	1230	24	172,186	34437	1554	66
London	166378	16638	1623	31	292,328	58466	2133	82
South East	133606	13361	1354	30	195,726	39145	1705	69
South West	109188	10919	1137	29	160,225	32045	1468	65

### Months needed to raise a deposit saving 33% of net income aged 22-29







In 2002 on average across the country someone in their twenties would have had to save a third of their take home pay for around two and a half years to buy their first home. In many areas it would take less than two years and even in London young people would only have had to save for three years.

By 2012 across England someone in their twenties would need to save a third of their take home for close to seven years, a minimum of four and a half years (in the North-East) and ten years in London.

For people in their thirties with higher salaries the situation is not much better. Whereas in 2002 on average they could have expected to have had to save 33% of their income for just two years to buy a home, now it will take more than seven years. In no region will it take fewer than 4 and half a year to save a deposit.

## The Deposit Gap in 2012

Taking average house prices over the most recent four quarters available (Q4 2011, Q1-3 2012) together with the average deposit amount for a first time buyer – 20%<sup>6</sup> - it is possible to estimate the average deposit for first time buyers in each region of England. By comparing these deposits with average net annual salaries it is revealed that in all areas of the country, for those in their twenties and thirties the average deposit is well above 100% of net annual salary.

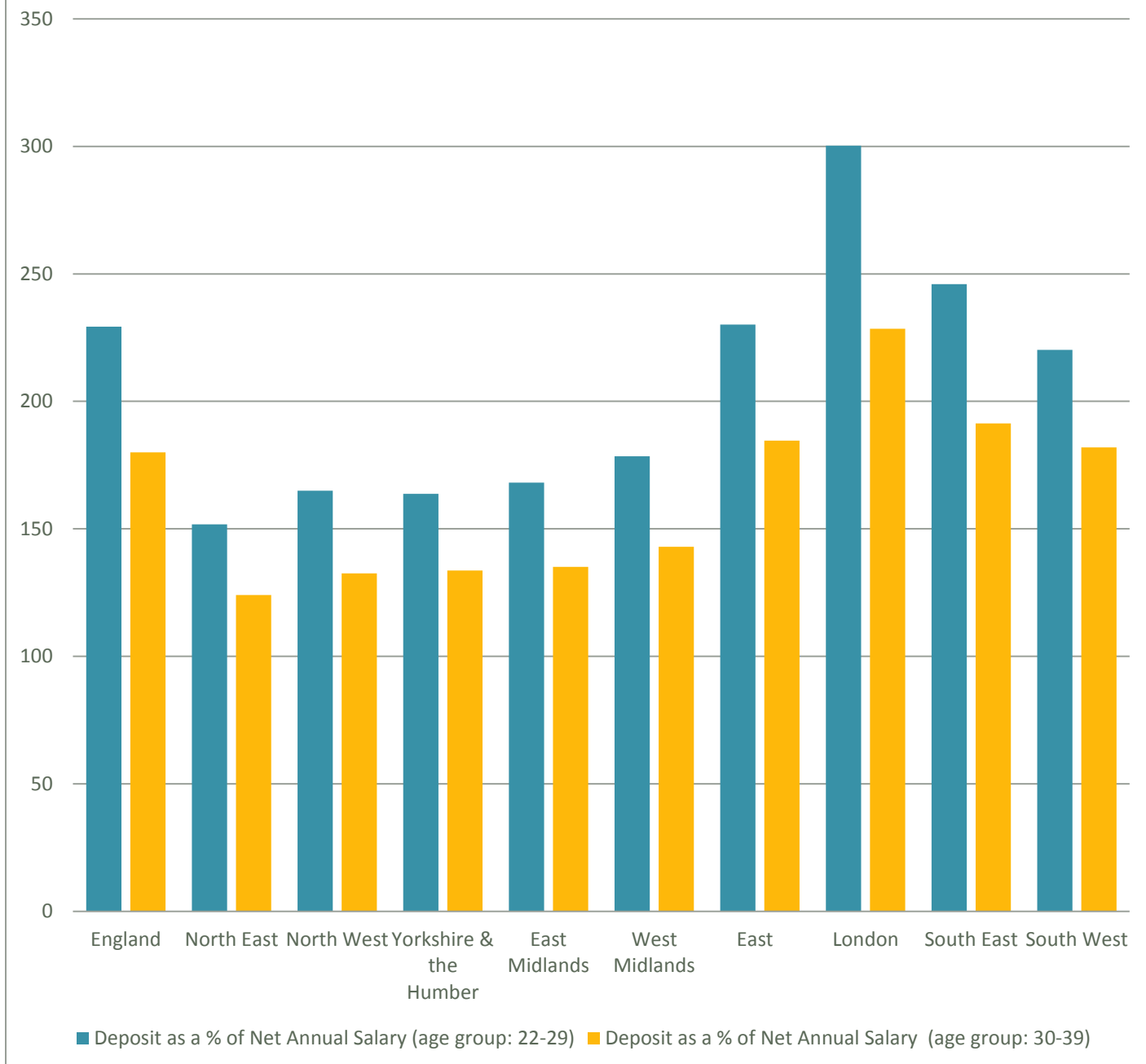
Region	Ave House Price for First Time Buyer (£) 2012	Aged 22-29			Aged 30-39		
		Deposit needed (£)	Average Net Annual Salary (£)	Deposit as a % of Net Annual Salary	Deposit needed (£)	Average Net Annual Salary	Deposit as a % of Net Annual Salary
England	175,265	35,053	15,286	229	35,053	19,473	180
North East	109,180	21,836	14,385	152	21,836	17,606	124
North West	118,722	23,744	14,392	165	23,744	17,913	133
Yorkshire & the Humber	119,078	23,816	14,544	164	23,816	17,815	134
East Midlands	122,217	24,443	14,540	168	24,443	18,090	135
West Midlands	129,332	25,866	14,498	178	25,866	18,094	143
East	172,186	34,437	14,965	230	34,437	18,653	185
London	292,328	58,466	19,473	300	58,466	25,590	228
South East	195,726	39,145	15,916	246	39,145	20,459	191
South West	160,225	32,045	14,554	220	32,045	17,617	182

Taking average net monthly income in those regions and the difficulties young people have in saving for a deposit becomes clear. Across England, first time buyers are having to find £35,000 for a deposit. For those in their twenties, this means saving 33% of their take home pay every month for close to seven years. Even people in their thirties will have to put aside a third of their take home pay every month for more than five years.

There are significant regional differences in the size of deposits needed and the length of time it will take to save those deposits. For those in their twenties in the North East - the most affordable area of the country - it will still take at least four and a half years to save a deposit if 33% of net income is put aside every month. In London, however, it will take nine years. Even those with higher salaries in their thirties will need to save a third of their take home pay every month for almost seven years to get a deposit together for a first home in the capital.

<sup>6</sup> CML: Table ML2 First-time buyers: lending and affordability

## Comparing deposit sizes as percentage of annual salaries



Of course, these figures do not take account of the non-discretionary demands on net income such as rent, council tax and utility bills. Using the averages for these bills, which amount to more than 50% of net income across each region, it is possible to get a clearer picture of just how difficult it is to save for a deposit. It should be noted that these bills do not include food, clothing, student loan repayments or transport.

Aged 22-29					
Region	Average net monthly income (£)	Average Rent - One Bedroom Property <sup>7</sup> (£)	Average Council Tax (£) <sup>8</sup>	Average Utility Bills (£) <sup>9</sup>	Discretionary Take Home Pay (£)
England	1274	495	100	122	557
North East	1199	394	89	122	593
North West <sup>5</sup>	1199	412	91	122	574
Yorkshire & the Humber	1212	395	88	122	607
East Midlands	1212	399	96	122	595
West Midlands	1208	425	93	122	568
East	1247	495	109	122	522
London	1623	995	101	122	405
South East	1326	575	115	122	514
South West	1213	494	106	122	491

Aged 30-39					
Region	Average net monthly income (£)	Average Rent - One Bedroom Property (£)	Average Council Tax (£)	Average Utility Bills (£)	Discretionary Take Home Pay (£)
England	1623	495	100	122	906
North East	1467	394	89	122	862
North West <sup>5</sup>	1493	412	91	122	868
Yorkshire & the Humber	1485	395	88	122	880
East Midlands	1508	399	96	122	891
West Midlands	1508	425	93	122	868
East	1554	495	109	122	829
London	2133	995	101	122	914
South East	1705	575	115	122	893
South West	1468	494	106	122	746

Taking this discretionary income and assuming that - after food, clothing, transport and student loan repayments - 50% can be saved towards a deposit then across England for those in their

<sup>7</sup> [http://www.voa.gov.uk/corporate/statisticalReleases/121213\\_PrivateResidentialRentalMarketStatistics.html](http://www.voa.gov.uk/corporate/statisticalReleases/121213_PrivateResidentialRentalMarketStatistics.html)

<sup>8</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/6654/2141660.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6654/2141660.pdf) (average council tax per dwelling)

<sup>9</sup> DECC - Table 2.2.1 Average annual domestic standard electricity bills(1)(2) by home(3) and non-home supplier(4)

Table 2.3.1 Average annual domestic gas bills(1)(2) by home(3) and non-home supplier(4)

[www.ofwat.gov.uk/consumerissues/chargesbills/latestchanges/](http://www.ofwat.gov.uk/consumerissues/chargesbills/latestchanges/)

Average household bills information: 2012 - 13 (including 5.2% rate of inflation)

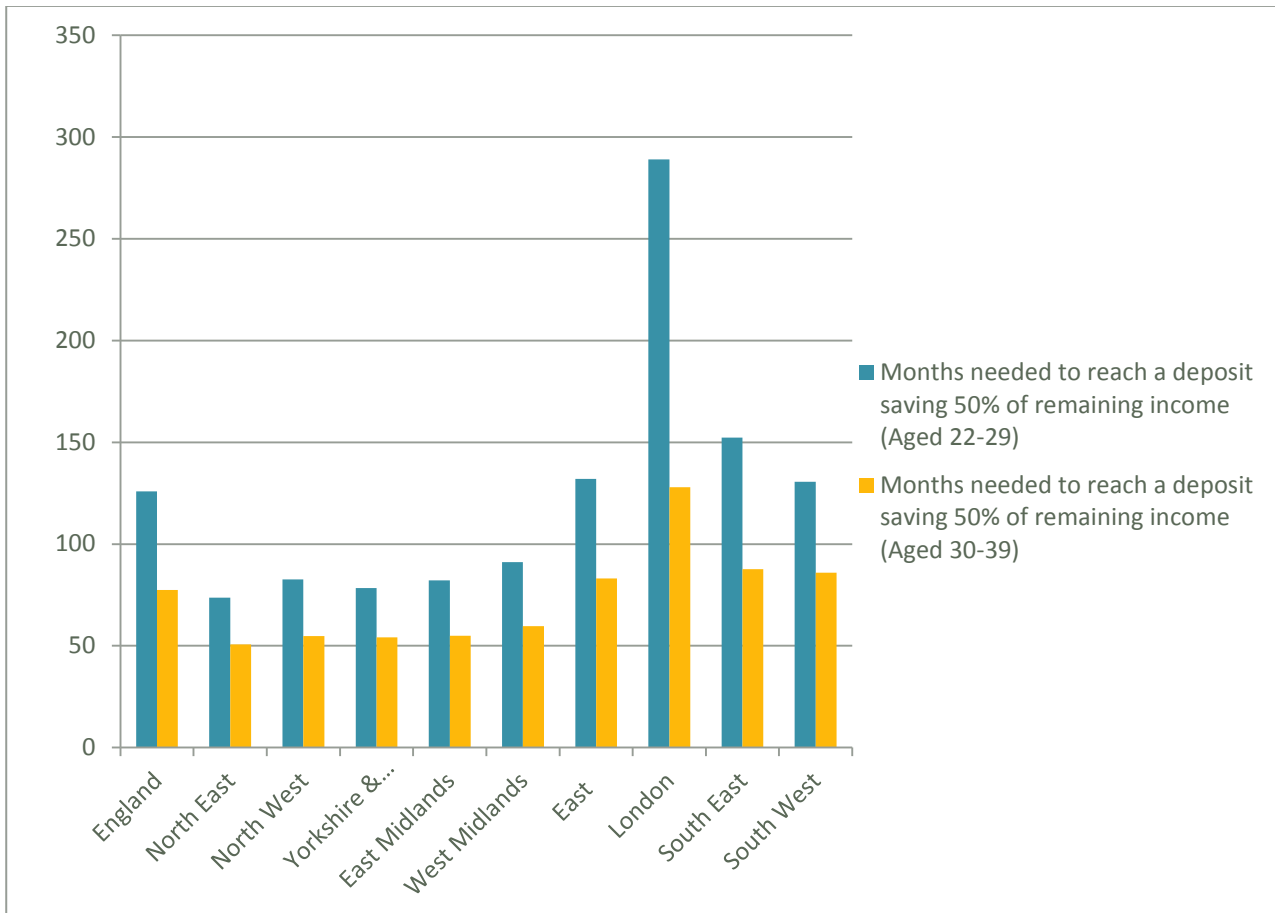
twenties it will take more than a decade to save a deposit and get a foot on the ladder. Unsurprisingly the situation is worst in London where it would take someone aged between 22 and 29 close to 25 years to save a deposit to buy the average first time buyer home<sup>10</sup>.

For those in their thirties the situation is slightly better due to higher salaries – although increased costs associated with having children or making pension payments are not taken into account. With this in mind it would still take the average prospective first time buyer from across the country almost six and a half years to get a deposit together and more than ten years in London.

Aged 22-29				
Region	Ave House Price for First Time Buyer (£) 2012	Deposit needed (£)	Discretionary Take Home Pay (£)	Months needed while saving 50% of discretionary income
England	175,265	35053	557	126
North East	109,180	21836	593	74
North West	118,722	23744	574	83
Yorkshire & the Humber	119,078	23816	607	78
East Midlands	122,217	24443	595	82
West Midlands	129,332	25866	568	91
East	172,186	34437	522	132
London	292,328	58466	405	289
South East	195,726	39145	514	152
South West	160,225	32045	491	131

Aged 30-39				
Region	Ave House Price for First Time Buyer (£) 2012	Deposit needed (£)	Discretionary Take Home Pay (£)	Months needed while saving 50% of discretionary income
England	175,265	35053	906	77
North East	109,180	21836	862	51
North West	118,722	23744	868	55
Yorkshire & the Humber	119,078	23816	880	54
East Midlands	122,217	24443	891	55
West Midlands	129,332	25866	868	60
East	172,186	34437	829	83
London	292,328	58466	914	128
South East	195,726	39145	893	88
South West	160,225	32045	746	86

<sup>10</sup> Assuming that the person's salary did not increase over that time



## 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 well as ensuring mortgage lending returns to more normal levels the continuing lack of housing supply does not create the next house price bubble.

The absence of mortgage finance is the major short term constraint for house building, to increase affordability and supply the government needs to support efforts to create a sustainable mortgage market – without returning to irresponsible lending practices.

In the meantime it has been very important that government has backed schemes that aim to help people with smaller, historically sufficient, deposits. One of these crucial schemes is the 'mortgage indemnity' product NewBuy which has been developed by lenders and home builders to address the deposit gap faced by potential new home buyers.

NewBuy enables a purchaser to buy a new home with a 5% deposit. There are well over 60 home builders signed up and six lenders. After ten months, there have been more than 3,000 NewBuy reservations. For a relatively complex scheme that is a very good start and it is expected that results will improve over the coming months.

Alongside – and complementary to - NewBuy, Firstbuy provides access to home ownership for individuals who would otherwise have been unable to get a foot on the property ladder. Up to September 2012 it had helped around 10,000 people buy their own home, the scheme is now understood by both the industry and home owners, and building on the success of FirstBuy 1 the further allocation of money for FirstBuy 2 will help around a further 16,000 people buy their first home in the next couple of years.

**Stewart Baseley, HBF Executive Chairman, said today:**

**“This report reveals the extent of our housing crisis and the challenge faced by today’s young people. Unlike previous generations that took home ownership for granted, today’s generation have a mountain to climb if they wish to own their own home. We are creating a locked out generation.**

**“However, there is some light at the end of the tunnel and there are now several ways for people to buy with a more normal deposit. Government backed schemes such as Newbuy are offering real options for people looking to buy – or move home – and we are seeing more and more take advantage.”**

## 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 around 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.

### Contact us

Home Builders Federation Ltd  
1st Floor Byron House  
7-9 St James's Street  
London SW1A 1EE  
Tel: 020 7960 1620  
Fax: 020 7960 1601  
Email: [info@hbf.co.uk](mailto:info@hbf.co.uk)  
Website: [www.hbf.co.uk](http://www.hbf.co.uk)





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building  
industry”*