

BRINGING HOME OWNERSHIP BACK INTO REACH

ASSESSING THE HELP TO BUY EQUITY
LOAN SCHEME AFTER FIVE YEARS

SEPT 2018

ABOUT HBF

The Home Builders Federation is the representative body for home builders in England and Wales. HBF's membership of more than 300 companies build most of the market sale homes completed in England and Wales, and encompasses private developers and Registered Providers.

The vast majority of home builder members of the HBF are small and medium-sized companies.

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1.

INTRODUCTION, OVERVIEW AND INITIAL HELP TO BUY POLICY OBJECTIVES

Since its launch in April 2013, the Help to Buy scheme has been integral to the major increases in housing supply and the forward indicators of future supply seen during the past five years.

When announced at the Budget in March 2013, the Help to Buy scheme was assigned three objectives:

- 1. INCREASING SUPPLY OF LOW-DEPOSIT MORTGAGES FOR CREDITWORTHY HOUSEHOLDS,**
- 2. INCREASING SUPPLY OF NEW HOUSING, AND**
- 3. CONTRIBUTING TO ECONOMIC GROWTH.**

Against all policy design performance criteria, the scheme has surpassed expectations:

- Just under 170,000 new homes have been bought through the scheme between April 2013 and March 2018
- The new build market and first-time buyers generally continue to buck the trend in an otherwise tepid housing market with both groups representing an increased share of the mortgage market
- Annual completions through Help to Buy are estimated to support almost 150,000 jobs either directly or indirectly
- 2013-2017 saw the fastest increase in housing supply on record, with more new homes added to the housing stock in 2016/17 than was achieved on average during the 1950s
- More developers, including small builders, have signed up to sell homes with Help to Buy support than any previous housing supply or buyer support scheme
- Based on trends in the housing market since 2013, it is estimated that the Government's Help to Buy equity loan book will have achieved strong value growth and Government's income from the scheme continues to rise as households move into full home ownership



Based on extrapolations from research on first-time buyer households, we can estimate that some 246,000 individuals are now on the housing ladder with the help of this highly successful government intervention.¹

Help to Buy has immeasurably outperformed any previous scheme of its ilk on any metric one wishes to use. Only the scale of the original local authority Right to Buy policy can rival this scheme for the impact it has had in creating new homeowners though, in the case of Right to Buy this was without any supply-side impact.

1. *However, indexing the respective average monthly house prices of new builds and existing properties, shows remarkable consistency over the past 16 years with new builds increasing in average price at a very slightly slower rate in the period since the financial crisis.*



2.

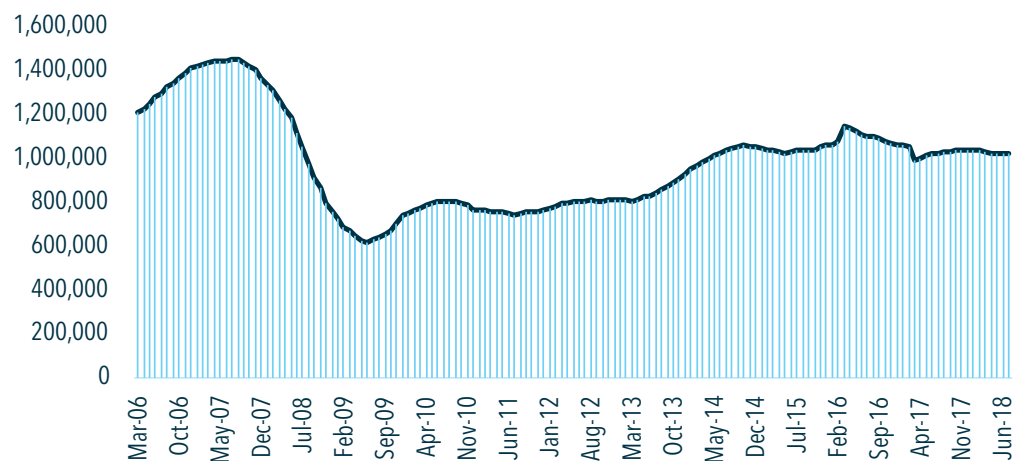
HELP TO BUY IN THE CONTEXT OF THE WIDER HOUSING MARKET

Following a recovery in the overall housing market in the years after 2009, activity has levelled off with around one million transactions being recorded on a rolling annual basis since midway through 2014 notwithstanding a brief spike in numbers in 2016 due to pre-signalled changes to the Stamp Duty regime for buy-to-let investors. This new steady state, while a big improvement on activity during the depths of the recession, remains significantly behind where the market had been during the early and mid-noughties. For instance, the number of property transactions in the year to July 2018, was 21.4% down on the year to July 2006, and 29.6% down on the year to July 2007.

In this context it is all the more remarkable that new build activity continues to rise, with further increases in the number of new homes completed expected to be confirmed when Government publishes statistics for 2017/18 in November 2018.

Because of Help to Buy's focus on supporting first-time buyers and its exclusivity to new builds, first-time buyers and the majority of the new build market have been somewhat insulated from market headwinds.

Property transactions, rolling 12 months, March 2006 to July 2018 (HMRC)

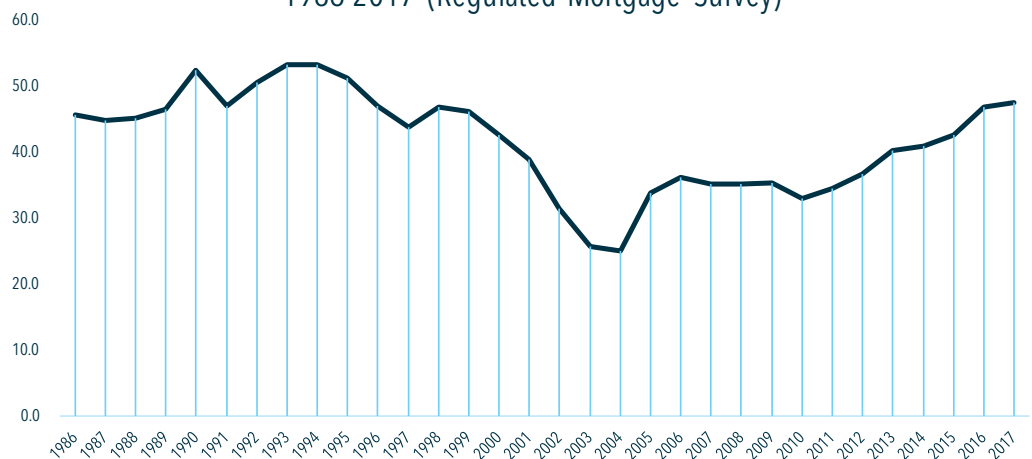


For first-time buyers, general improvements in the availability of mortgage finance have aided the recovery in numbers. In 2017, first-time buyers accounted for 47.5% of all mortgages, the biggest percentage since 1995. The average between 2000 and 2012 was just 34.2%. A large part of this



growth has occurred since 2013 with Help to Buy likely being a major support. The scheme's impact is such that its completions now represent a large proportion of all first-time buyer transactions. In 2017, the 37,485 Help to Buy completions by households purchasing their first home accounted for more than 10% of all loans to first-time buyers².

First-time buyer mortgages as a percentage of all mortgages, 1986-2017 (Regulated Mortgage Survey)



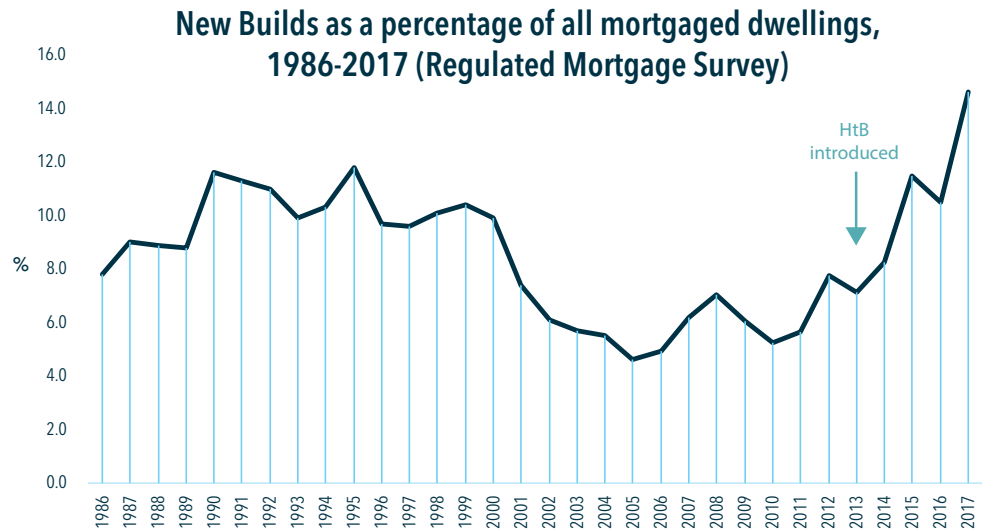
For the new build sector, Help to Buy has been critical in driving the increases in output since 2013. Against the backdrop of a flat housing market in recent years, the proportion of mortgaged property transactions accounted for by new builds has rocketed. Between 1986 – the earliest date for which data is available – and 2012 the long-term average of mortgages accounted for by new loans on new build dwellings stood at 8.2%. In more recent years, from the turn of the century to 2012, the average was 6.3%. By 2017, with house builders continuing to invest in new sites driving record levels of housing delivery, 14.6% of all mortgages were new builds, the highest percentage on record.

Returning even to around 8% of overall housing market transactions would have a major impact on housing supply. Without this support for mortgagors to buy new build properties, without a corresponding increase in cash buyers/investors, including those from overseas, it is difficult to assert that housing supply would not be affected. In a market that remains otherwise static, a proportion of these additional transactions occurring in the new build sector, up by 43.6% on the 1986-2012 average, would inevitably be compromised.

2. 365,800 new loans to first-time buyers were recorded for 2017 according to UK Finance



There are many benefits of owning a newly built home and the design,



energy efficiency and functionality continues to attract new generations of prospective home buyers, but there can be little doubt that this targeted support to boost housing supply is succeeding even in an otherwise sticky housing market.



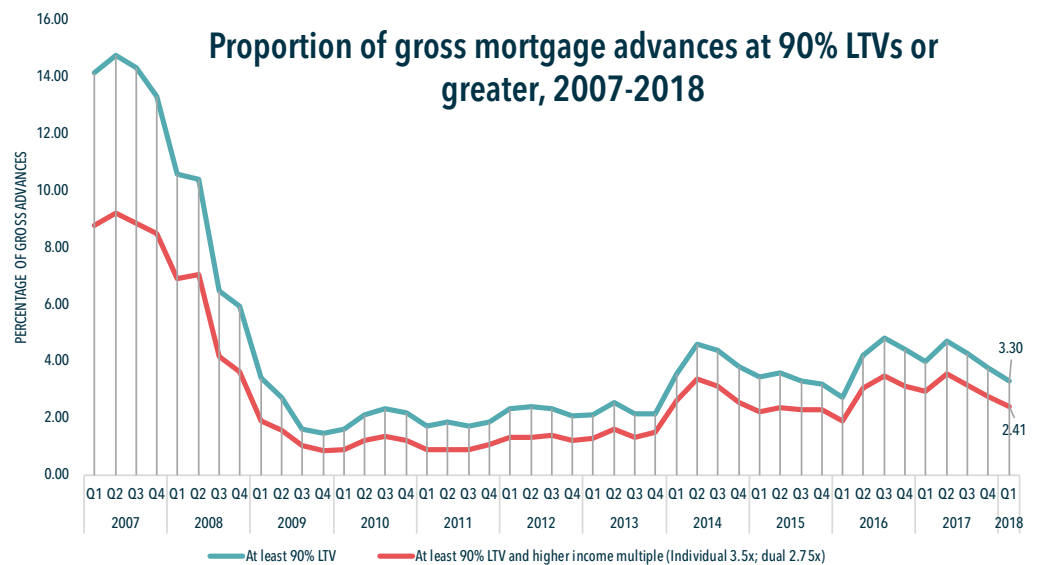
3.

MEETING THE POLICY OBJECTIVES

POLICY OBJECTIVE 1: INCREASING THE SUPPLY OF LOW-DEPOSIT MORTGAGES FOR CREDITWORTHY HOUSEHOLDS

As we have seen, housing market activity remains at stubbornly low levels by historical standards, and in this context the increases in housing supply achieved over the last four years are even more impressive. While annual housing supply increased by 74% between its introduction at the start of 2013/14 and the end of 2016/17, over that period the number of overall housing market transactions in England grew by 23% and still running at around 30% down on pre-crash levels.

Statistics from the Bank of England show that the availability of mortgages products for households seeking to borrow more than 90% of a property's value are still extremely limited compared with pre-financial crisis levels. This is especially important for first-time buyers who may struggle to save deposits to cover up to a fifth of a property's value. Just 3.3% of new lending in the first quarter of 2018 was at 90% Loan-to-Values or greater. For households looking to secure a 90% plus LTV mortgage with a higher income multiple as well, there are even slimmer pickings, with only 2.4% of new lending at LTVs of 90%+ going to households where the borrowing to income multiple is greater than 2.75x for couples and 3.5x for individual borrowers³.

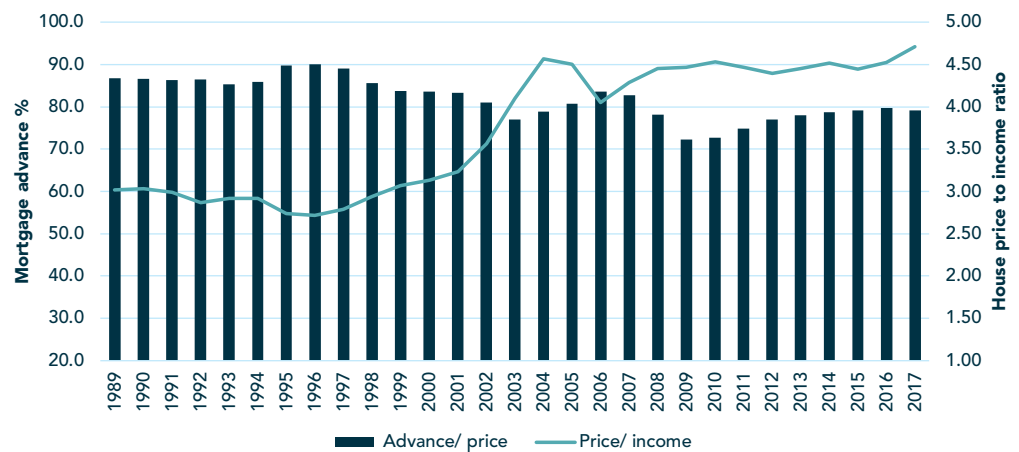


3. Bank of England and Financial Conduct Authority, MLAR Table 1.31, 'Residential Loans to Individuals'



As borrowing terms have become more restrictive and house prices have grown, affordability pressures for first-time buyers have attracted increased attention. A generation ago, first-time buyers were typically purchasing a property costing around three times incomes and securing a mortgage of 85-90% of the home's value, albeit with generally higher interest rates. Today's first-time buyers are only likely to access a mortgage advance of 75-80% of a purchase price which is more like 4.7 times of the household's income.

Average FTB mortgage LTV & average FTB house price to income ratio (Regulated Mortgage Survey)



Help to Buy has helped many households to overcome this challenge. Government's intervention bridges the affordability gap for households, putting more first-time buyers in the type of situation that their predecessors may have experienced.

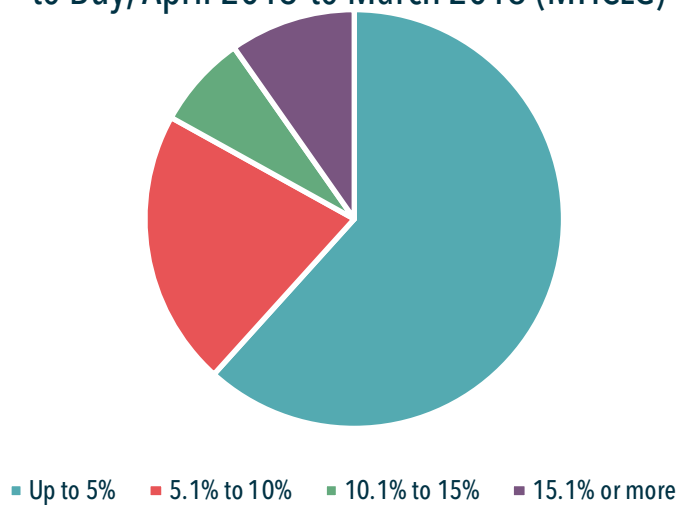
For mortgage lenders, advancing loans supported by Help to Buy is inherently less risky for as a result buyers are benefiting from very attractive rates. For first-time buyers with limited savings and no existing housing equity, this makes home ownership much more attainable. Even if more mortgages were available at higher LTVs and income multiples, it is inevitable that these would be priced significantly higher by lenders.

The majority of households using Help to Buy contribute just 5% of the property's value as a deposit. As would be expected, amongst first-time buyers, this blended 58% rises to 62%, meaning that close to two-thirds of households taking advantage of a Government equity loan to unlock



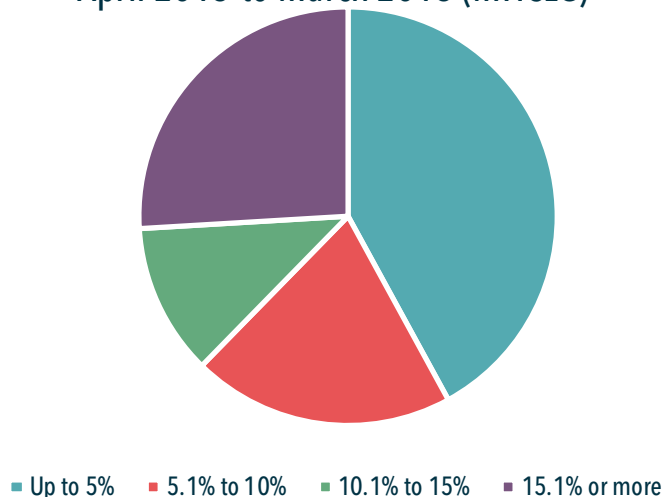
home ownership, to the extent that this is a necessity rather than a choice, will realistically have little prospect of purchasing a property without it. Given the current mortgage lending environment, this is also probably the case for the 21% of first-time buyers putting down a mortgage deposit of between 5.1% and 10% of the property's value.

Deposit contribution from first-time buyers using Help to Buy, April 2013 to March 2018 (MHCLG)



Amongst the 32,000 non-first-time buyers to have used the scheme, perhaps surprisingly close to two-thirds have used the scheme to access a mortgage with a deposit of less than 10% of the property's value which,

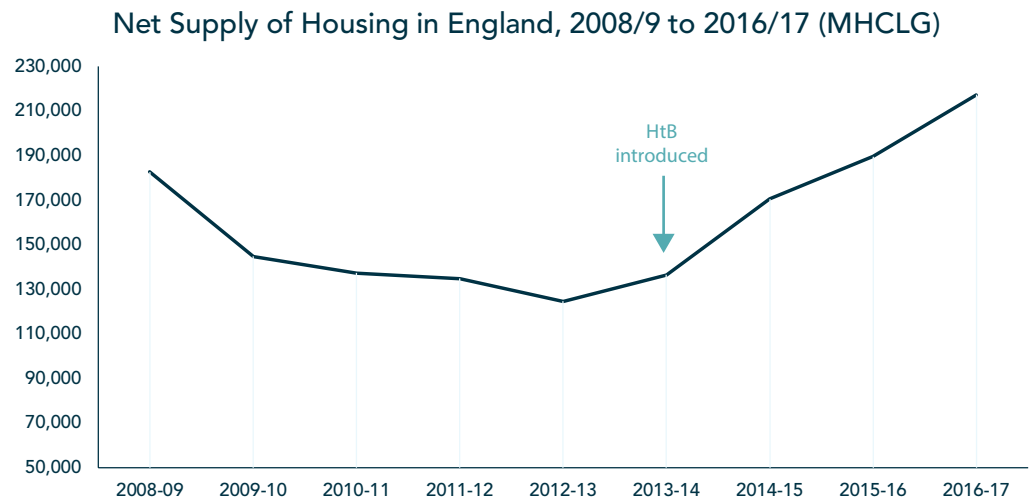
Deposit contribution from non-FTBs using Help to Buy, April 2013 to March 2018 (MHCLG)



again if through necessity rather than choice, would make moving on through the housing market significantly more difficult.

POLICY OBJECTIVE 2: BOOSTING HOUSING SUPPLY

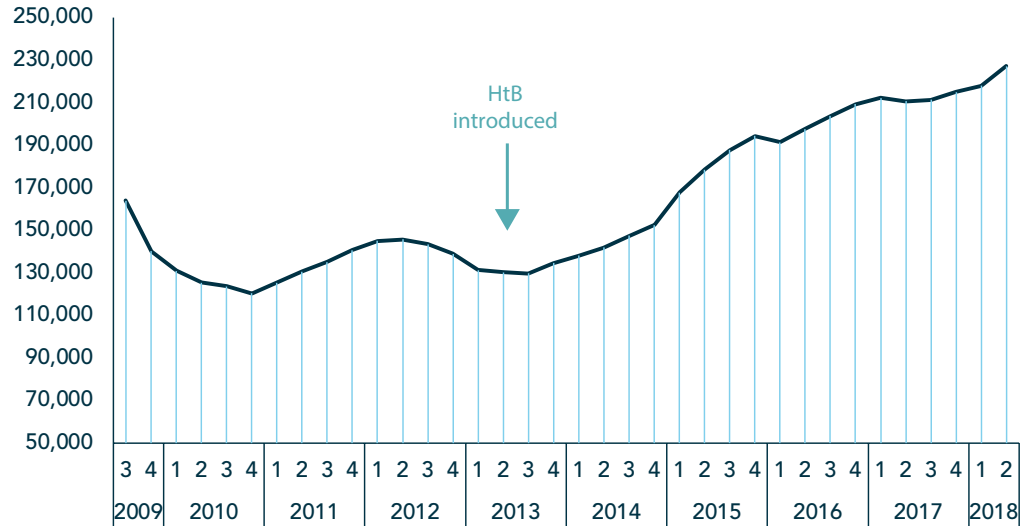
Because Help to Buy is exclusive to new build homes, demand for new properties has increased since 2013, and builders have increased the number of homes delivered to better meet this demand. Since Help to Buy was introduced in 2013, net housing supply has increased by 74% to similar levels seen in the 1950s, with further increases expected when official figures for 2017/18 are published in November.



Given the lack of up to date and robust information on housing delivery for the period since March 2017, we can explore the number of new dwellings issued with Energy Performance Certificates (EPCs) as a very good proxy for housing supply. These statistics, produced on a quarterly basis by the Government, suggest that output in the 15 months for which we are as yet unsighted on reliable official housing supply data, has continued to track upwards. In the most recent 12 month period for which figures are available (to June 2018), there was a 7.9% increase in new residential properties issued with EPCs in England.

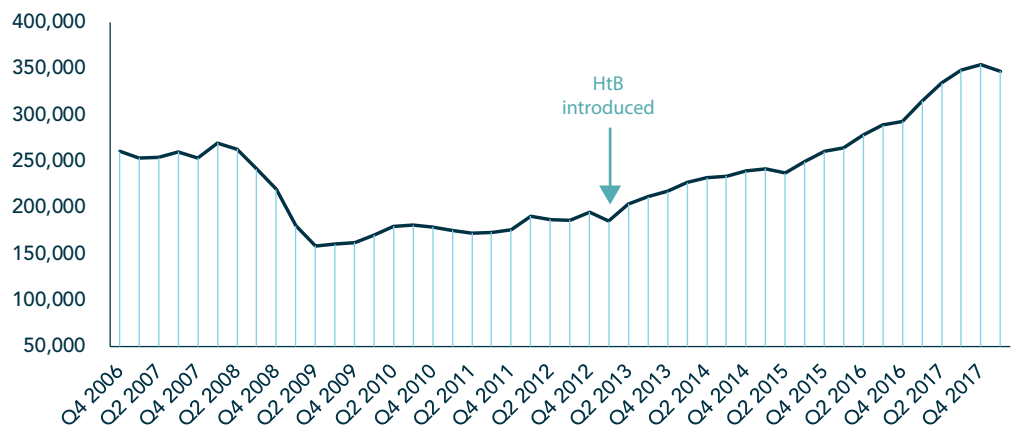


New dwellings issued with Energy Performance Certificates in England, Rolling Annual Total, Q3 2009 to Q2 2018



The extra demand for new homes has seen unprecedented increases in investment by house builders in land and labour with planning permissions up by 88% over this period, clearly demonstrating a continued appetite by developers to sustain the recent increases in supply and deliver more new housing over the next three in particular. Prior to the financial crisis, during a relatively strong period for the industry, annualised planning permissions were typically in the range of 240,000 to 270,000, but during 2017 and into the start of 2018, this has run between 315,000 and 355,000.

Planning permissions for new homes in England, rolling annual total, Q4 2006 to Q1 2018 (Glenigan & HBF)



POLICY OBJECTIVE 3: GENERATING ECONOMIC GROWTH AND SUSTAINING JOBS

The delivery of homes generates unparalleled economic and social benefits. Not only do new builds add to the housing stock, providing a home for a household and helping relieve pressure on the local housing market, house building benefits from relatively low import leakage, creating and sustaining more local jobs.

A report by economic consultants, Lichfields recently found that each new home supports 3.1 jobs meaning that the 48,244 homes bought with Help to Buy last year helped to sustain an estimated 149,500 jobs on sites, in offices and through the supply chain. Since the scheme began, increases in gross housing supply in England, from 137,000 to 227,000 are likely to have supported the generation of more than a quarter of a million additional jobs both directly and indirectly. Independent estimates of the economic impact of housing delivery can be shown to bring the following benefits:

- 280,000 additional jobs in house building, its supply chain and associated services
- Around 20,000 additional affordable homes, either directly provided or funded through planning agreements
- More than £1bn in tax receipts
- £73m towards education spending via Section 106 agreements – enough to provide up to 34,000 new classroom spaces
- £100m in extra council tax revenue



4.

IDENTIFYING THE HOUSEHOLD BENEFICIARIES OF HELP TO BUY

TYPICAL HELP TO BUY PURCHASER HOUSEHOLDS

Despite claims from those opposed to Help to Buy that the scheme supports wealthy households, official statistics show that the individuals, couples and families benefiting from Help to Buy are typical of those around the country striving to get on the housing ladder.

During 2017, the median income of a household purchasing with Help to Buy was £49,000. ONS statistics show that the median income for a household taking out any type of mortgage in 2017 was £47,000.

In the first five years of the scheme's operation, up to the end of March 2018, 136,657 first-time buyer households had purchased a new build home with support from a Help to Buy equity loan, representing more than four in five of all completions up to that point. Based on an assumed 1.8 persons per first-time buyer household, this means that in less than five years since the scheme began, an estimated 246,000 individuals had joined the property ladder with its support.

Across all 169,000 Help to Buy purchases, 80.8% of households using the scheme have been purchasing a first home. This four in five ratio of first-time buyers to non-first-time buyers has remained highly consistent since the introduction of the scheme, with a slight upward trend being evident since 2016.

FTB percentage by year.

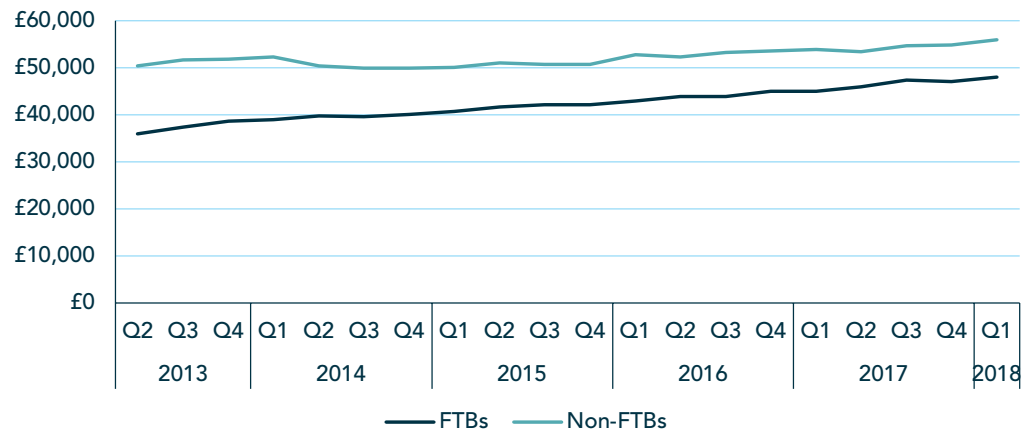
YEAR	FTB PERCENTAGE
2014	79.7%
2015	78.8%
2016	79.9%
2017	81.0%
2018 (to date Sept 2018)	81.9%

While the scheme's critics have frequently claimed that it supports households that do not require assistance, the statistics paint a different picture. In the most recent quarter, the median household income of a Help to Buy purchaser was £49,000⁴.

4. £48,000 for first-time buyers and £55,953 for non-first-time buyers

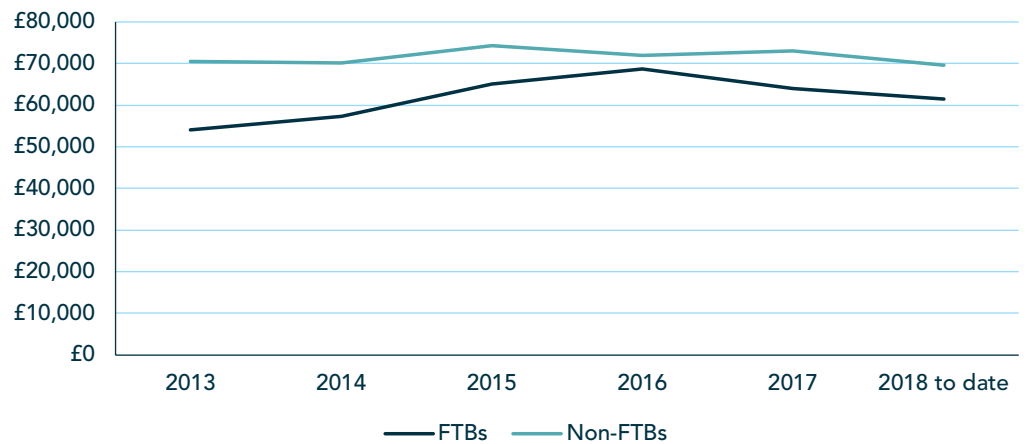


Median household income of Help to Buy purchasers (excluding London) by type of buyer, 2013-2018 (MHCLG)



In London, the typical first-time buyer household making use of the Help to Buy scheme in early 2018 had a median income of £61,400 and non-first-time buyer households had a household income of £69,500. This represented a reduction in the average income of households by 5.5% and 6.5% respectively when compared with 2015 and suggests that the availability of 40% equity loans for London purchasers from February 2016 has successfully opened up the scheme – and home ownership – to more households in the capital. These typical household income levels are well below the eligibility thresholds for affordable housing schemes in London.

Median household income of Help to Buy purchasers in London by type of buyer, 2013-2018 (MHCLG)



LOCAL POPULARITY OF HELP TO BUY

Because the scheme is only available to support the purchase of a new build home, its coverage has necessarily been relatively concentrated in some areas of high housing growth. Inevitably, too, the larger unitary or city authorities have generated most Help to Buy completions. Wiltshire saw close to 2,500 completions in the first 4 ³/₄ years of the scheme's operation. Of the top 20 areas for Help to Buy completions, only five have average equity loan values above £50,000, meaning average purchase prices of below £250,000 on average.

Top 15 local authority areas for Help to Buy completions, 2013-2018

LOCAL AUTHORITY AREA	HELP TO BUY COMPLETIONS
Wiltshire UA	2,606
Central Bedfordshire UA	2,419
Wakefield	2,323
Leeds	2,232
County Durham UA	2,150
Milton Keynes UA	2,024
Bedford UA	2,000
Aylesbury Vale	1,757
Peterborough UA	1,645
Cheshire West and Chester UA	1,632
Telford and Wrekin UA	1,562
Cheshire East UA	1,555
South Gloucestershire UA	1,536
Birmingham	1,532
Liverpool	1,502

Exploring the number of Help to Buy completions as a proportion of total new build homes is perhaps a more instructive way of judging the importance of the scheme in a local area. Of course, a high percentage of new build transactions supported by Help to Buy is not necessarily an indicator of pure additionality, but it does suggest that households are purchasing new build homes rather than second hand properties, and that this increase in effective demand is driving supply and investment in these areas.



City regions, many of which have significant housing delivery requirements, have proven to be very popular for Help to Buy purchasers of new build homes. In the Liverpool City Region and the West Midlands, Help to Buy purchases accounted for more than half of all new build transactions from the commencement of the scheme in 2013 to the end of 2017. Elsewhere, in the Tees Valley and Greater Manchester, between 45% and 50% of new home purchases were supported by Help to Buy.

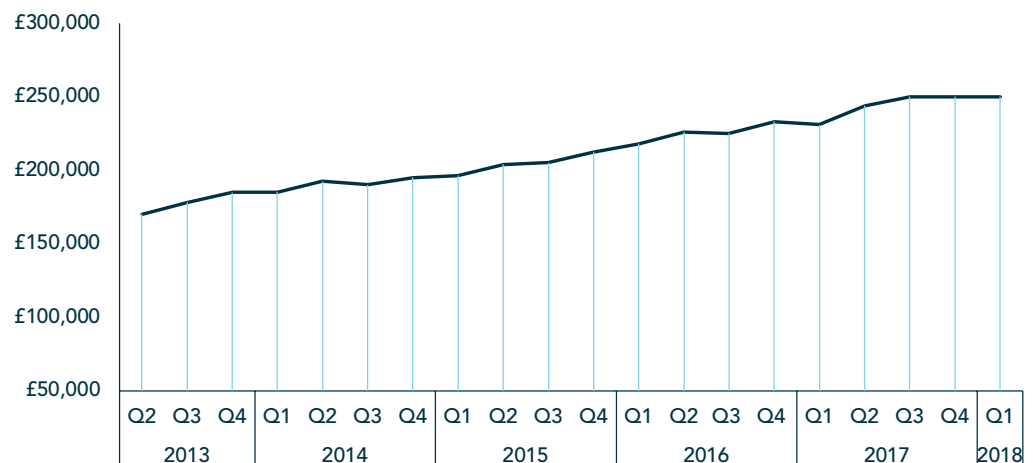
Top 10 local authority areas for Help to Buy transactions as a percentage of new build, 2013-2017

LOCAL AUTHORITY AREA	PERCENTAGE
Tameside	74.0%
Thurrock UA	72.2%
Northampton	71.3%
Knowsley	71.0%
Cannock Chase	67.9%
Walsall	66.6%
North East Lincolnshire UA	66.0%
Kingston upon Hull UA	65.4%
Gloucester	65.2%
Nuneaton and Bedworth	64.6%

AVERAGE PRICE OF A HELP TO BUY SUPPORTED PURCHASE

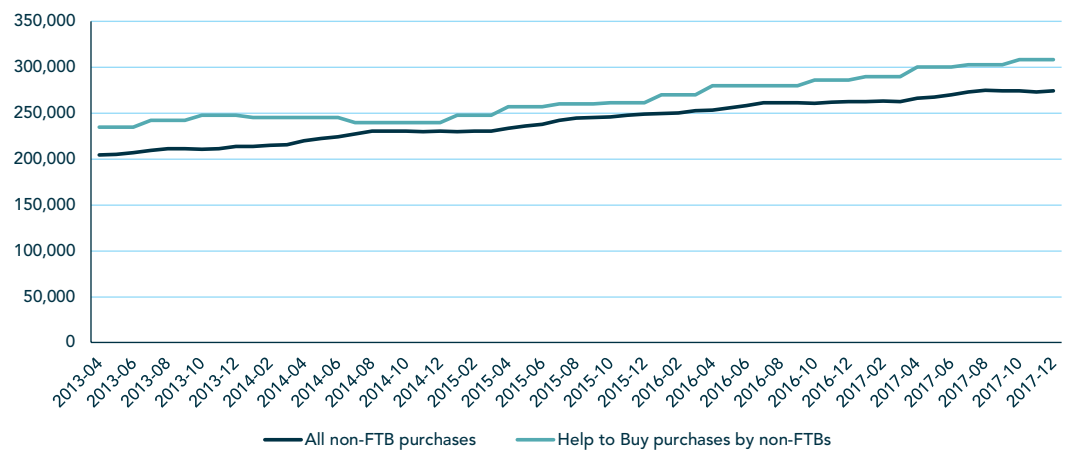
Excluding London, average Help to Buy purchase prices have broadly mirrored the wider market, with some growth in prices in the two years

Quarterly median Help to Buy property purchase price excluding London, Q2 2013 to Q1 2018 (MHCLG)



from the start of 2014 to the end of 2016, but a relative flattening out since then, with average prices flat since the middle of 2017, showing just 2.5% growth in the last year. This compares with the official UK House Price Index

Average purchase price for non-first-time buyers purchasing with Help to Buy and all non-first-time buyer purchases (MHCLG & UK House Price Index)



Since Help to Buy began the average purchase price for non-first-time buyers using the scheme has increased by 33.2%. This compares with a 34.3% increase in the average purchase price of non-first-time buyers in the overall housing market.



5.

HOUSE BUILDER PARTICIPATION

Unlike previous housing supply or home ownership initiatives which involved significant developer equity contributions, Help to Buy has boosted supply from all areas of the market, from large national house builders to small, local builders, demonstrated by the 3,000 or so house builders now registered to provide Help to Buy homes. By comparison predecessor schemes such as HomeBuy Direct, FirstBuy and NewBuy had only a couple of dozen participating builders. Indeed, for all developers – even the largest – the requirement to set aside capital that could otherwise be spent on land acquisition and building would have a suppressive effect on investment and housing supply. Furthermore, the Mortgage Credit Directive in March 2016 makes private sector provision of shared equity or second charge lending considerably more complex without extensive additional regulation.



6.

HELP TO BUY AS AN INVESTMENT PROPOSITION

The Government's support for Help to Buy, which in the first five years of the scheme's operation totalled £8.9bn, is not expenditure but an investment and represents an attractive portfolio which is already generating significant income and continues to grow in value. Estimating the potential uplift in value of the portfolio is difficult but a simple calculation using the value of loans made in each month since April and the most recent July 2018 House Price Index for England, suggests that the growth in value of the holdings could be as much as £935m, putting the value of the equity loans at £9.8bn, up 10.5% on the initial resource outlay.

It should be noted that this estimate is based on national house price movements for England whereas the homes on which the equity loans are held will not be distributed evenly around the country, and house price indices cannot predict the value of individual units or developments.

YEAR	VALUE OF LOANS AT COMPLETION (£M)	ESTIMATED CURRENT VALUE OF LOANS (£M)	ESTIMATED UPLIFT (£M)	UPLIFT %
2013	566.15	746.00	179.85	31.8%
2014	1,226.04	1,515.24	289.20	23.6%
2015	1,469.74	1,694.76	225.02	15.3%
2016	2,095.60	2,249.34	153.73	7.3%
2017	2,911.29	2,988.12	76.84	2.6%
2018	665.43	676.59	11.16	1.7%

This estimate assumes that all existing equity loans are still held by Homes England but, in reality, we know that the Government is already seeing a return on this investment as purchasers staircase up towards full ownership or have remortgaged to pay off the Government equity loan:

'Receipts from Help to Buy loan redemptions have been growing for some time and again demonstrate the product's effectiveness as borrowers move into full ownership by repaying their loans to Government.'

(Homes England Annual Report and Financial Statements 2017/18)

In 2017/18, Help to Buy receipts from staircasing and full redemptions accounted for income for the Exchequer of around £500m though from the available information it is not possible to estimate what level of uplift this represented on the initial investment.



7.

ADDRESSING THE CLAIMS OF A 'HELP TO BUY PREMIUM'

Ever since Help to Buy came into operation it has attracted criticism from anti-private sector lobby groups and commentators. One frequent area of focus for critics has been the scheme's perceived impact on new build house prices or the housing market more generally.

In 2015, Shelter published 'How Much Help is Help to Buy?' This questionable analysis has resurfaced at regular intervals since then, often with the headline 'Help to Buy adds £8,250 to the price of an average home' or similar. Despite the attention it has received, the research is – to put it kindly – dubious. The calculations were based on research conducted over a decade ago and the conclusion was predicated on the assumption that for each 1% increase in mortgage credit, house prices increase by 0.36%. Subscribing to this theory means that any measures to expand lending to historically normal levels, either driven from the centre or by lenders themselves, will be deemed inflationary.

Shelter's analysis had several other major flaws rendering its conclusions irrelevant. Unfortunately, the key revelation is hidden away in the report's footnotes. For starters, the headline rate of inflation supposedly caused by Help to Buy was inclusive of the Mortgage Guarantee scheme for the secondary market which closed in 2016.

The price increase attributed by Shelter to the Equity Loan variant, was £4,500, but critically, 'the methodology does not reflect any dampening effect that the extra supply of homes built through Help to Buy would have had on house prices'. Put simply, Shelter has taken account of the additional demand as a result of the scheme, but none of the additional supply. Meanwhile, they have used their sketchy report to attack Help to Buy and those messages continue to be repeated.

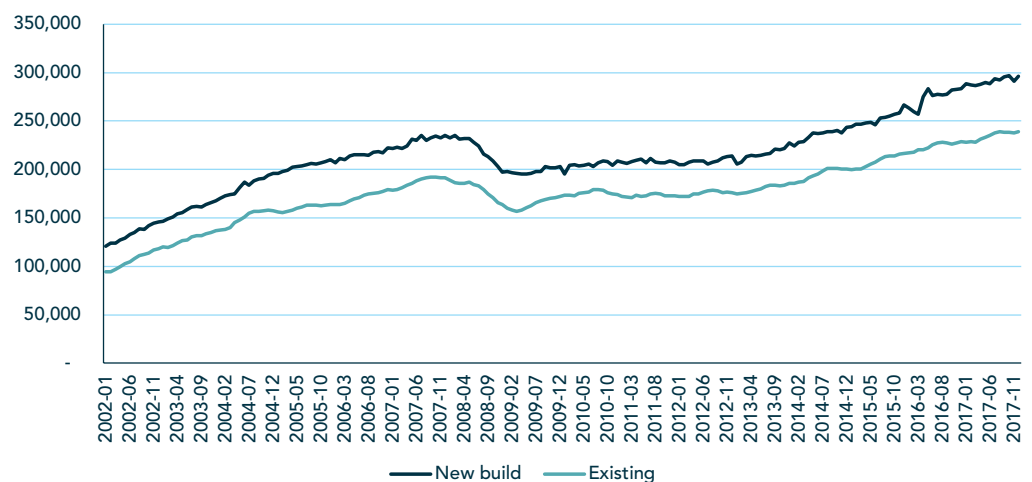


HOW HAVE NEW BUILD PRICES CHANGED SINCE THE SCHEME'S INTRODUCTION?

It is entirely true to say that new build house prices have increased since 2013. As new homes account only for 10-15% of all housing market transactions, the prices for these homes are set by the wider housing market.

In September 2017, the average price of a new build home was 25% more than the average second hand property sold in the month. However, this disparity is nothing new. In the decade preceding September 2017, new build prices had risen by 26% while existing properties transferred from one owner to another during that period increased in price by 23%. Looking at only the period since the Help to Buy scheme came into operation yields little difference in the analysis. Since March 2013, new build prices have, on average, increased by 38%, compared with a 35% increase in existing properties.

Average monthly new build and existing property purchase price, Jan 2002 to Dec 2017 (UK House Price Index)



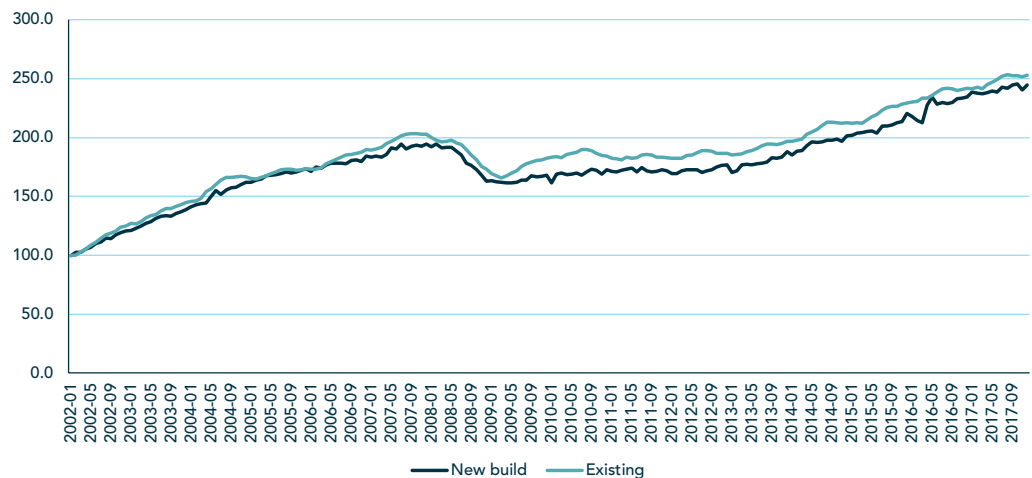
It has long been acknowledged that new build homes are, on average, capable of generating a slightly higher price than an equivalent older property. This is a principle accepted by homebuyers, lenders, valuers and others in the market. This 'premium' was at its largest around 2005-06. While the new build average price, as a percentage of the existing property transaction average price fluctuates, the average tends to be



around 15-25% higher.

The slightly faster rate of increase amongst new build properties is likely accounted for by the change in product mix over time.

Indexed monthly new build and existing property average price, Jan 2002 to Dec 2017 (100=Jan 2002) (UK House Price Index)



However, indexing the respective average monthly house prices of new builds and existing properties, shows remarkable consistency over the past 16 years with new builds increasing in average price at a very slightly slower rate in the period since the financial crisis.

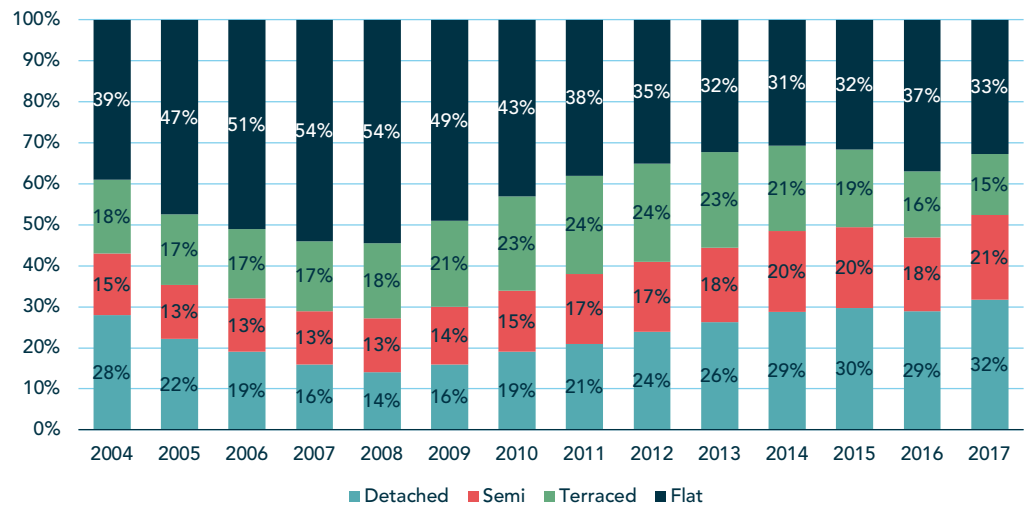
CHANGING NATURE OF THE NEW BUILD PRODUCT

In 2017, 77% of new build homes were houses, compared fewer than half throughout much of the late 2000s. A much greater proportion of new houses today are detached or semi-detached properties, reflecting the additional affordability provided by Help to Buy, allowing households to access housing that meets their family's needs. In 2006-08, with prescriptive housing densities built into planning policy, more than half of all new homes were flats. The production of more family housing has represented more market responsiveness in the delivery of new homes and could be characterised as allowing households to jump to the second rung of the housing ladder, allowing for growth in families and greater



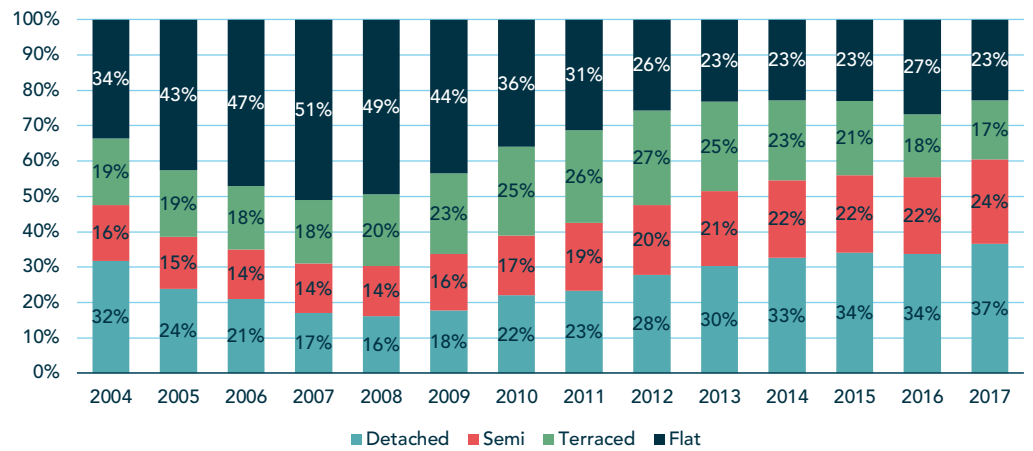
flexibility. This will have been particularly helpful for families that put off buying a home during the late 2000s and early 2010s as a result of a constrained mortgage market and other difficult market conditions. It is

Registered new build sales mix, 2004-2017



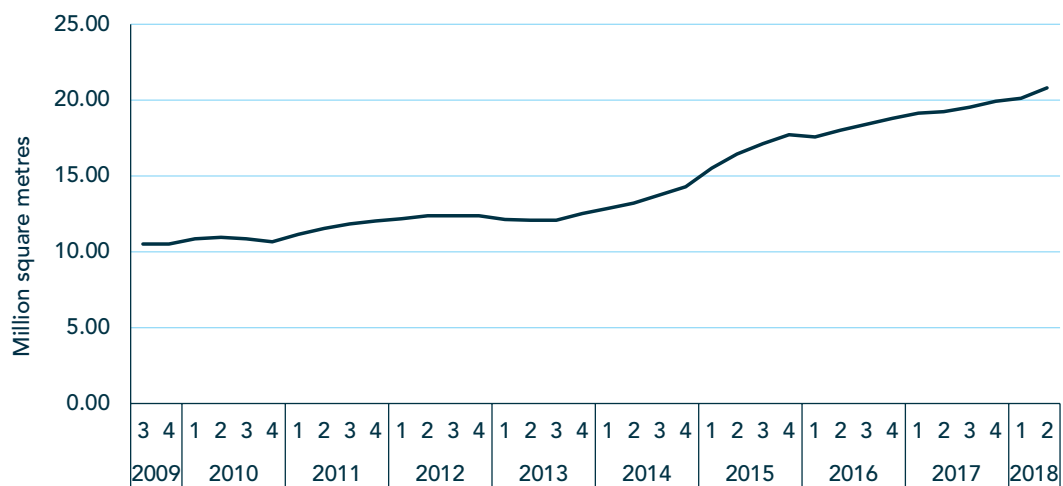
also beneficial in the longer run for newer first-time buyers who may face fewer transaction costs in the future as they are able to stay for longer in their first property.

Registered new build sales mix (excluding London), 2004-2017



The shift outside of the capital has been even more pronounced. In 2007, more than half of all new homes built outside of London were flats. A decade later the proportion has fallen to 23%.

Total floorspace in newly built dwellings in England, rolling annual total, Q3 2009 to Q2 2018 (MHCLG)

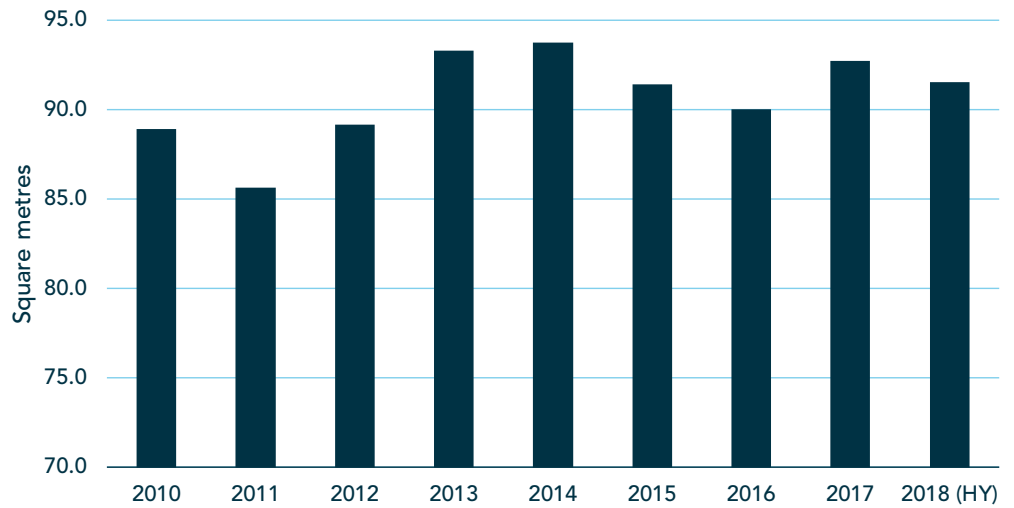


As one would expect from the above, this shift in product has led to a big increase in the volume of new housing being produced, even more so than the 75% increase in units built would imply. In the year to June 2018, just under 21 million square metres of new housing was completed, close to double that which was produced in 2009 when, encouraged by prescriptive planning policies, flats were the predominant type of housing completed.

So far in 2018, new dwellings were produced with 91.5m² of internal floor space, a 7% increase on 2011.



Average floorspace in newly built dwelling in England, 2010-2018



This change in mix and size of new homes has, inevitably, affected headline prices for new build housing so goes some way to explaining any minimal new build price inflation above the wider market.



