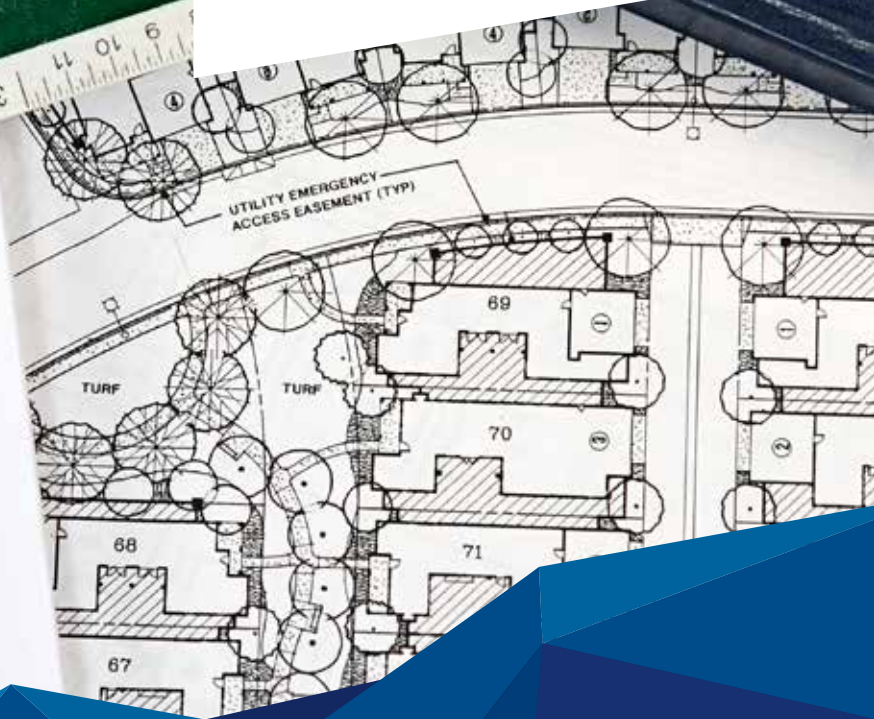


-  PHASE 1
-  PHASE 2
-  PHASE 3
-  PHASE 4
-  PHASE 5



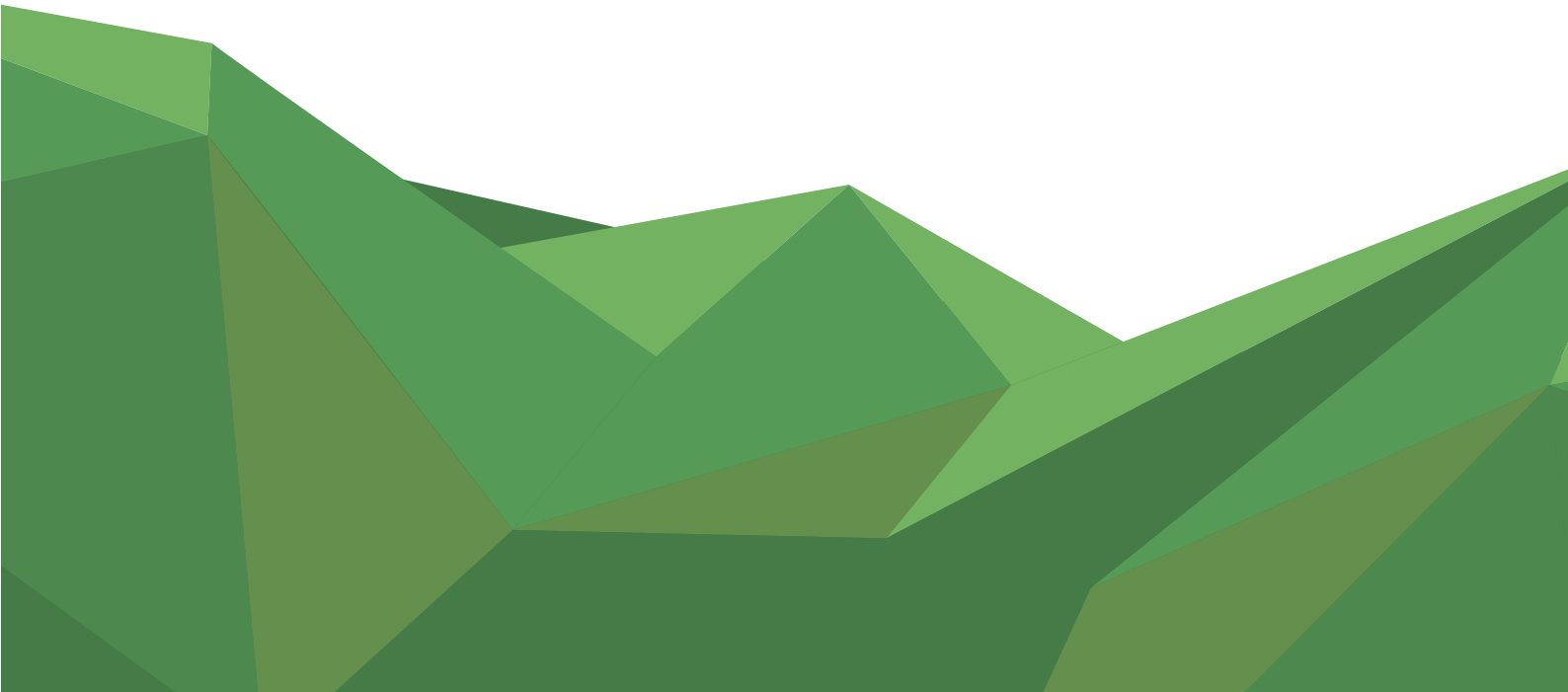
CML RESEARCH

Government Housing Schemes: Accident or Design?

Christopher Walker

November 2016

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About the author



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Chris was formerly Head of Housing and Planning Policy at the think tank Policy Exchange. He has authored a number of publications and his work has been covered extensively in the media including *The Economist*. Recent Government policies to help local authorities establish new garden towns and villages, as well as those to deregulate housing associations, can be traced back to recommendations he has made.

He has also contributed blogs to The Spectator Coffee House, Conservative Home, The Guardian Supplement, and is a columnist for Inside Housing magazine.

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Executive Summary

There are two key policy challenges in the housing market today. The first is we are not building enough homes – we built 140,000 in 2015/16, also the annual average of the last decade, when we need to build at least 200,000 a year. The second is falling rates of home-ownership, from a peak of 70.9% of households in 2003 to 63.6% in 2014/15 (latest). It comes as little surprise therefore that the Government's high level policy objectives are supporting new supply and promoting home-ownership. The Government's strategy has been to entwine these in their policy prescription.

Promoting home ownership for certain key groups – younger people, first-time buyers, social housing tenants – is about addressing two problems. The first is *affordability* and the issue of rising home prices to earnings. The second is *accessibility* and the issue of equity (that is, a deposit), namely levelling the playing field for the key groups that don't have it and other groups that do. Both problems are clearly interrelated.

There is now a considerable range of Government housing schemes to promote home ownership – currently eight (soon to be seven), supported by a further two schemes that support schemes namely the Help to Buy and Lifetime ISAs.

Choosing between these schemes appears challenging for households at first sight. In essence the rational choice comes down to two things. The first is the household's housing requirements around dwelling size and location, which in turn have a bearing on the extent to which the household is affordability constrained. The second is the schemes' varying degree generosity – the size of the Government subsidy (or gift) to the household entering the scheme.

Shared ownership with low (25%) shared ownership shares naturally boost affordability the most, allowing households to 'stretch' to an attainable home price of nearly double that without a Government scheme. This is closely followed by London Help to Buy. However, shared ownership is also the least generous of the schemes. For first-time buyers, Starter Homes are the most generous and financially beneficial (20% equity gift), for social housing tenants the Right to Buy is (on average, the gift of half a home), whereas for everyone else the best deal financially is Help to Buy: Equity Loan (and Help to Buy London) with its interest and fee free loans for the first five years and 1.75% thereafter. Shared ownership is the least generous because the household must pay an affordable rent on the rented share (as well as the repairs and maintenance costs for the whole property). An affordable rent averages at around 3% of the property value. So those who are the most affordability challenged are treated the least generously.

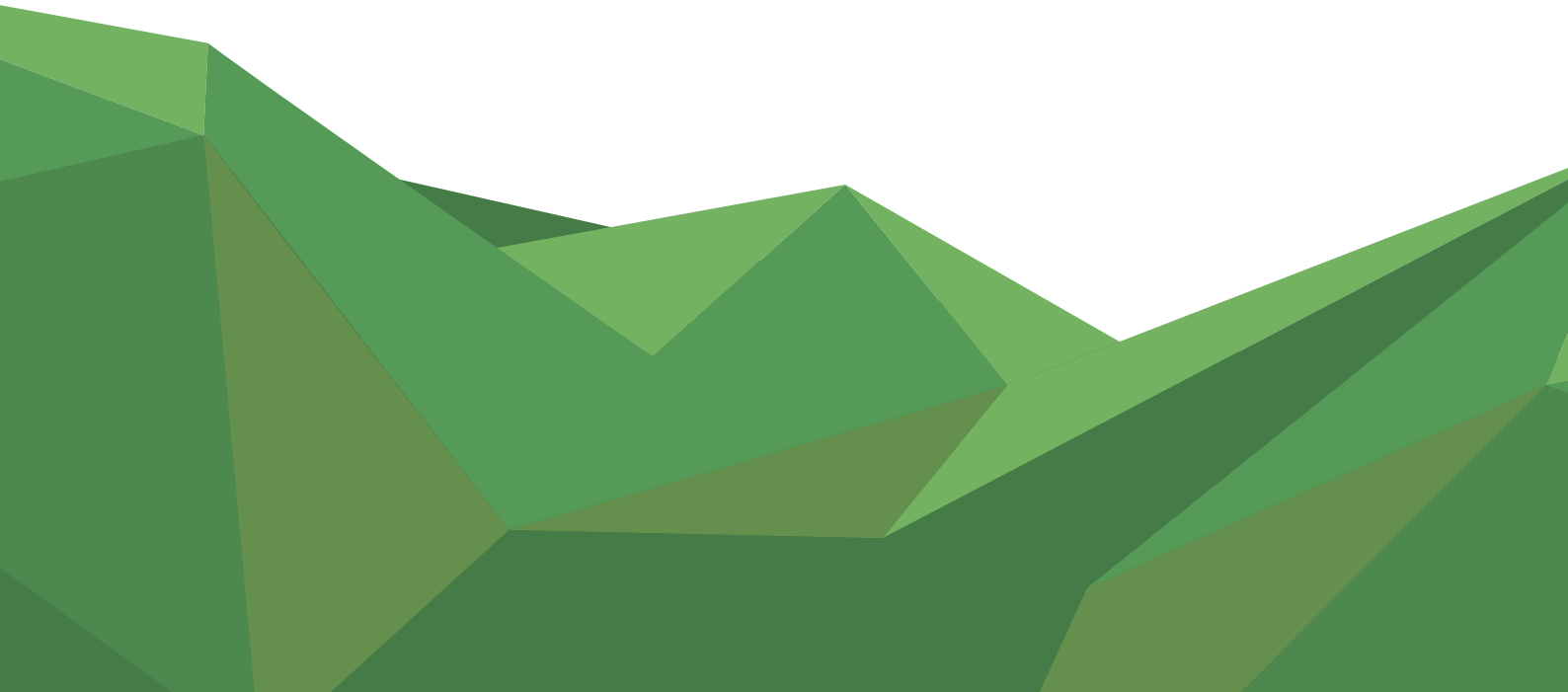
In the exploration of the housing market, this report finds that affordability as measured by the home price to single earnings ratio is worst in London (15:1) and the south (about 10:1) and best in the north (4:1 to 5:1). But there are huge variations within regions from the least to most affordable local authority as well as significant variations by dwelling type (for example by terraced house, flat etc).

Therefore, accessing home ownership is not a yes no binary, as households can to some degree choose where they live and the dwelling type, and even trade these off. A household's attainable home price to earnings ratio depends on how much equity they have for a deposit, including support from family or the Government, as well as how much they can borrow. It makes a big difference to how much of the home ownership market they can access. For example, a single full time earner looking to buy a flat could buy in 67% of local authorities if a home price to earnings ratio of 5 is attainable, but only 37% if a ratio of only 4 is. Help to Buy: Equity Loan with a modest 10% deposit could raise the attainable ratio to 5 for some households, depending on their circumstances and therefore what lenders can lend them.

Penultimately, the report finds a high degree of market segmentation between the schemes at the regional level, with very different sale price points between the different schemes implying low overlap between them in the market. This is probably to be expected with Right to Buy (lowest price points), it being heavily discounted and the housing more likely to be in less desirable market locations. The Help to Buys generally hold the top sale price points in each region, with shared ownership in between these and the Right to Buy (though there is closer proximity for the Help to Buys and shared ownership prices in London).

Finally, there is huge regional disparity in the take-up of individual schemes, within the overall package of total Government schemes on offer. The Help to Buy schemes are most prevalent in the north and, predating London Help to Buy, almost residual in London. Conversely, the take-up of Shared Ownership is highly correlated to market affordability being most prevalent in London (least affordable), then the South East (next least) and so on. Given Help to Buy: Equity Loan is also designed to support house building and that most house building is needed in the south, this suggests the scheme could be improved and London Help to Buy is arguably a step in that direction.

Introduction



Introduction

There has been a plethora of new Government housing schemes in England since 2010, with the affordable rent product, the Government's flagship Help to Buy: Equity Loan and Mortgage Guarantee schemes and, most recently, Starter Homes. These have been introduced alongside longstanding housing schemes such as shared ownership (now also under the Help to Buy banner) and of course the controversial Right to Buy, which has seen two major reforms within the last 5 years. Furthermore, there are a number of 'schemes to support schemes' (that is, Help to Buy: ISA and Rent to Buy).

Many of the housing schemes are driven by the Government's twin desire to arrest/reverse the decline in home-ownership and drive up new supply. The policy prescription has often been to intertwine these objectives: with one exception (mortgage guarantee) the home-ownership schemes promote home ownership *in* a way that supports supply, either directly or indirectly. So the Right to Buy, for example, indirectly supports supply through the one for one replacement of social homes sold with new build homes.

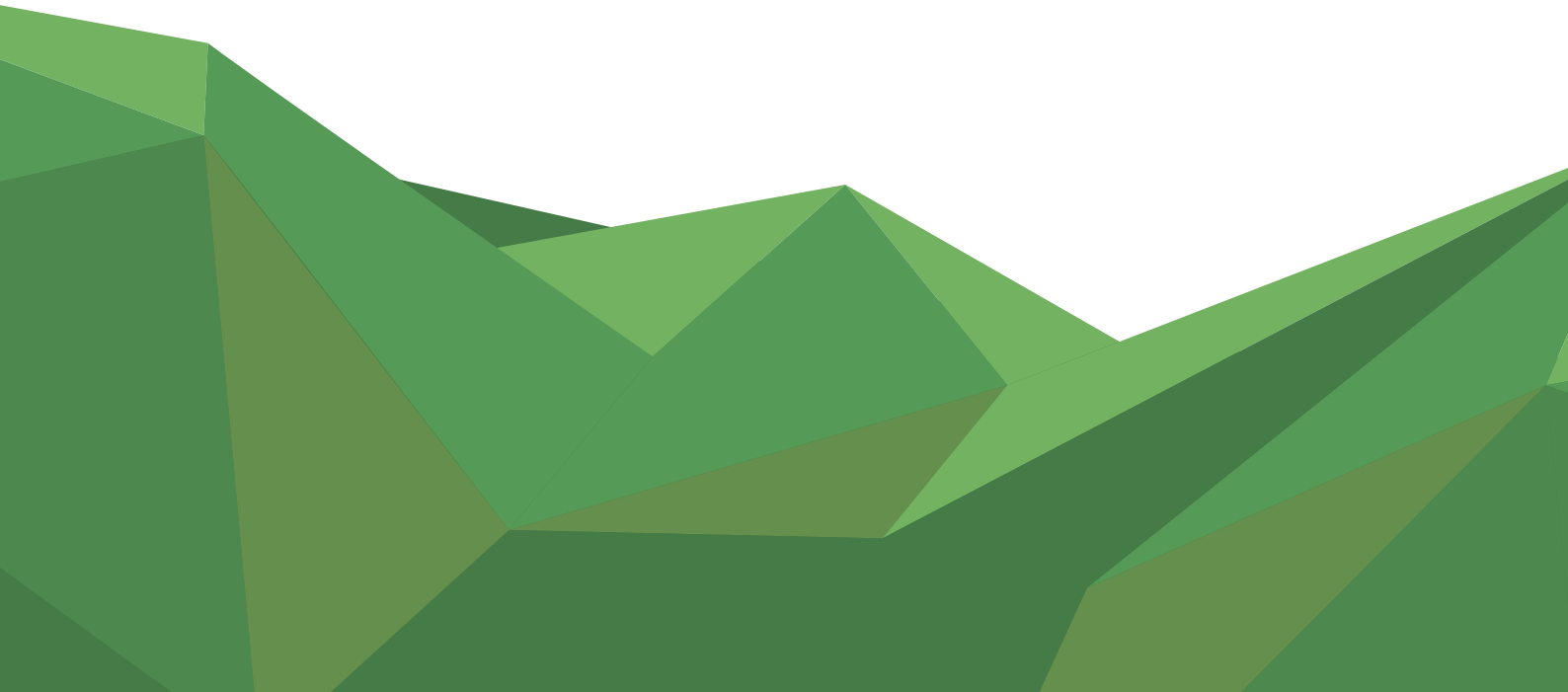
Given a growing number of housing schemes, which could be likened to a policy-making phenomenon disparagingly described by officials as the 'Pavlova effect', one could be forgiven for thinking that the housing schemes are piecemeal rather than part of an overall whole - and coherent - housing strategy. Hence the title of this paper *Government Housing Schemes: accident or design?*

This research investigates how (and whether) the Government housing schemes in England fit together and whether they form a coherent whole. It considers which parts of the housing market and which household types they serve (and, by deduction, which they overlook). The research aims to provide an overall understanding of how the different English housing schemes offered by Government stack up and interact, including across different geographies both regionally and locally. Namely:

- How do individual government schemes potentially interact with each other and with the housing market?
- What degree of overlap (competition) exists between different schemes?
- Which housing offers work well/poorly for household types, differentiated by such factors as household composition, income, age and geographical location?

From all this we draw conclusions about the overarching tapestry of the government schemes.

Chapter 1: Policy Context & Overview



Policy context and overview

At one level the Government's housing strategy is simple and has two overarching housing policy objectives. These are:

- (1) increasing housing supply; and
- (2) promoting home-ownership

Every single one of the Government's housing policies have at least one of these overarching objectives attached to them – whether directly or indirectly - and the various Government housing schemes discussed in this paper are no exception.

A key aspect of the Government's housing strategy has also been to entwine these two high-level policy objectives: many of the Government's housing schemes are about increasing housing supply *in* a way that promotes home-ownership, the Government's flagship Help to Buy: Equity Loan scheme being the most obvious example.

Ultimately, though, there is belief that a lack of housebuilding has been a major contributor to worsening affordability over the last 20 years or so – measured in terms of house prices relative to earnings – and a perception that worsening affordability has in turn led to falling home-ownership levels. As such, while many of the Government's housing schemes are about tenure (and tenure switching), an important way to drive up the number of households that can own their own home is to increase housing supply overall.

Increasing Housing Supply

In Autumn 2015 the Government committed to building 1 million homes in England by 2020 - 200,000 homes a year on average over the Parliament. The Spending Review (2015) included a commitment to build 200,000 Starter Homes and 135,000 Shared Ownership homes to spearhead the charge.ⁱ

Increasing the nation's housing supply has been a long-standing objective of successive Governments, ever since Kate Barker's Review of housing supply in 2004.ⁱⁱ It is estimated that we need an additional 240,000 homes in England a year to keep pace with our growing population and changing population demographic – most notably a growing number of single person households in large part due to our ageing population. It is, self-evidently, a figure that has remained at the centre of the housing policy debate. It is widely accepted by housing policy experts and commentators. It is also broadly an estimate of what's required to keep us standing still in terms of affordability – unless we go beyond it affordability won't actually improve in any fundamental way.

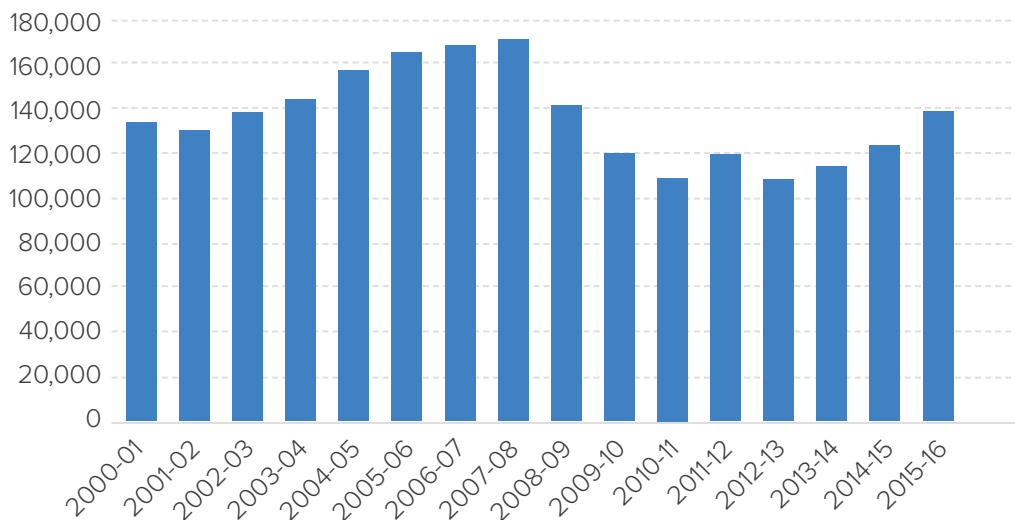
Not all of the additional 240,000 homes a year need to be new housing completions. In areas where permissioned land supply is scarce, the obvious example being Greater London, many housing additions come from the conversion of houses to flats and of

office space to residential. It is worth noting too that 200,000 new build completions nationally would be broadly consistent with 240,000 additions on the basis of the historical numbers, namely an additions : completions ratio of around 1.2 : 1 in England.

However, the last time we built 200,000 homes in England in a single year was nearly 30 years ago (1988/89) and that was off the back of a credit boom – a one-off. We have to go all the back to the 1970s to see a time when we consistently built 200,000 or more homes a year in England. The last time we built 1 million homes over a single Parliament was under the Wilson/Callaghan Government of 1975-79. In the post-war era, right up until the late 1970s, a significant proportion of homes were built by councils.

In truth, the country’s recent record on house building has been pretty lamentable (see graph below), though it was punctuated by the Credit Crunch in 2008 and subsequent Great Recession in 2009-10. In 2010/11 we built only 107,800 new homes, the lowest level of house building since the 1920s. And despite good recent progress since increasing our housebuilding levels, with 139,000 new build completions in 2015/16ⁱⁱⁱ – the highest since the recession – we are ultimately starting from a very low base. The upshot is that since 2000/01 inclusive we have built on average only 136,000 new homes a year in England versus the 200,000 a year we need.

Chart 1:
New build home completions in England, 2000-01 to 2015-16



Source: DCLG live table 209^{iv}

Reaching 200,000 completions a year (and certainly 1 million over this Parliament) is a huge policy challenge when set in this context. And it will require almost unprecedented growth in the home-building numbers - well into the high teens in percentage terms.

Much of the Government's housing strategy is about raising housing supply to meet that challenge. It includes a whole host of policies to bring forward more land for house building through planning reform (National Planning Policy Framework), public land release, brownfield land development, as well as, of course, the various housing schemes.

Many of the Government's housing schemes are about increasing housing supply by supporting housebuilding. Common themes to support housebuilding are confidence enhancing/demand underpinning (including demand stimulus) policy measures for new homes being built (for example Help to Buy: Equity Loan) and measures to boost site viability by supporting / sharing development risk (for example Build to Rent), as well as new funding streams for new build *affordable* housing (for example one for one replacement of the homes sold through the Reinvigorated Right to Buy).

So although these schemes are tenure specific (and, again, almost entirely about promoting home-ownership), they are also, ultimately, about additional housing supply. There remains of course some debate about the supply 'additionality' of some of the schemes. Estimates of the additionality of Help to Buy: Equity Loan for example, ranges from as low as 20% to 43% - the latter being the more recent estimate by the recent external Evaluation of Help to Buy: Equity Loan commissioned by DCLG.^v In other words, taking the more generous 43% figure, for every 100 homes supported by the Help to Buy Equity Loan scheme, 43 are net additional to housing supply and the remaining 57 would have been built anyway.

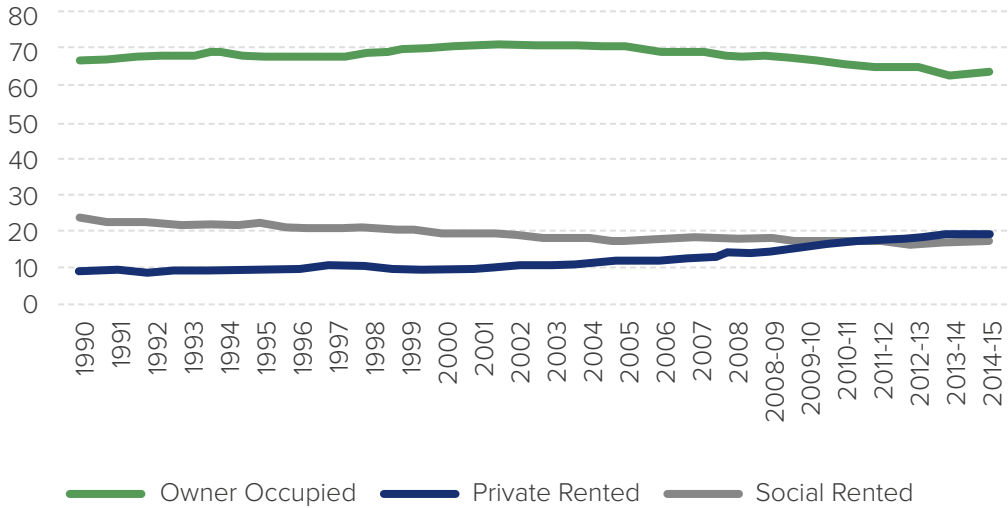
Promoting Home-ownership

Widespread home-ownership is a key plank of the current Government's housing vision. The high-profile (and controversial) policy to extend Right to Buy to housing association tenants was at the heart of the Conservative Party's 2015 General Election manifesto. Extending the home-owning democracy further down the income scale is the embodiment of 'One Nation Conservatism'.^{vi} The majority of the Government housing schemes considered in this report are primarily about promoting home-ownership.

Whether rightly or wrongly, the evidence suggests that home-ownership is the tenure of choice. Most households want or aspire to own their own home – 86% of them according to the British Social Attitudes Survey (2010), with more recent surveys typically showing 80%+ readings. So whether ideologically driven or not, promoting home-ownership is a legitimate objective for any Government to have.

However, home-ownership in England has declined in recent years from a peak of 70.9% of households in 2003 to 63.6% in 2014/15, according to the DCLG English Housing Survey^{vii}.

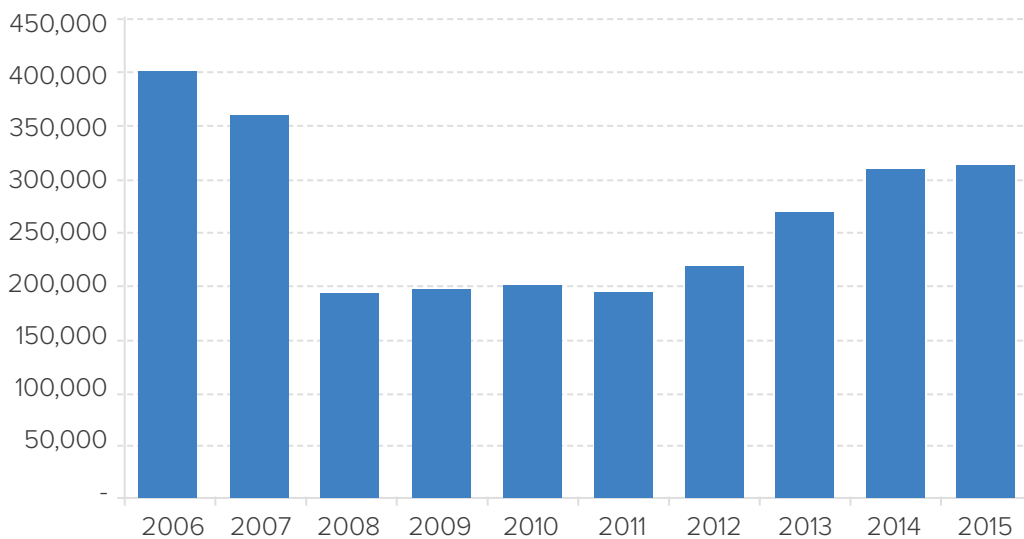
Chart 2:
Tenure shares in England 1990 to 2014-15, %



Source: DCLG English Housing Survey, 2014-15^{viii}

The fall in home-ownership has been most prevalent amongst younger households aged 25 to 34 – from 58.6% to 36.7% for these households over the same period. The number of (typically younger) first-time buyers has fallen from an average of 400,000 a year during the last 35 years to around 200,000 during the trough of the Credit Crunch, though with some modest recovery since to around 300,000.

Chart 3:
Number of First-time buyers 2006-2015



Source: CML Regulated mortgage surveyⁱ

During the 2015 General Election campaign, the Government pledged to ‘double the number of first-time buyers’, though the pledge is subject to wide interpretation.^{ix}

It is broadly perceived that a key reason for the decline in home-ownership levels is that earnings growth has failed to keep pace with house price inflation. This is especially true of London where average house prices were around 4 times average household earnings in 1997 whereas today they are closer to 10 times.^x Part of that story, clearly, is about today’s credit conditions and record low interest rates, which have been capitalised into higher house prices. It is also about international capital flows, most especially in London, given property is an important asset class for international investors. But a part of the story is the lack of new housing supply versus demand which has pushed up home prices, with strong demand underpinned by the demographics of a growing population and growing number of people living singularly.

Another key reason that home-ownership - and first-time buyer - numbers have fallen, particularly since the credit crunch (see chart 3), is more stringent deposit requirements – which have inevitably disadvantaged younger first-time buyers accessing the housing market versus other players, namely existing home-owners (and movers) and buy to let landlords who have more equity.

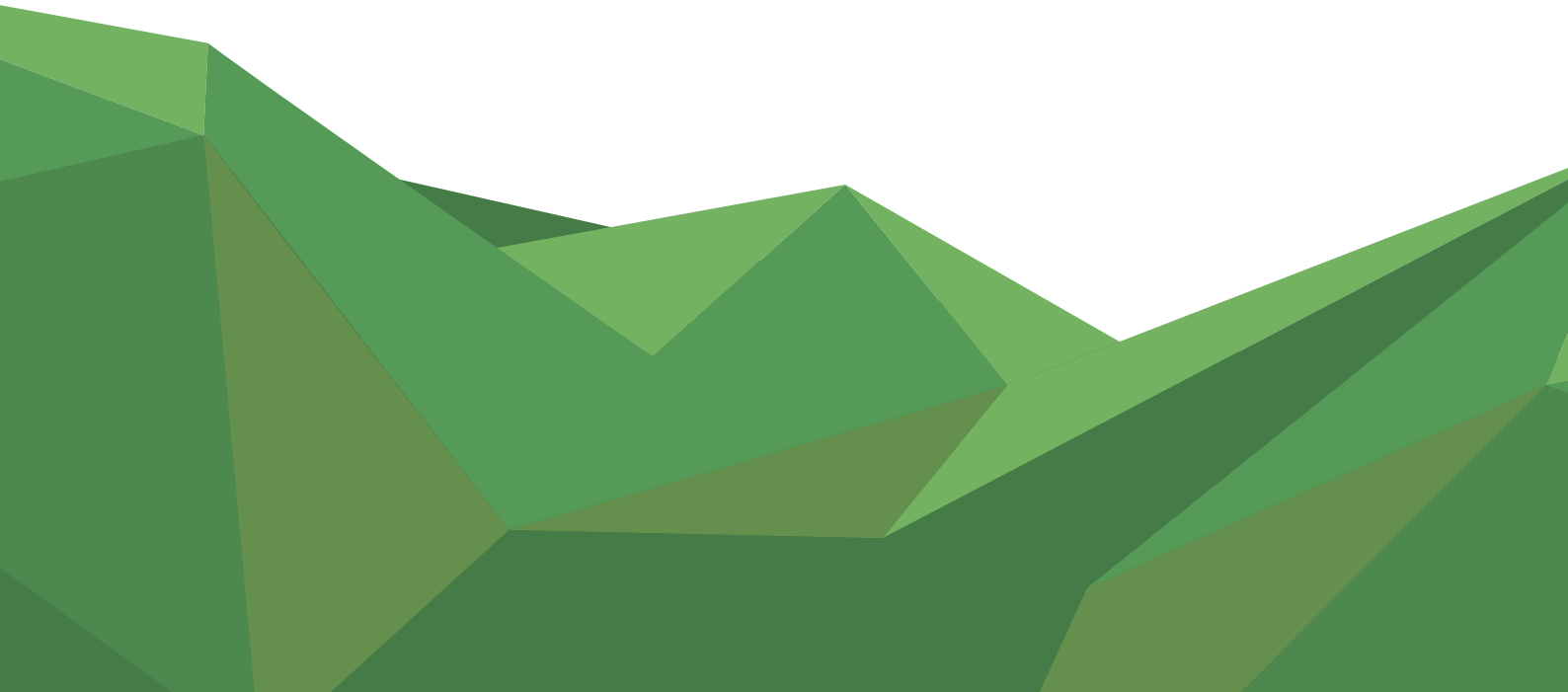
In summary, to the degree prudential mortgage lending is based on loan to income multiples, even if implicitly as part of lenders’ affordability tests, rapidly rising house prices to earnings have proved to be a significant barrier to those wanting to enter home-ownership –the *affordability* problem. This was compounded by the credit crunch as deposit requirements for first-time buyers rose sharply, preventing many from accessing a mortgage (home-ownership) – the *accessibility* problem - unless a bank of mum and dad was to hand. Both problems are likely to have had a bearing on home-ownership levels.

The Government housing schemes considered in this report are about promoting home-ownership, whether also entwined with supporting new build or not. They are typically designed to lower the hurdle for those wishing to become home-owners for the first time: to tackle the *affordability* problem by offering a price discount (for example Starter Homes) or ownership share (for example Shared Ownership); or the *accessibility* problem by bridging the deposit requirement (for example Help to Buy: ISA and - Mortgage Guarantee); or both (- Equity Loan).

The problems the home-ownership schemes are there to address – namely the affordability and/or accessibility problem - are as follows:

Affordability	Both	Accessibility
Starter Homes	Help to Buy: Equity Loan	Help to Buy: Mortgage Guarantee
Help to Buy: Shared Ownership		
Rent to Buy	London Help to Buy	Help to Buy: ISA
Voluntary Right to Buy		Lifetime ISA

Chapter 2: The government's housing schemes



The government's housing schemes

This chapter provides an overview of the Government housing scheme covered by this report, namely the housing schemes introduced by the Government since 2010 or those still in play from previous administrations.

The following table is a summary of the schemes and the Government's policy objectives they are designed to support, as well as eligibility criteria. They are set out in reverse chronological order. Growing the institutional private rented sector is also acknowledged as an important Government policy objective which also feeds the high-level objective of increasing housing supply:

Table 1:
The Government Housing Schemes, policy objectives and eligibility

Name of scheme	Launch date	Supports Home Building?	Promotes Home-ownership?	Eligibility
Lifetime ISA	April 2017	(Y)	Y	Aged 18-40 only
London Help to Buy	February 2016	Y	Y	All
Voluntary Right to Buy	January 2016 (pilot)	(Y)*	Y	Social housing tenant only
Help to Buy: ISA	December 2015	(Y)	Y	All
Starter Homes	March 2015	Y	Y	FTB aged under 40 only
Help to Buy: Mortgage Guarantee	October 2013		Y	All
Help to Buy: Equity Loan	April 2013	Y	Y	All
Build to Rent	December 2012	Y		NA
Right to Buy	April 2012 and Pre-2010	(Y)*	Y	Social housing tenant only
Rent to Buy	Pre-2010	Y	Y	HH income < £80,000**
Shared Ownership	Pre-2010	Y	Y	HH income < £80,000**

Notes. *through one for one replacement of homes sold with a new build home **London £90,000

The only really longstanding Government schemes that survive the pre-2010 era are Shared Ownership and the Right to Buy. Shared Ownership has been around since the very late 1970s and the Right to Buy policy was first introduced in October 1980. The Right to Buy could probably be considered the first truly national Government housing scheme to promote home-ownership. Shared Ownership has now been brought under the Help to Buy banner that is, Help to Buy: Shared Ownership.

The HomeBuy brand of the late 2000s could loosely be considered a predecessor of the Help to Buy one. HomeBuy Direct in particular was a *shared equity* scheme much like Help to Buy: Equity Loan. So shared equity schemes in one guise or another have been around for some time. Social Homebuy (a shared Ownership scheme with a price-discount) is still offered by some housing associations, but in reality it is a highly residual scheme with only 10 sales in 2014/15, so is not considered here.

What follows is a brief description of each scheme with policy rationale, how the scheme works, eligibility and interaction with the other schemes where applicable.

Lifetime ISA [April 2017]

Those between the ages of 18 and 40 saving for their retirement or for a deposit for their first home are gifted a 'top up' from the Government.

Policy rationale/fit with Government objectives

To encourage younger people to save over the longer term and instil a savings culture, and enable them to *access home-ownership* by boosting their deposit, or support their financial independence post-retirement by boosting their retirement savings.

How it works

The prospective saver takes out a Lifetime ISA (LISA) with a participating bank or building society. They can save up to £4,000 a year. The savings can be used flexibly either (i) for a deposit when the saver buys their first home or (ii) for longer term savings for their retirement. Under (i) the Government provides a 25% top up (up to £1,000 a year) to the deposit at the point of house purchase or (ii) a 25% top up to the LISA savings pot when the account holder turns 60, at which point total amount can be withdrawn tax free.

The LISA is also applied to individuals, not households, so that two people in a couple can each apply for a LISA and club it as a single deposit to buy a home together. The top-up is a gift – it does not have to be paid back to the Government.

Example (i):

£20,000 savings / 5 years | Government top-up £5,000
Total deposit £25,000

Example (ii):

£20,000 savings aged 60 | Government top-up £5,000
Total savings pot £25,000 (tax free)

Eligibility

The saver must: enter the scheme between the ages of 18 and 40 | can continue to save each year until aged 50 | be UK resident | have a national insurance no.

When using the LISA for a deposit: the home must be worth no more than £450,000 (applied nationwide). The purchaser must: be a first-time buyer | not own another home anywhere in the world.

Interaction with other schemes

Those with Help to Buy: ISA (see below) can choose to transfer this to a LISA or continue to use both schemes. A saver can have both a LISA and a Help to Buy: ISA but can only get the Government top up for a home deposit on one of them.

London Help to Buy [February 2016] and Help to Buy: Equity Loan [April 2013]

Helps the buyer of a new build home access a mortgage by providing a low-interest Government loan towards their deposit – an equity loan.

Policy rationale and fit with Government objectives

To enable younger people to *access* a mortgage and therefore home-ownership and *afford* a more expensive property than otherwise – commensurate with the equity loan. Those lacking equity for the mortgage deposit (for example many first-time buyers) are at a disadvantage in the housing market compared to those with more equity for example home movers and Buy to Let landlords, or those with a bank of mum and dad (social mobility). The policy is designed to level the playing field, though only in the new build part of the housing market.

The policy also underpins demand for and supports the supply of new build homes, by making the financing cheaper and hence relatively more affordable for those buying them, compared to buying an existing dwelling.

The policy has also been couched as a 'demand stimulus' measure, though arguably it would have been introduced 3-4 years earlier (that is, during the Great Recession) to have been most effective in this regard.

How it works

Help to Buy is open to all buyers, not just first-time buyers. The new build home is bought through a listed Help to Buy builder partaking in the scheme. The buyer must provide a 5% deposit which the Government bolsters with an 'equity' loan of up to 20% (40% in London), combining to make a total deposit of 25% (45% in London). The buyer takes out a mortgage of at least 75% (55% in London) for the rest.

Example (outside London)

£200,000 home | £10,000 (5%) deposit | £40,000 (20%) government 'equity' loan
£150,000 (75%) mortgage

Example (London)

£300,000 home | £15,000 (5%) deposit | £120,000 (40%) government 'equity' loan
£165,000 (55%) mortgage

The main idea is that the 'equity' loan plugs the deposit requirement and solves the accessibility problem. This was a significant barrier to home-ownership for first-time buyers following the credit crunch, as deposit requirements were raised with higher LTV/risk mortgages more appropriately priced.

By reducing the LTV of the mortgage the scheme reduces the mortgage interest rate. This makes servicing the mortgage more affordable over the term. As further fillip, the scheme is also designed to make home-ownership more affordable by not charging an equity loan fee on the Government loan for the first 5 years. From year 6 an equity loan fee of 1.75% is charged, rising by RPI+1% in each subsequent year.

As quid-pro-quo, the Government 'equity' loan is, as the name suggests, an equity stake. So the loan capital repayment depends not on the initial value of the loan but on how much the home is worth when the loan is repaid - within 25 years (at any time) or when the home is subsequently sold. If the initial loan is £40,000 to buy a £200,000 home (20%) and the home rises in value to £250,000, then the loan capital repayment is 20% of £250,000 that is, £50,000 (not the initial £40,000).

A mortgage with the Equity Loan works like any other mortgage but has a loan to income cap of 4.5x. Lenders apply the same affordability criteria, but the Equity Loan is subject to the scheme eligibility criteria (below).

Eligibility

The home purchased must: Be a new build | have a purchase price \leq £600,000
be the only home owned | not be let out

Interaction with other schemes

The Help to Buy: Equity Loan scheme can be used with Help to Buy: ISA and LISA

The Right to Buy – Voluntary Right to Buy [January 2016], Reinvigoration [April 2012], and Original [pre-2010]

Social housing tenants have the right to buy their home at a substantial Right to Buy price discount.

Policy rationale/fit with Government objectives

The Right to Buy is designed to encourage social tenants – particularly those on lower incomes and in work - to enter home-ownership. The original Right to Buy policy was introduced by the Thatcher Government in October 1980 to drive up overall home-ownership levels.

The 'reinvigoration' of Right to Buy policy was introduced to boost flagging Right to Buy sales with the then Prime Minister pledging to boost them to 100,000 by raising the price discounts^{xii}. Before the Reinvigoration policy from April 2012, the discounts were capped as low as £16,000 in some London Boroughs. As part of that, a new one for one replacement policy - building a new council home for each additional one sold as a result of Reinvigoration - is a way of funding affordable home building, including to support new housing supply to the degree that affordable housing is 'additional' to market housing^{xiii}.

The Voluntary Right to Buy (VRTB)^{xiv} policy extends the Right to Buy to policy to housing association social tenants and is designed to give *all* social housing tenants, not just council housing tenants, the right to buy. The policy is partly about fairness but also about substantially increasing the total number of Right to Buy sales (through greater universality) in order to boost home-ownership amongst those on lower incomes as well as support new housing supply through full one for one replacement of housing association homes sold.

How it works

Eligible social tenants living in council housing (and those living in council housing transferred to a housing association), or traditional housing association housing have the right to buy their home at a substantial discount.

The size of the Right to Buy discount depends on how long the household has been a social tenant and whether they live in a flat or a house. The minimum discount rate for a social tenant buying their flat is 50% (max 70%) and for a social tenant buying their house it is 35% (max 70%). The price discounts are capped at £77,900 outside London and £103,900 in London.

The social tenant applies directly to their landlord (council or housing association) if they wish to exercise their Right to Buy. The home is valued independently and offered for sale at the current market valuation, with the appropriate Right to Buy discount applied.

Eligibility

To be eligible, a social tenant must have lived in a council home / housing association stock transfer home for at least three years or traditional housing association stock for at least ten years under the VRTB pilots.^{xv} The Government is in the process of extending the Voluntary Right to Buy to all Housing Association tenants following successful piloting.^{xvi}

Help to Buy: ISA [December 2015]

Those saving for their deposit to buy their own home are gifted a deposit top up from the Government.

Policy rationale/fit with Government objectives

The Help to Buy: ISA is designed to help younger people to access a mortgage and home-ownership by providing a boost to their mortgage deposit. In essence, a 4% deposit can be turned into a 5% one. The policy is also designed to encourage younger people to save and instil a savings culture much like the Lifetime ISA.

How it works

The prospective first-time buyer takes out a Help to Buy: ISA with a participating bank or building society offering the product. He or she can make a first payment of up to £1,200 and subsequent monthly payments of up to £200, so accumulating a deposit over time. When the home is purchased, the buyer's solicitor or conveyancer applies the 25% Government top-up - capped at £3,000 – which is put towards the purchase.

The Help to Buy: ISA is also applied to individuals, not households, so that two people in a couple can each apply for a Help to Buy: ISA and club it as a single deposit to buy a home together. The Help to Buy: ISA top-up is a gift – it does not have to be paid back to the Government.

Example

£12,000 savings | Government top-up £3,000 (max) | Total deposit £15,000

A minimum qualifying amount of £1,600 is required to receive the Government top-up.

Eligibility

The home purchased must: have a purchase price <= £250,000 (£450,000 London)

The purchaser must: be a first-time buyer | not own another home anywhere in the world

| be UK resident | have a national insurance no. | not have another ISA in the same tax year

Interaction with other schemes

The Help to Buy: ISA can be used in conjunction with the Help to Buy: Equity Loan, Mortgage Guarantee and Shared Ownership schemes. It can also be used on its own.

Starter Homes [March 2015]

First-time buyers under the age of 40 can buy a new build market home from a developer at a 20% price discount.

Policy rationale/fit with Government objectives

To enable a greater number of younger people to afford home-ownership on the open market. Worsening *affordability* – specifically rising house prices to earnings - has hit those not already on the housing ladder the hardest relative to those who already own. The growing wealth inequality between younger and older people – mostly driven

by housing wealth - is a societal (as well as political) concern. A 20% price discount provides some redress.

The policy is designed to support house building, though the degree to which it will do so is subject to some debate, because a significant chunk of the funding will come from section 106 contributions – funding that would otherwise go to support building more traditional forms of affordable housing, such as affordable rent or shared ownership housing.

The policy is also designed to bring forward additional land for development. A significant amount of the £2.3bn Government money for Starter Homes is for brownfield site development, to help with costs associated with site remediation. This possibly enhances its supply 'additionality' credentials.

How it works

Participating developers will offer the 20% discount on earmarked new build homes – Starter Homes - to purchasers who are under the age of 40. The discount will be part-funded directly by the Government with the remainder funded out of section 106 affordable housing contributions. Following the Housing and Planning Act (2016), Starter Homes will count as affordable housing under the section 106 consideration.

Starter Homes sold within a (yet to be specified) period of purchase (for example within 5 years) must be resold at the 20% discount, but the original policy intention is that they can be sold at their full market value beyond this. It is not yet clear whether there will be specific Starter Home mortgages offered through banks and building societies.

The scheme was initially limited to brownfield sites, but was subsequently expanded. The expansion strengthens the presumption in favour of Starter Home development, allows communities to allocate land for Starter Home developments, and intends that every reasonably-sized housing site should include a proportion of Starter Homes.

Eligibility

The purchaser must: be under 40 years old | be a first-time buyer

The home must: not be let during the first 5 years | have a purchase price \leq £250,000 (£450,000 London)

Interaction with other schemes

Starter homes will be an intrinsic part of the affordable housing offer on a given site and will therefore have a bearing on provision of shared ownership, affordable rented, and intermediate rented homes.

Help to Buy: Mortgage Guarantee [October 2013 – December 2016]

A Government mortgage guarantee to the mortgage lender which enables the buyer to buy a home with a 5% deposit / 95% LTV mortgage but on terms equivalent to 80% LTV.

Policy rationale / fit with Government objectives

As with the Equity Loan - to enable younger people to access a mortgage and home-ownership, as well as support lenders to lend by reducing their risk exposure. Those lacking equity for the mortgage deposit (for example many first-time buyers) are at a disadvantage compared to those with more equity. The policy is designed to level the playing field between first-time buyers on the one hand and buy to let landlords and existing home-owners (movers) on the other. The Mortgage Guarantee can be used for a mortgage to buy any type of home: new-build or an existing dwelling.

How it works

Anyone can use the Mortgage Guarantee. The buyer applies for a mortgage with a lender partaking in the scheme. Under the scheme the Government offers the lender the option to purchase a guarantee on qualifying mortgages. This guarantee essentially extends the lender's protection against loss from just the buyer's 5% deposit to the 20% of the home value.

So if the home is bought under the scheme for £200,000 and the home was subsequently repossessed and sold for no less than £160,000, the lender would incur only negligible loss, the buyer would lose their £10,000 deposit and the Government would lose up to £30,000 as the guarantee is called. Because of this, lenders taking part are able to offer home buyers a higher loan to value mortgage (that is, up to 95% LTV) and at more attractive 80% LTV interest rates. This comes at no cost to the Government unless house prices fall materially - in essence the Government is taking a risk bearing position.

Example

£200,000 home | £10,000 (5%) deposit | £190,000 (95%) mortgage o/w the first £30,000 (15%) is covered against loss by the Government guarantee

A mortgage with the Guarantee works like any other mortgage but has a loan to income cap of 4.5x. Lenders apply the same affordability criteria, but the Guarantee is subject to the scheme eligibility criteria (below).

Eligibility

The home purchased must: have a purchase price \leq £600,000 | be the only one owned | not be let out | not be bought through shared ownership, shared equity or any other publically funded mortgage scheme | be bought with a capital repayment (rather than an interest only) mortgage

Interaction with other schemes

The Help to Buy: Mortgage Guarantee can be used with Help to Buy: ISA but it cannot be used with any other Government home-buying scheme. The buyer's 5% deposit cannot come from any publically-assisted loans.

Build to Rent [March 2013 & December 2012]

Large scale Developers (including developing housing associations) can bid to the Government's £1bn Build to Rent fund – public funding for development finance to build homes for 'institutional' (large scale) market rent.

Policy rationale/fit with Government objectives

Demand for private rented properties is surging especially amongst younger people – whether those frozen out of home-ownership or time-poor professionals not wishing to buy and who seek convenient living. But the private rented sector is dominated by small Buy to Let landlords and the tenure has by far the lowest householder satisfaction levels, according to the English Housing Survey. The Government also believes that the Buy to Let phenomenon is, to some degree, crowding out first-time buyers and home-ownership, but equally recognises the high demand for quality rented homes.

Government sees the institutional private rented sector as a way of supporting additional new build homes without crowding out home-ownership, driving up quality and tenant satisfaction levels in the private rented sector by 'professionalising' it.

How it works

The £1bn Build to Rent fund is designed to help developers develop quality homes specifically for the 'institutional' private rented sector. The institutional private rented sector is a term used to describe homes purpose built for rent and at large scale – usually in blocks of flats with shared facilities such as a concierge - professionally run by a management company or housing association. These properties are often backed (owned) by an investment fund – for example pension funds or insurance companies. Local Authority pension funds are also invested. These funds will also often provide upfront financing to developers.

The Build to Rent fund is a fully recoverable investment by the Government on commercial terms. It is available as a loan to cover up to 50% of eligible development costs such as land, construction and management costs. Once a scheme is fully let the developer will sell on their interest in the newly developed properties or refinance them to repay the Government's loan, usually within 1 to 2 years of completing the scheme. In this way, the Government shares development risk and / or provides development finance to developers, speeding up development and increasing the financial viability of such schemes.

To access the Build to Rent fund, a developer or housing association, perhaps in a Joint Venture with an investment fund or as part of a consortium, submits a bid to the Homes and Communities Agency (HCA) / Greater London Authority (GLA) during a bidding round.

Eligibility

Bids should: generally include schemes of at least 100 private rented units. Do not seek funding for more than 50% of eligible costs. Detailed criteria are set out in the Homes and Communities Agency's bid prospectus.

Help to Buy: Shared Ownership [November 2015 & pre-2010]

A household can buy an ownership share of a new build housing association home with the housing association owning the remaining share and charging an affordable rent on it.

Policy rationale/fit with Government objectives

To enable those unable to afford to buy their own home on the open market to own a share of their home instead – 'affordable' home-ownership. Traditionally, shared ownership was aimed at lower income households wanting to own, but in more expensive parts of the country such as London, it is increasingly offered to those on more middling incomes.

By offering lower income households affordable home-ownership, rather than affordable or market rented housing, the Government can also save money on Housing Benefit where home-ownership is sustainable. This helps to *contain welfare spending* and reduce benefit dependency.

The policy also underpins demand for and supports the supply of new build homes, often by providing a direct public subsidy or grant through the Homes and Communities Agency / Greater London Authority Affordable Homes Programme. This has an added benefit of reducing development finance risk and therefore, much like affordable housing generally, is likely to have some supply additionality associated with it.

How it works

The buyer can purchase a 25% to 75% ownership share of a home offered through a housing association, and pay affordable rent on the rest (though under the Older People's Shared Ownership scheme they won't pay rent on the remainder if they own a 75% share). Shared ownership homes are always leasehold. The buyer has to pay 100% of maintenance and repair costs of the shared ownership home – that is, not just the ownership share of the costs.

The shared owner can subsequently buy more of their home through a process called “stair casing” – the idea is that they eventually staircase to full (100%) ownership. The cost of the additional staircased share depends on how much the home is worth at the time the ‘step-up’ occurs, subject to a valuation.

The shared owner can sell their full share, but the housing association has first refusal – that is, has the right to buy it first. The housing association also has the right to find a buyer. However, once the shared owner has staircased to 100% that is, they own 100% of their home, they can sell it themselves to whoever they like.

Eligibility

The household must: earn less than £80,000 a year (£90,000 in London) be a first-time buyer, or have owned previously but is no longer able to afford an outright purchase on the open market

Interaction with other schemes

Shared ownership is an increasingly important part of the affordable housing offer, especially following the 2015 Spending Review which for the first time committed more capital spending to affordable home-ownership than affordable (or social) rent. Those under the Rent to Buy scheme can have the option of moving into shared ownership.

Rent to Buy ‘Intermediate Rent’ [November 2015 & Pre-2010]

A household can rent a new build housing association home for below the local market rent, enabling them to gradually save for a cash deposit to buy a home. The tenant may subsequently buy the home outright or enter into shared ownership with their landlord.

Policy rationale/fit with Government objectives

To enable those unable to afford to simultaneously pay rent and save for a deposit to buy their own home, enabling their entry to home-ownership.

How it works

The household rents a newly built home from a partaking housing association at approximately 20% below the local market rent for up to five years. The 20% rent saving is used by the household to save towards a deposit – hence “rent to save” as the scheme is sometimes known. At any point during the five years the household has the option (but not obligation) to buy the home outright or buy part of it under the shared ownership scheme. Rent to Buy (or intermediate rent) is offered under a shorthold arrangement.

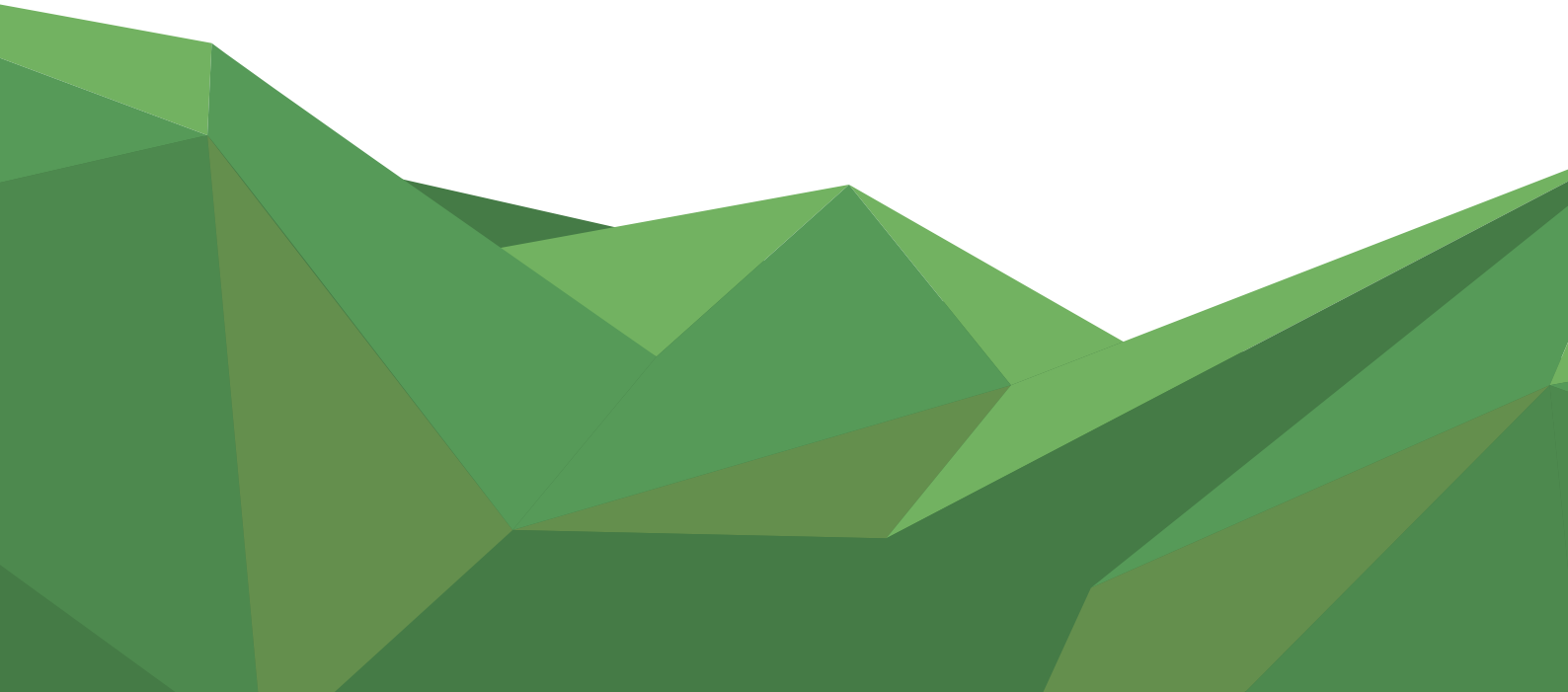
Eligibility

The buyer must: earn less than £80,000 p.a. (£90,000 London) | be a first-time buyer or be unable to afford to buy on the open market currently | have a good credit history

Interaction with other schemes

Rent to Buy is a part of the current affordable housing offer and can be thought of as a scheme that enables transition from affordable rent to shared ownership.

Chapter 3: Household coverage of the schemes



Household coverage of the schemes

How the housing schemes fit together

Traditionally, Government housing schemes to promote home-ownership have been targeted at lower income households – those unable to access housing on the open market - with the Right to Buy scheme and the schemes within the Affordable Homes Programme, such as Rent to Buy and Shared Ownership. They have always tended to be tenure-specific.

However, in more recent years with worsening affordability, accessibility and falling levels of home-ownership, Government housing schemes to promote home-ownership have increasingly been aimed at those further up the income scale. A key demographic group is young professionals – those in the 20s and 30s often on decent or good incomes. Once able to access housing (and home-ownership) on the open market, many today are no longer able to especially in the more expensive parts of the country. This is a political as well as a socio-economic challenge.

This development can perhaps be depicted with a simple 12-box matrix which places the current housing schemes by broad income level and tenure:

Above average earnings / affluent	<i>Build to Rent</i>		Help to Buy: Equity Loan Help to Buy: Mortgage Guarantee Starter Homes
Average earnings	<i>Build to Rent</i>	Shared Ownership – larger ownership share or more expensive locality	Help to Buy: Equity Loan
			Help to Buy: Mortgage Guarantee
			Starter Homes
Low paid / from minimum wage	Rent to Buy ‘Intermediate rent’	Shared Ownership – smaller ownership share	Right to Buy
Largely benefit dependent	Affordable Rent		(Right to Buy)
	Rent	Shared ownership	Ownership

The bottom two rows (below the double-line) are, loosely, what we have had traditionally. The top two rows are more recent additions. Right to Buy appears in the bottom right hand box because although it is not really aimed at households that are largely benefit dependent, there is a significant ‘bank of son and daughter’ effect where a family member buys the home on the tenant’s behalf.

The coverage of the schemes is relatively uniform in the sense that there is a scheme for 10 of the 12 boxes in the grid - the shared ownership offer is lacking at the bottom and top.

There appears to be a concentration of schemes in the top two right-hand boxes with multiple schemes in each box. This is more an observation than a criticism, but might also indicate that whereas the other schemes are more distinctive / less interchangeable, these latter schemes are more closely related/more interchangeable with each other. Obviously a part of the apparent 'cluster effect' is where Help to Buy Equity Loan and Mortgage Guarantee, although similar, have been separated out as distinctive schemes.^{xviii} Help to Buy: Mortgage Guarantee will also close in December 2016, ending over 3 years of co-existence between it and Help to Buy: Equity Loan.

From all of this we can identify two distinct groups of housing schemes. The first group is the schemes for those who, loosely speaking, *can* afford market housing (with the applicable housing scheme in play) and who want to enter home-ownership. The menu of options for this group is:

Help to Buy: Equity Loan | Help to Buy: Mortgage Guarantee | Starter Homes^{xix} | Help to Buy: Shared Ownership

The second group is schemes for those who *cannot* afford market housing and who want to enter home-ownership. The menu of options for this group is:

Help to Buy: Shared Ownership | Rent to Buy | Right to Buy

These are all potentially supported by the deposit-boosting Help to Buy: ISA and Lifetime ISA schemes to further aid accessibility.

This leaves Build to Rent, but that scheme is aimed at developers and investors rather than households themselves, so is excluded from the discussion in what follows.

Choosing between the different home-ownership schemes

As alluded to in the previous section, one way to consider how the Government's housing schemes interact is to consider them from the household perspective and to explore the menu of schemes open to them. The products open to households are related and are substitutable to some degree. In all, the home-ownership schemes form clusters of products (a menu): one within market housing space and one within affordable house space (with shared ownership straddling both spaces). They are there to promote home-ownership and support new build housing supply and aimed largely at working households of varying earnings levels.

Whilst such choice can be a good thing it can also be confusing. Households could be forgiven for not knowing which scheme is best for them. Obviously the eligibility criteria will go so far to narrowing down that choice: Starter Homes being for first-

“With a range of Government schemes to choose from, you could open the door to owning your own home.^{xx}”

time buyers only (and Right to Buy for social housing tenants). The 'Help to Buys' are open to all. The following analysis seeks to answer 'which scheme is best for me?' through two prisms: (i) the degree of affordability constraint; and (ii) scheme generosity, supplemented by financial 'better off' calculations.

Degree of affordability constraint

A key consideration in a household's choice of home-ownership scheme will be the degree to which they are affordability-constrained. A number of factors will determine how far a household is affordability constrained, such as choices (or requirements) around: home type; and location. Other housing market factors and market conditions more generally are also clearly very important.

Home type

Life choices such as having, or wanting to have, children will clearly have a bearing on the type of home the household requires. A couple looking to start a family may prefer a 3-bed semi-detached house with a garden than a 1- or 2-bed flat, for example. Given they are likely to be constrained by a budget, living in a bigger home could mean that they have to sacrifice living in a better area or living nearer to where they work.

Location

All other things equal, a household will want to live in a 'better' area bearing in mind the 'location, location, location' mantra. In reality they may also wish to live near to friends and family, which may constrain their choices. Are they prepared to tough it out in a regeneration area or an area that is 'up and coming'? This will further constrain their choices particularly if the Government housing schemes are more oriented to regeneration and brownfield sites, for example, Starter Homes were initially limited to brownfield sites (but this has subsequently been expanded). Where a household can buy their home is likely to have a strong bearing on their choice of scheme.

Market factors

House prices are affected by many factors: the balance of supply and demand, credit conditions and interest rates, and even expectations about what house prices are going to do next. Even returns on other asset classes (to housing as an investment) will have a bearing on house prices. The degree to which movements in house prices are out of sync with movements in household earnings will affect the degree to which households are affordability-constrained in purchasing a home.

How do the Government schemes compare and measure up when it comes to overcoming the affordability constraint?

The following table shows the maximum obtainable property price under all the different schemes^{xxi}, for a household constrained by affordability and accessibility – namely a budget of up to £1,025 per month on mortgage payments (and rent or

equity loan fees) and a deposit of £10,000. This is purely illustrative but implies home purchase prices that approximate those we observe. The £10,000 deposit in particular is deliberately modest to recognise a strong deposit constraint that warrants many of the Government schemes.

The key assumptions for the table are:

- the maximum mortgage and mortgage payment has been calculated by applying an interest rate of 6.5% (that is, applying a stress tested rate) for a repayment mortgage over a 25-year repayment term. This will of course vary by lender and may act to over-emphasise the benefit from the Government scheme.
- the shared ownership rent is calculated at 3% of the shared ownership value and this is deducted from the mortgage as lenders will consider the rent as an outgoing.
- the interest on the equity loan is calculated at 1.75% of the equity loan (from day 1) and this is deducted from the mortgage as lenders will consider this an outgoing. However, in practice many lenders will actually apply 3%.

Table 2:
Illustrative maximum obtainable property prices under the different Government schemes

	No scheme	Help to Buy Mortgage Guarantee	Help to Buy Equity Loan	Shared Ownership 75% share	Starter Home	London Help to Buy	Shared Ownership 50% share	Shared Ownership 25% share
Max deposit	£10,000	£10,000	£10,000	£10,000	£10,000	£10,000	£10,000	£10,000
Max mortgage payment*	£1,025	£1,025	£970	£905	£1,025	£890	£725	£445
Max Loan / Rent payment	NA	NA	£55	£120	NA	£135	£300	£580
Max mortgage stress tested @ 6.5%*	£150,000	£150,000	£142,000	£135,500	£150,000	£130,000	£109,000	£67,000
Equity Loan Amount			£38,000			£93,500		
Price discount amount					£40,000			
Value of rented share				£48,500			£119,000	£231,000
Maximum obtainable property price	£160,000	£160,000	£190,000	£194,000	£200,000	£233,500	£238,000	£308,000
Affordability stretch factor	NA	0%	+19%	+21%	+25%	+46%	+49%	+93%

The table shows that our illustrative household buying a home without a scheme or through the Help to Buy: Mortgage Guarantee scheme can only afford a home price of up to £160,000. So Help to Buy: Mortgage Guarantee does nothing to overcome the affordability constraint. Again, this is as intended, as this scheme is solely about accessibility. Conversely, buying a home through Help to Buy : Shared Ownership with a 25% ownership share will afford our household a home price of up to £308,000, the highest (versus £160,000).

The figures illustrate how the schemes impact differently on affordability by ‘stretching’ the attainable home price, from £160,000 all the way up to £308,000. In sum:

- Households that are highly affordability constrained – perhaps because they live in an expensive area or because they have a family and so need a bigger dwelling - are more likely to opt for shared ownership with a relatively low ownership share. Affordability ‘stretch factor’ = +90%
- In London, London Help to Buy and shared ownership with a 50% share have a quite similar impact on overcoming affordability. Affordability ‘stretch factor’ = +45% to +50%
- Outside London, Help to Buy: Equity Loan, Starter Homes, and shared ownership 75% share have a broadly similar and more modest impact on overcoming affordability. Affordability ‘stretch factor’ = +20% to +25%

Financial ‘better off’ calculations

However, the different housing schemes have different housing costs and benefits attached to them, even though they are deemed equally affordable. The differential is mostly attributable to risk – namely interest rate risk (that is, of higher mortgage interest rates) and to housing market risk (property prices rising or falling). It is also attributable to the differences in (obtainable) property prices – a more expensive property is more expensive to ‘consume’ (that is, in terms of mortgage payments and/or rent) than a cheaper one. Other things being equal, this means that schemes enabling the household to ‘stretch’ more are also going to cost the household more in housing consumption.

The following table illustrates the housing costs and benefits over 5 years for each scheme, as listed in the previous table. This comes with a health warning as it only covers the first 5 years and does not cover the different possible house market outcomes (i.e with house price inflation). However, it does provide a sense which schemes are the most financially beneficial to households (and indeed, how generous they are):

Table 3:
Implied financial cost and benefit of each scheme over 5 years^{xxiii}

	No scheme	Help to Buy Mortgage Guarantee	Help to Buy Equity Loan	Shared Ownership 75% share	Starter Home	London Help to Buy	Shared Ownership 50% share	Shared Ownership 25% share
Mortgage Interest	-£22,500	-£22,500	-£15,975	-£20,325	-£22,500	-£13,000	-£16,350	-£9,200
Mortgage interest rate	3.0% 95%LTV	3.0% 95%LTV	2.25% 75%LTV	3.0% 95%LTV	3.0% 95%LTV	2.00% 60%LTV	3.0% 95%LTV	2.75% 90%LTV
Rent /Equity loan Payment	NA	NA	0	-£7,200	NA	0	-£18,000	-£34,800
Capital Gain, flat house prices	NIL	NIL	NIL	NIL	£40,000*	NIL	NIL	NIL
Capital Gain, 10% house price inflation	+£16,000	+£16,000	+£15,200	+£14,500	+£60,000	+£14,000	+£11,900	+£7,700
Net gain / cost 10% house price inflation	-£6,500	-£6,500	-£775	-£13,025	+£37,500	+£1,000	-£22,450	-£36,300

Notes. *assuming the household can sell their starter home at the full market price after 5 years

In summary, we observe the following for these schemes:

- Of all the schemes, a first time buyer household would be best off buying a starter home in purely financial terms. This is largely because of the gifted 20% discount which they get to keep after [5] years
- The next best scheme, from a purely financial perspective, is London Help to Buy, followed by Help to Buy: Equity Loan
- A shared ownership home is likely to be the least best option for a household from a purely financial perspective. This partly reflects the fact they are consuming more housing. However, for a heavily affordability-constrained household seeking to buy a home to meet their needs it may be the only option

Comparing the 'market' schemes from a purely financially perspective in greater detail:

No scheme versus Help to Buy Mortgage Guarantee [£160k]

Generally, when the mortgage guarantee was first introduced, 95% LTV mortgages were rarely available. So in essence the mortgage guarantee just allowed the household to access a 95% LTV mortgage - the market has not really provided *cheaper* loans as a result. However, in more recent times, 95% LTV mortgages have become more widely available again.

The mortgage guarantee doesn't enable the household to purchase a more expensive home either, because it is purely about tackling accessibility (not affordability).

Winner = Mortgage Guarantee

Mortgage guarantee versus equity loan [160k to 190k]

Net housing costs with the mortgage guarantee in this illustration are £6,500 over 5 years which compares to £775 with the equity loan. The difference is entirely attributable to the lower mortgage interest rate (2.25% v 3%) under the equity loan as well as the zero interest loan for the first 5 years. This suggests there is little point using the mortgage guarantee to buy a new build home if the equity loan scheme can be used instead – a household can get a 'better' home and at less cost (at least in the first 5 years).

Winner = Equity Loan

Equity loan versus starter home [190k to 200k]

There are two key drivers of the starter home option being financially superior to Help to Buy: Equity Loan. The Starter Home comes out top simply because of the 20% price discount of £40,000, which after a period of time the household gets to pocket as a realisable capital gain. Further, they own 100% equity in the property, they don't have to 'share' their capital gain from a rise in house prices with the Government as they do with equity loan. This is an important factor in a buoyant housing market with rising house prices that is, Starter Homes have a stronger 'leverage' effect, worth an extra £4,000 in this example.

The £40,000+£4,000 windfall benefit by far outweighs the benefit that equity loan confers on the household in terms of a lower mortgage interest rate (2.25% versus 3%) and lower associated mortgage cost of nearly £6,000 over 5 years. The mortgage interest rate differential would have to be in the order of 5 percentage points to reverse this conclusion.

Overall, if a household is able to choose the starter home option (for example because they are a first-time buyer) then the Starter Home is likely to be the better bet. But this is only true if they are happy to service a higher mortgage cost and live there for the minimum period to be able to resell their home at the full market value (rather than at the 20% discount).

Winner = Starter Home

Equity loan versus shared ownership 75% share [£190k to £194k]

Those able to buy a home on the open market may not be eligible for shared ownership in the same local area. This means that, strictly speaking, households will not be able to choose directly between the Help to Buy: Equity Loan and Shared Ownership unless, of course, they are deciding between different localities. However, this point appears somewhat moot in the context of a 75% share ownership share, as similarly expensive properties are likely to be obtainable under either scheme (outside London).

The equity loan comes out top over shared ownership 75% share simply because the equity loan comes at a zero interest and fee for the first 5 years (and only 1.75% after). Conversely, under shared ownership the household has to pay affordable rent on the share it does not own equivalent to around 3% of the home value. In other words, zero fee (equity loan) versus £7,200 rent (shared ownership) over 5 years. Further, even though the mortgages are a similar size in each case, the equity loan mortgage is 75% LTV versus 95% LTV for shared ownership, a mortgage interest differential of 0.75% and cost differential of ~£4,350 over 5 years.

Winner = Equity Loan

Shared ownership 50% share versus London Help to Buy [£233.5k to 238k]

Again the London equity loan comes out top over shared ownership 25%-50% because the equity loan comes at a zero interest and fee for the first 5 years. The contrast with shared ownership is more stark than in the previous example because the lower ownership shares (25% to 50%, versus 75%) in turn mean disproportionately higher rented shares and higher rents. So an ownership share of 50% incurs rents of £18,000 over 5 years versus the interest free equity loan. Further, the even though the mortgages are a similar size in each case, the equity loan mortgage is 60% LTV versus 95% LTV for shared ownership, of mortgage interest rate differential of 1% and cost differential of £3,350 over 5 years.

Finally, the lower 'ownership share' under shared home-ownership than equity share under equity loan starts to eat into capital gains in a rising market, which are £2,100 less under shared ownership under the assumed 10% property price gain over 5 years.

Winner = London Help to Buy

Starter home versus London equity loan [200k to 233.5k]

Again different price points are deliberately compared to make the key point that although the starter home is still by far the better deal financially, London Help to Buy, with its more generous 40% equity loan enables the household to afford a much more expensive home (£233,500 vs £200,000 +17%). So although the starter home still wins the day overwhelmingly in terms of the pure better off calculation (and would still do so compared to a 45% London equity loan on the lower £200,000 purchase price), London Help to Buy might still be the preferred option overall for households wanting to buy a more expensive home, perhaps because they need a bigger dwelling for a family.

No overall winner

Turning now to less well-off households including social tenants, which *affordable* home-ownership scheme is best for them?

Right to Buy versus Shared Ownership

The Right to Buy is only for social housing tenants, many of whom are some of the poorest households (though acknowledging there are higher income social tenants). Hence it is treated separately from the other schemes. In the context of the Government's affordable housing offer of Right to Buy and Shared Ownership, the Right to Buy applies only to existing homes (not new build) which means that it is not directly substitutable for Shared Ownership.

But insofar as there is a choice for social tenants between these two schemes it is largely a no-brainer. The average Right to Buy discount is 50% – the household is in essence gifted half a property from the Government. Why enter shared ownership with a 50% ownership share (and 100% of the costs) when you can own 100% of a home at a 50% Right to Buy discount for the same money? There are conceivably some possible substitution effects: some highly affordability constrained social households might not be able to afford the Right to Buy but might instead be able to afford a low (for example 25% share) of a shared ownership home, again particularly in more expensive parts of the country where the Right to Buy cash cap bites harder / the attainable Right to Buy discount is far less than the average 50%. But given the household must pay an affordable rent on the non-owned share, shared ownership is far less likely to stack up in affordability or financial 'better off' terms than Right to Buy.

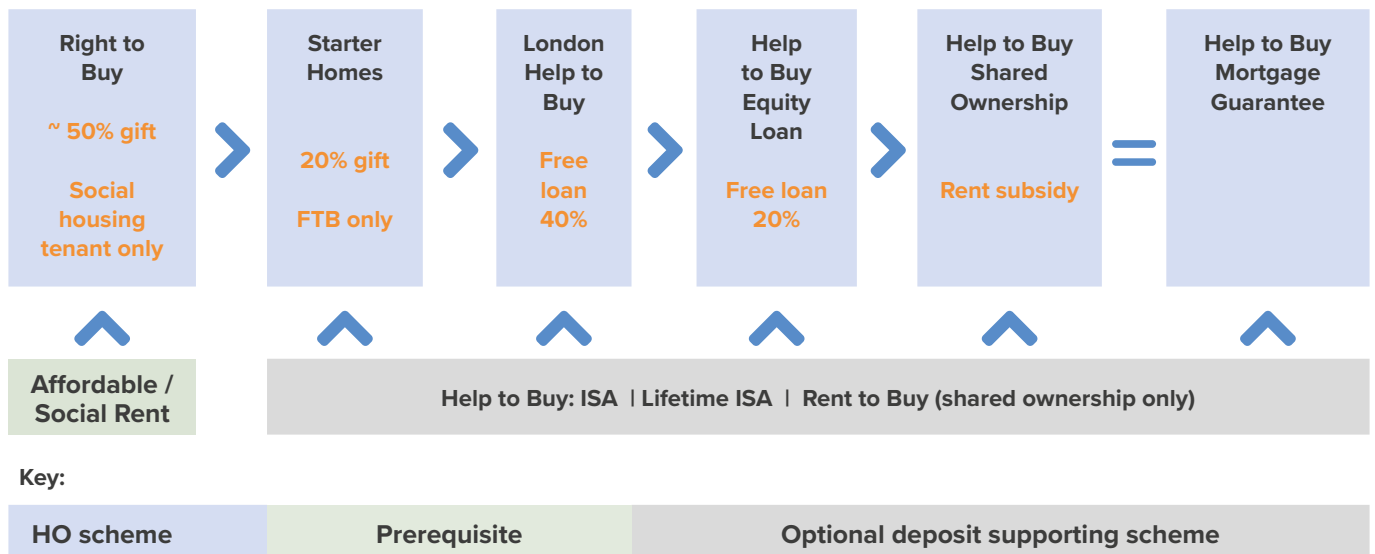
If a household is eligible for the Right to Buy and able to buy their own home, then this is likely to be by far the best option for them to enter home-ownership. Indeed, the Right to Buy remains by far the most generous of all the Government's housing schemes (more generous even than the Starter Home scheme with its 'mere' 20% discount).

There may of course be wider considerations. A household may prefer a new build home. Or it may wish to relocate or move to a new area – which means the Right to Buy may not be an option unless they first use a Mutual Exchange.

Winner = Right to Buy

In terms of overall generosity, we rank all the home ownership schemes accordingly:

Figure:
 Home-ownership schemes ranked by generosity



Summary

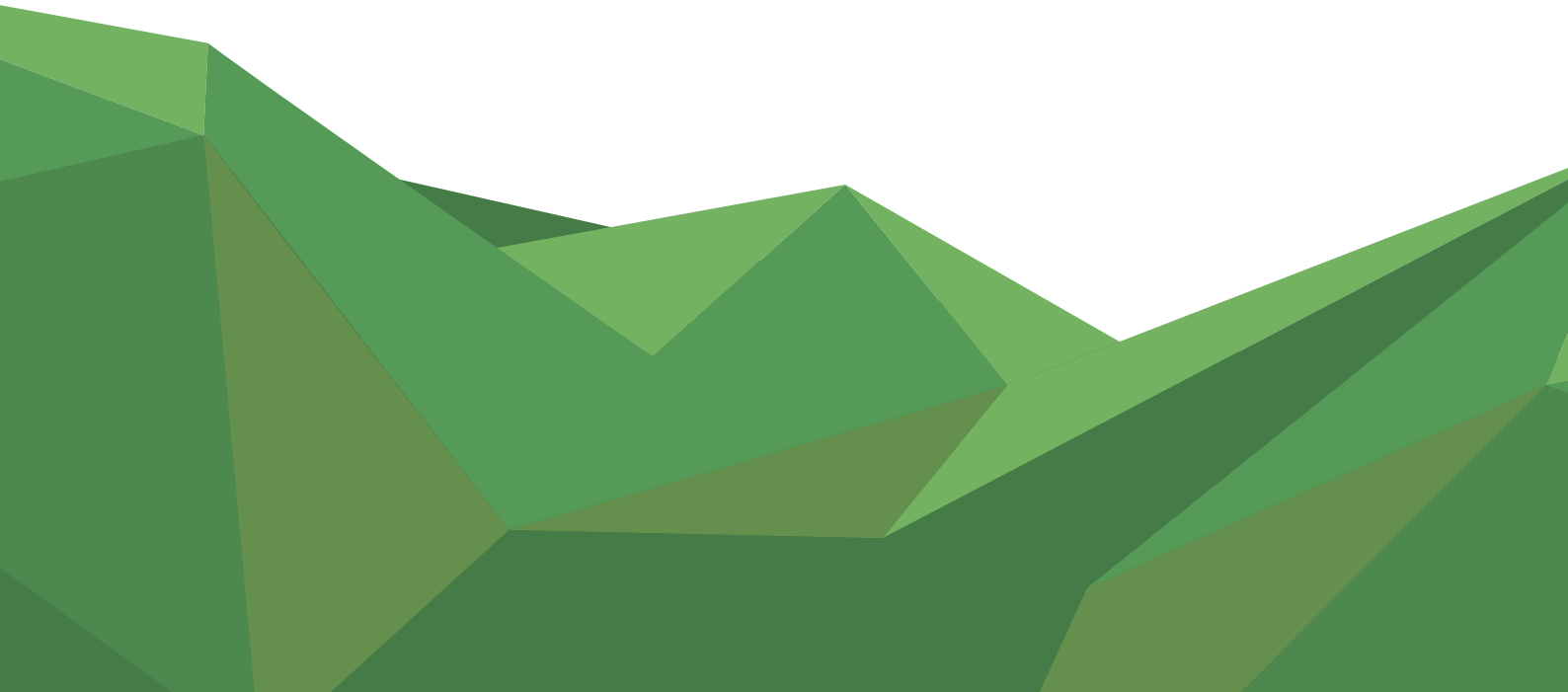
Broadly, and as already discussed, if you are a first-time buyer under 40, wish to own your own home and can afford to do so on the open market within a local area you are best off financially buying a Starter Home, if a suitable one is available. This is what Government intended, because its Starter Homes are explicitly about giving young first-time buyers the biggest helping hand given they have missed out on appreciating house prices.

Failing that, the best alternative is the less generous Help to Buy Equity Loan (and London Help to Buy) where there is likely to be greater choice. Again this is broadly as Government intended, Government wants to promote home-ownership (for example over Buy to Let), but some of those using Help to Buy will not be first-time buyers – movers will already have enjoyed a rise in the value of their home and so schemes aimed at them do not need to be as generous as those aimed specifically at first-time buyers (that is, Starter Homes).

It is only as you become affordability constrained and unable to access home-ownership on the open market through the Starter Homes scheme or Help to Buy Equity Loan, that you should consider shared ownership, which at current interest rates is less generous. This is also relevant to the question of the household type and how important a bigger house with more bedrooms is accordingly – if a household needs a bigger house it is more likely to be affordability constrained than if it only needs a more modest dwelling. Locality is the other key bearing on the affordability constraint.

If you are a social housing tenant, want to enter home-ownership, and can afford your Right to Buy then you should exercise it. Shared ownership is unlikely to be a better option financially unless there are real affordability constraints with the Right to Buy, such as when the cash cap vastly reduces the effective Right to Buy discount available rendering the Right to Buy an unviable option.

Chapter 4: The housing market and affordability



The housing market and affordability

This chapter looks at affordability in the housing market in 2015 down to the local authority level, on the basis of home prices to earnings. A variety of data sources are used.

The Annual Survey of Hours and Earnings (ASHE) provides data for earnings for workers at the national, regional and local authority levels. The earnings data include all the income mean and median averages (as well as earnings deciles). The ASHE earnings data are available down to the local authority level. They are also available both on the basis of people *working* there and on the basis of those *living* there. There are pros and cons of using either in our analysis. We use the data ‘on the basis of people living there’ in the geographical commentary that follows.

The Land Registry’s sold home price data are also available at the three geographical levels, which further subdivide into all dwellings and new dwellings, as well as home types – detached houses, semi-detached houses, terraced houses, and flats. The data are mean averages. The combination of these data allows us to compute the simple house price to earnings ratio at the various geographical levels including for different household types.

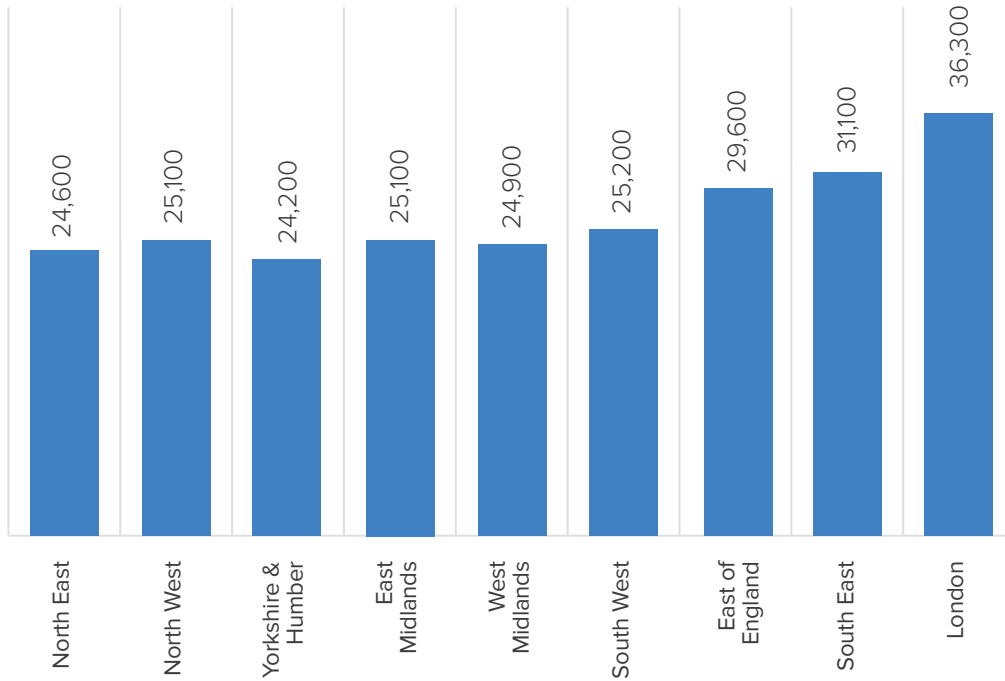
An Excel workbook containing all the data described in this chapter (and in chapter 5) can be found on the CML website accompanying this paper.

Geography of earnings

According to the ONS Annual Survey of Hours and Earnings (ASHE), mean average earnings in England in 2015 were £28,100^{xxv}. This compares to a median (or 50 percentile) average of £22,700. Nationally and regionally, and in most local authorities, the mean average typically rests just above the 60th percentile in the earnings distribution and follows the familiar positive skew of most earnings distributions. We use mean averages in the analysis that follows, largely because the Land Registry house price data we use are only available on a mean average basis. We need to be able to compare average house prices and average earnings on the same basis as we consider affordability.

As already noted, average earnings in England in 2015 were £28,100. Outside of London, the South East, and East of England, average earnings display remarkably little variance from region to another. Outside London, average earnings gravitate tightly around £25,000 a year, ranging from £24,200 in Yorkshire and the Humber, £24,600 in North East, through to £25,100 in the East Midlands and £25,200 in the South West.^{xxvi} There is a step change in average earnings as we move to the East of England and South East with average earnings of £29,600 and £31,100 a year respectively, followed by a further step change as we move to London where the average salary is £36,300.

Chart 4:
Average earnings by region (2015)

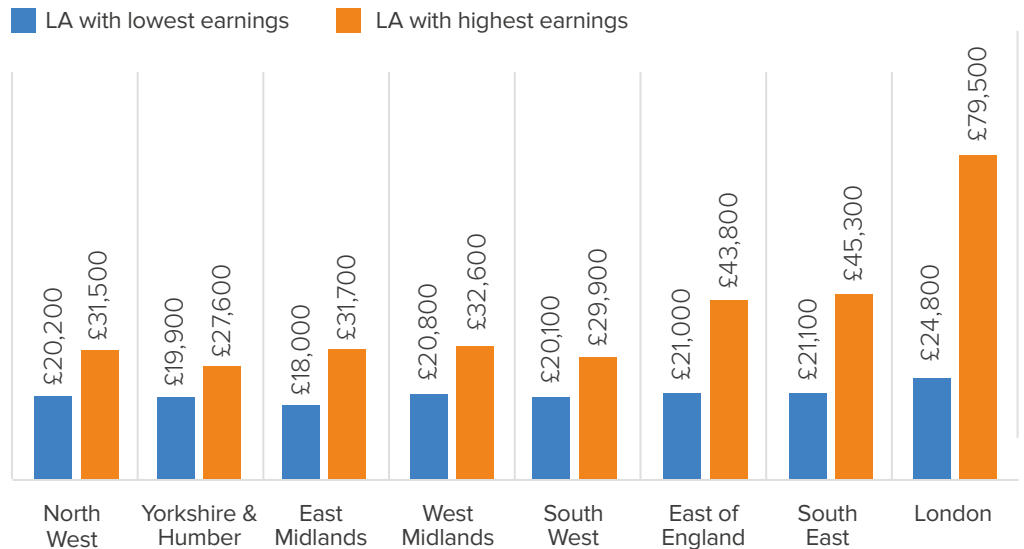


Source: ONS ASHE, Table 8

As to be expected, there are some significant variances between local authorities. In any given region, average earnings in the 'highest-earning' local authority can be double or even treble those in the 'lowest earning' local authority. At the extremes this probably reflects the often highly localised, clustering, of high-value added growth industries (for example information technology) on the one hand, and areas of decline or de-industrialisation on the other. There will also be the obvious 'commuter belt' effects, especially when exploring the earnings data by local authority, as we do, on the basis of people *living* there. For example, people living in St Albans are amongst the highest average earners in England. Many commute into central London on the fast direct rail link into Kings Cross (London Borough of Camden).

There are some notable average earnings variances between local authorities. These include: in the East of England, where average earnings range from £21,000 in Waveney to £43,800 in Brentwood; in the South East of England, where average earnings range from £21,100 in Thanet to £45,300 in Windsor and Maidenhead; and in London, where average earnings range from £24,800 in Barking and Dagenham to £79,500 in Kensington and Chelsea (see table 3.1). Within the midland regions, the northern regions and the South West where, as already noted, earnings are generally lower, the average earnings variances between local authorities are also lower.

Chart 5:
 Average earnings, local authorities with highest and lowest earning by region



Source: ONS ASHE, Table 8

Finally, the important consideration of first-time buyers.

Generally, we would expect first-time buyers to have lower average earnings than the working population as a whole, given average earnings rise quickly with age early on, peak when people are in their 40s, and decline gradually thereafter.

There is much debate about the age at which a first-time buyer should be able to enter home-ownership. The average age of a first-time buyer is also important politically. According to the English Housing Survey (2014-15), the average age of first-time buyers increased from 30 to 33 over the past 20 years, though this apparent rise in the age of first-time buyers is less evident in other sources. Crucially, for this piece, what we assume about the ‘reasonable’ age for a first-time buyer makes a very big difference in our assessment of affordability for first-time buyers, simply because the earnings of those in the 30-39 year old age bracket are so much higher than those in the 22-29 year old bracket. It also matters in our consideration of household type - and housing need accordingly - because those in the 30-39 year old age bracket are also more likely to have children (and hence need a bigger dwelling type) than those in the 22-29 year old age bracket.

So how do the average earnings of those aged 22-29, and those aged 30-39, compare to average earnings overall? The first and probably most important observation looking at the available ASHE data regionally is that the average earnings of those in the 30-39 age group are very close to average earnings of those overall, at least at the mean average level. Indeed, they are slightly higher in all regions. So in respect of earnings, the 30-39 year old age group is not at a disadvantage to the rest of the population on the whole. The second observation, as widely supposed, is that average earnings of the 22-29 age group are much lower than the 30-39 and overall age groups - around 25% to 30% lower.

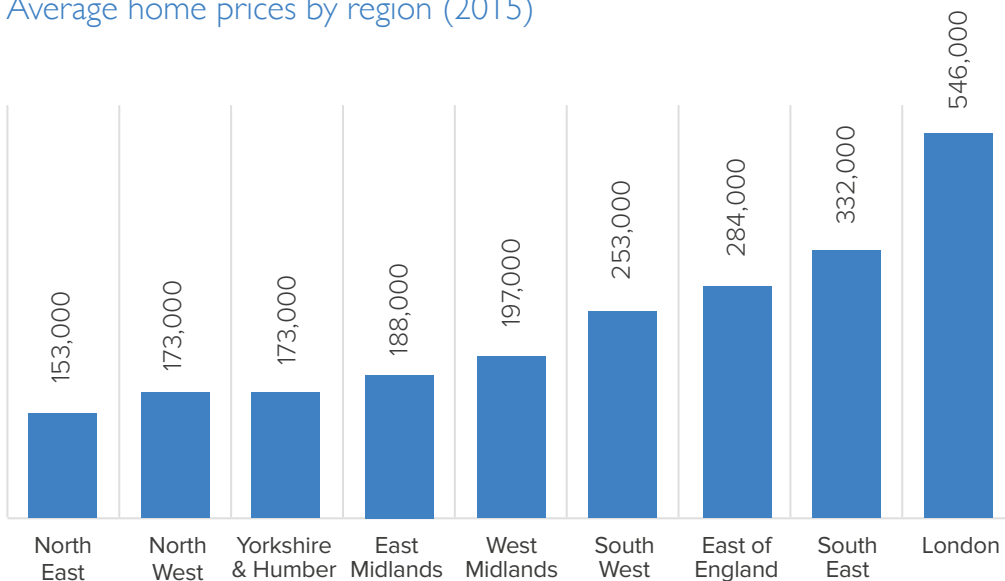
So age clearly matters to affordability : if we accept first-time buyers should be in their 30s, then they are not really at a relative earnings disadvantage; if we think they should be in their 20s, then they are. The issue for affordability for those in their 30s then becomes much more about equity and the fact that older people tend to have more of it.

Geography of home prices

The national average home price in England in 2015 was £272,000, according to the Land Registry. Unsurprisingly, the pattern of home prices from one region to another is correlated to that of average earnings, which to a large extent reflects the interaction of housing and labour markets. Clearly there are other factors at play in determining home prices than local labour markets. Nowhere is this more obvious than in London where property is more likely to be treated as an asset class than in other regions: one of the reasons why, for better or worse, the London housing market is ‘different’ to the rest of the country. Housing is both a consumption and an investment good. But even housing solely as a ‘consumption good’ has a number of facets: it can tie to the labour market (labour) and to leisure. The South West is an example of where there could be a stronger ‘second home’ (leisure) effect on home prices, and although this is likely to be modest at national or regional levels, it is likely to be more pronounced at the highly localised level (for example, in the Cotswolds).

There is greater variance of average home prices from one region to the next than there is of average earnings, which clearly has important implications for affordability. This is true at a number of levels. First, we noted above that average earnings were similar in 6 of the 9 English regions. This is not the case with average home prices in these 6 regions, which are discernibly lower in the 3 northern regions (£153,000 to £173,000) than in the 2 midland regions (£188,000 and £197,000), which in turn are discernibly lower than in the South West (£253,000). We then have (familiar) jumps as we move to the East (£284,000), South East (£332,000) and then a leap to London (£546,000):

Chart 6:
Average home prices by region (2015)



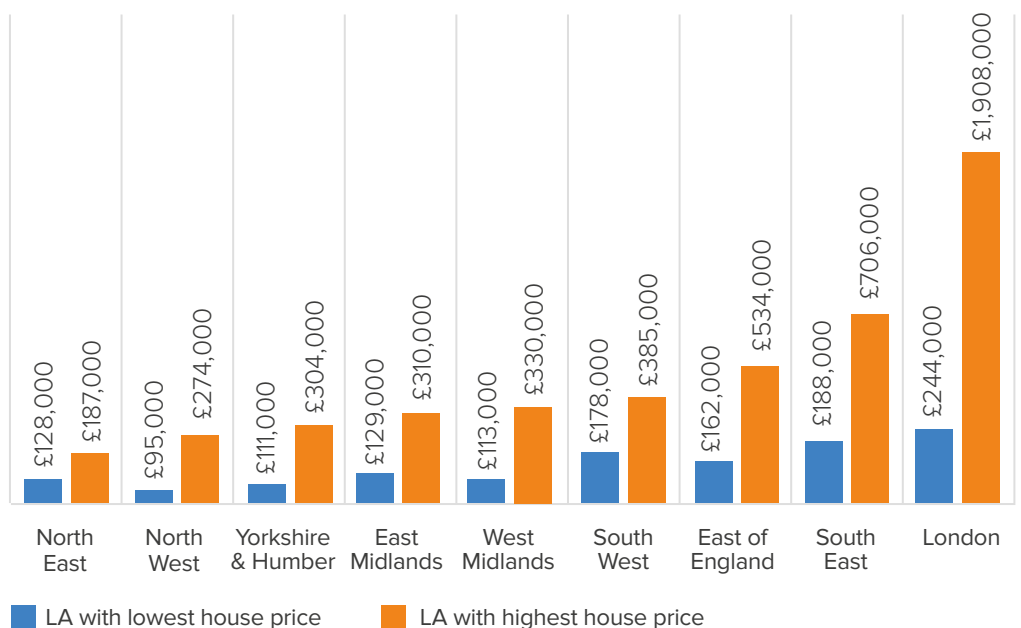
Source: Land Registry

Second, average home prices in London are nearly 4 times higher than in the North East (the lowest), whereas average earnings in London are only 1.5 times higher than Yorkshire and Humber (the lowest), on the basis of people living there. Such contrasts between earnings and price patterns regionally explain why affordability in London is far worse than in the rest of the country, as we shall see later on. The greater house price (than earnings) variance also explains why, for example, affordability in the South West is particularly bad compared to the North and Midlands, despite their average earnings being similar.

There are some interesting features of note when we look at home prices at the local authority level. Generally average home prices in the most expensive local authority in any given region are many more multiples of those in the least expensive, again displaying much greater variance than average earnings from one local authority to the next. Indeed, in six of the nine regions average home prices in the most expensive local authority are ~3 times or more greater than those in the cheapest and, again, this is more variable than earnings.

Unsurprisingly, London displays the most price variance from lowest to highest: average home prices in Barking and Dagenham are £244,000 compared to £1.9 million in stuccoed Kensington and Chelsea. In the South East, average home prices in Hastings are £188,000 compared to £706,000 in Elmbridge. In the East of England £162,000 in Great Yarmouth compared to £534,000 in St Albans. In the three least expensive regions average home prices range from £95,000 (Burnley) to £274,000 (Trafford) to in the North West, £111,000 (Kingston upon Hull) to £304,000 (Harrogate) to in Yorkshire and Humber, and £113,000 (Stoke on Trent) to £330,000 (Stratford-on-Avon) in the West Midlands.

Chart 7:
 Average home prices, highest and lowest local authorities,
 by region (2015)



Source: Land Registry

Geography of Home Prices to Earnings (Affordability)

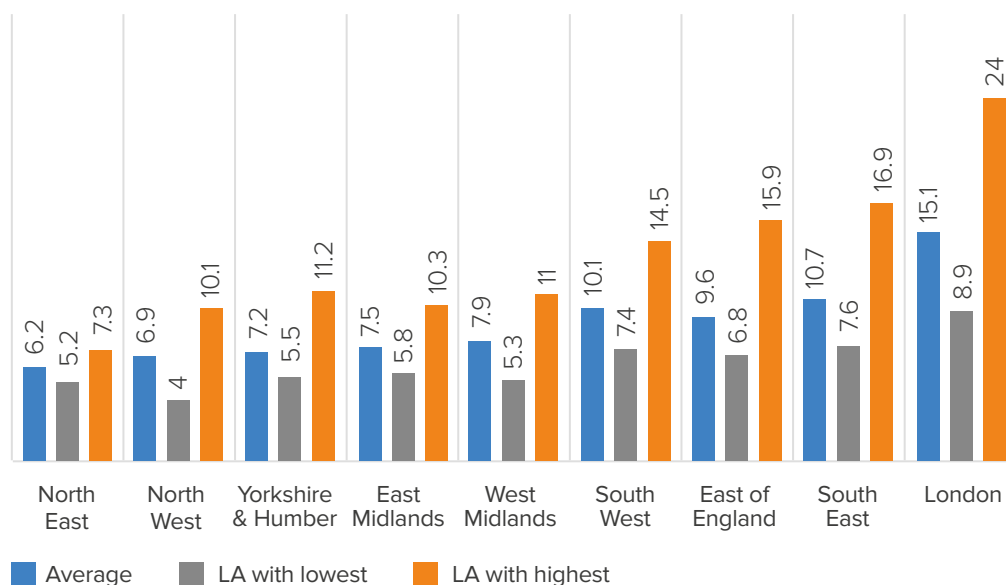
It seems a fair assumption that a home price to earnings ratio much greater than 5 : 1 will be stretching for most first-time buyers – say for a household borrowing 4.5 times earnings (also, incidentally, the Loan to Income cap of the Help to Buy schemes), with a modest deposit of 10% and in absence of Government or parental support. Given a national average home price to earnings (single) ratio of nearly 10 : 1 this does not sound terribly encouraging. However, much higher home price to earnings multiples can clearly be affordable for households with considerable housing equity, as is the case for most home movers and buy to let landlords in a housing market, such as ours, that has been rising for many years. It is also worth noting that home prices to earnings are not the only measure of affordability, though it is self-evidently the important one for this paper.

There are also inevitably value judgements to be made about the degree to which somebody should be able to live close to where they work or indeed close to where their family and friends live – or, perhaps in the case of many first-time buyers, where they grew up. Should households be prepared to commute longer distances and, in the context of a housing affordability, should they be prepared to move or live in a relatively cheaper area in order to access home-ownership? Naturally these are normative judgements. Nor are such debates confined to the housing market in the context of earnings: the right of social households to live locally is a highly emotive subject, especially in London, in the context of the Welfare Reform agenda.

The chart below shows that there are “pockets of affordability” in most regions, at the local authority level. Clearly, the four southern regions are the least affordable with an average house price to earnings ratio (blue bars) of roughly 10:1 outside London and 15:1 in the capital. Even the ‘cheapest’ boroughs (grey bars) the southern regions could be considered stretching from an affordability perspective, at around 7:1 outside London and 9:1 in London.

In contrast, the five midland and northern regions have an average house price to earnings ratios of around 6:1 to 8:1 respectively. Yet with house price ratios even in the cheapest districts ranging from 4:1 to nearly 6:1: many of these areas could be considered challenging to unaffordable for buyers with only a modest deposit.

Chart 8:
 Price: earnings ratios by region (2015)



Source: ONS ASHE, table 8, and Land Registry

Overall, this conveys the picture of the ‘north-south’ divide. This comes as little surprise and chimes with Alan Holman’s analysis in his objective assessment of need, in 2013, that 60% of England’s housing need is in the 4 southern regions, in part a reflection of significantly worse affordability in those parts.

Affordability by the type of home

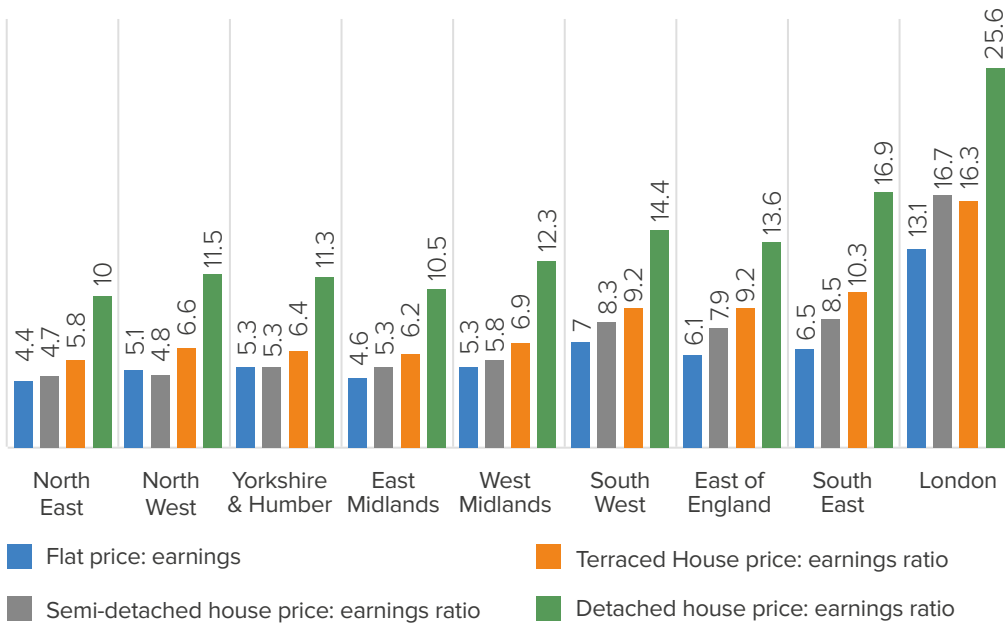
The analysis so far glosses over the crucial consideration of affordability, namely that of differing household sizes and their differing housing needs. A larger dwelling will obviously tend to be more expensive than a smaller one in a given local market. Families will require a bigger dwelling than a single person or a couple without children. Further, families do not necessarily earn more than households without children meaning that, on the whole, affordability constraints can bind families harder.

The type of home a household requires does make a big difference to affordability. A household might not be able to afford a detached house in a particular local authority, but might be able to buy a semi-detached one instead. Choices around home type and location – as discussed previously - certainly together, mean that the question of whether a household can afford to buy (or rent) is unlikely to be a simple ‘yes no’ binary, but often a question of ‘what’ and ‘where’.

Whilst average selling home prices in England were just shy of £272,000 in 2015, this ranged from £367,000 for a detached house to £231,000 for a semi-detached, to £226,000 for a terraced house. Whilst flats are the cheapest form of dwelling, their high propensity in London means that the average selling price of a flat in England, at £275,000, was actually higher than the average home price overall. Be that as it may, the average flat is under half the price of the average detached house in virtually every English region (apart from London, where it is just over half).

The average flat price to earnings ratio ranges from 4.4 (North East) to 13.1 (London), though 4.4 to ‘only’ 7.0 (South West) when London is excluded. In contrast, the average detached house price to earnings ratio regionally ranges from 10 (North East) to 25.6 (London), likely out of reach to a single first-time buyer even on the mean average salary. So Flats – which are more likely to meet the needs of first-time buyers - look far more affordable and more widely, at least outside the capital.

Chart 9:
Price : earnings ratios by region and home type



Source: ONS ASHE, table 8, and Land Registry

Affordability by household type

A selection of different household types can be considered when thinking about affordability at a more granular level. We consider the following for those earning the average wage (all ages – also a proxy for those in their 30s) by job type (full / part time):

1. A single person in full time work
2. A couple one in full time work and one in part time work
3. A couple both in full time work
4. A lone parent in full time work, with 1 or 2 children
5. A couple both in full time work, with 1 or 2 children
6. A couple one in full time work and one in part time work, with 1 or 2 children

We further assume, as a minimum, that:

- A two-bedroomed home is appropriate for a single person or a couple without children – most likely to be a flat; and
- A three-bedroomed home is appropriate for a family with 1 or 2 young children. This is most likely to be a terraced or a semi-detached house

So how attainable is home-ownership for these different household types in different parts of the country? The answer will of course depend on the maximum attainable home price to household earnings, which in turn will depend on the deposit and the amount mortgage lenders are prepared to lend, which in turn will depend on the lender's affordability assessment of the borrower. Two affordability thresholds are tested in what follows – a home price to household earnings ratio of 5:1 and 4:1. The basis for using these ratios is explored in the next section on mortgage lending. At the region level for the South East, the framework to assessing attainability looks like the following table:

Table 4:
Attainability by household type, requirement & earnings,
South East, 2015

Household type	Min. housing requirement	Home price	Household earnings	Price: earnings ratio *	Attainable (P:E <= 5)
Single, FT	Flat	£199,452	1xFT = £37,999	5.2	No
Couple, FT+PT	Flat	£199,452	1xFT+1xPT= £50,237	4.0	Yes
Couple, 2FT	Flat	£199,452	2xFT = £75,998	2.6	Yes
Single, FT, kids	Terraced or semi-detached	£264,646 £317,212	1xFT = £37,999	7.0	No
Couple, FT+PT, kids	Terraced or semi-detached	£264,646 £317,212	1xFT+1xPT= £50,237	5.3	No
Couple, 2FT, kids	Terraced or semi-detached	£264,646 £317,212	2xFT = £75,998	3.5	Yes

In this case, 3 of our 6 household types living in the south east, earning the mean average south east wage, can attain home-ownership of their minimum housing requirement – at the mean average south east home price. In this assessment, single person households struggle the most as do households with children without two full time earners.

We can repeat this analysis at the local authority level for England . However, rather than reproduce 326 tables, each like table 3.6, for every local authority, we can produce a tally of the local authorities for which households (by type) living there can attain home-ownership of their minimum housing requirement. So a reading of 200 / 326, for example, would mean that the selected household type can attain home-ownership in 200 of the 326 local authorities.

The results, for the number of local authorities for which there are adequate data (322 for full time earnings, 282 for part time) are summarised below:

Table 5:
Number and proportion of local authorities where home-ownership is attainable on a price to earnings ratio of 5, England 2015

Household type & min. housing requirement	Number of local authorities home-ownership is attainable in P:E <= 5
1 Single FT, Flat	215 / 322 (67%)
2 Couple FT, PT, Flat	252 / 282 (89%)
3 Couple FT, FT, Flat	309 / 322 (96%)
4 Single, FT, semi or terraced home	118 / 322 (37%)
5 Couple, FT,PT semi or terraced home	189 / 282 (67%)
6 Couple, FT, FT, semi or terrace home	295 / 322 (92%)

If a home price to earnings ratio of 5 is feasible through a deposit and borrowing, then generally home-ownership is broadly attainable for households with two full time earners (whatever the housing requirement), or with one full time earner and one part time earner requiring just a flat. Beyond this, home-ownership attainability diminishes most especially for lone parents (household type #4), who are only able to attain homeownership in 37% of local authorities on the average local full time salary.

Table 6:
Number and proportion of local authorities where home-ownership is attainable on a price to earnings ratio of 4, England 2015

Household type & min. housing requirement	Number of local authorities home-ownership is attainable in P:E <= 4
1 Single FT, Flat	1120 / 322 (37%)
2 Couple FT, PT, Flat	209 / 282 (74%)
3 Couple FT, FT, Flat	300 / 322 (93%)
4 Single, FT, semi or terraced home	59 / 322 (18%)
5 Couple, FT,PT semi or terraced home	121 / 282 (43%)
6 Couple, FT, FT, semi or terrace home	265 / 322 (82%)

If however only a home price to earnings ratio of 4 is feasible through a deposit and borrowing, then generally home-ownership is far less attainable for a broader selection of household types. Lone parents obviously continue to struggle as they can now only obtain home-ownership in 18% of local authorities, versus 37% previously. But we also now see single people (household #1) without children and couples with children (household #5) struggling, with home-ownership for these household types attainable in only 37%-43% of local authorities without some form of support.

Lending constraints

What lenders can lend is a crucial consideration for the attainability of home-ownership for first-time buyers.

Lenders no longer lend on the basis of a loan to income ratio. Instead they now conduct a more sophisticated affordability test which takes account of a household's outgoings as well as their income. As discussed previously, the Government schemes are capped at a loan to income ratio of 4.5:1 so this can be a useful benchmark. It would imply that borrowers with a 10% deposit can attain a home price to household income ratio of 5 (as discussed in the previous section).

However, in reality lenders assessments of affordability go beyond simple income multiples and they are constrained in their lending by the prudential regulation, which restricts new lending of 4.5 times income or more to a maximum 15% of their loan book. It is also worth noting that lenders have far higher capital requirements on mortgage lending above 75% Loan to Value. The table shows lending to first-time buyers by loan to income^{xxx}.

Table 7:
Lending to first-time buyers by loan to income multiple
(percentage share of FTB mortgages)

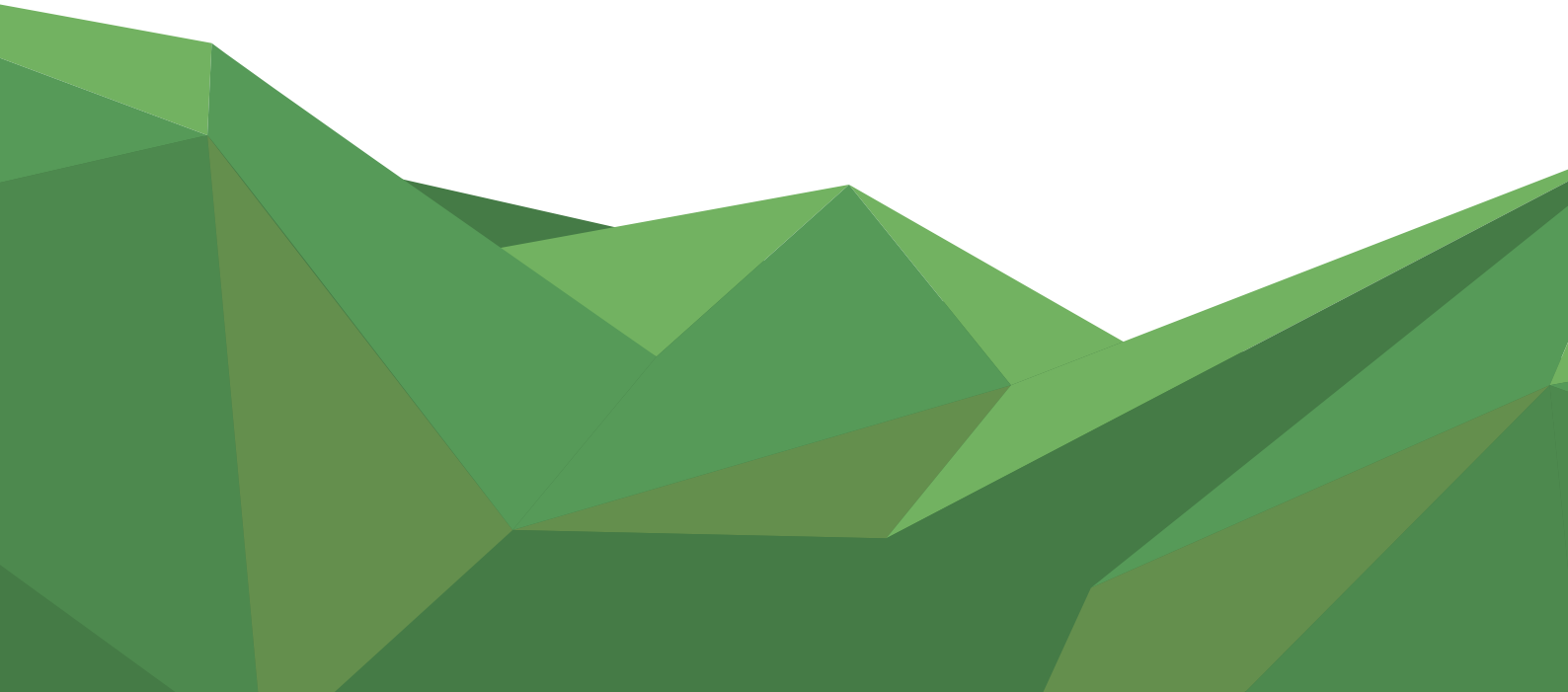
Loan to income	2011	2012	2013	2014	2015H1
<=2.5	24	23	21	19	19
>2.5=3.5	37	36	35	34	35
>3.5=4.5	29	30	33	35	36
>4.5=5.5	8	9	10	11	9
>5.5	1	1	0	0	0

Source. FCA Mortgage Product Sales^{xxx}

There is clearly a significant amount of lending in the 3.5 or more loan to income bracket – around 45% so far in 2015 - similar to 2014. But most mortgages to first-time buyers are at a loan to income ratio of no more than 3.5. A not insignificant share of first-time buyers are able to access a mortgage on a loan to income ratio of more than 4.5 (9 per cent of them), which with a modest deposit implies they can access home-ownership on a home price to household income ratio of around 5.

Looking at first-time buyer mortgage lending over all, the average loan to income ratio is around 3.2 and the average deposit around 20%. This implies an average home price to income ratio of around 4. The share of first-time buyer lending at higher loan to income ratios appears to be rising since 2011, with lenders more able to take on riskier lending once more following the financial crisis. But this has to be done in a prudent fashion in accordance with the new regulatory requirements. This opens up the potential for tension between housing policies to promote home-ownership and the regulatory prudential limits.

Chapter 5: How the government housing schemes fit into the market



How the government housing schemes fit into the market

Pricing points

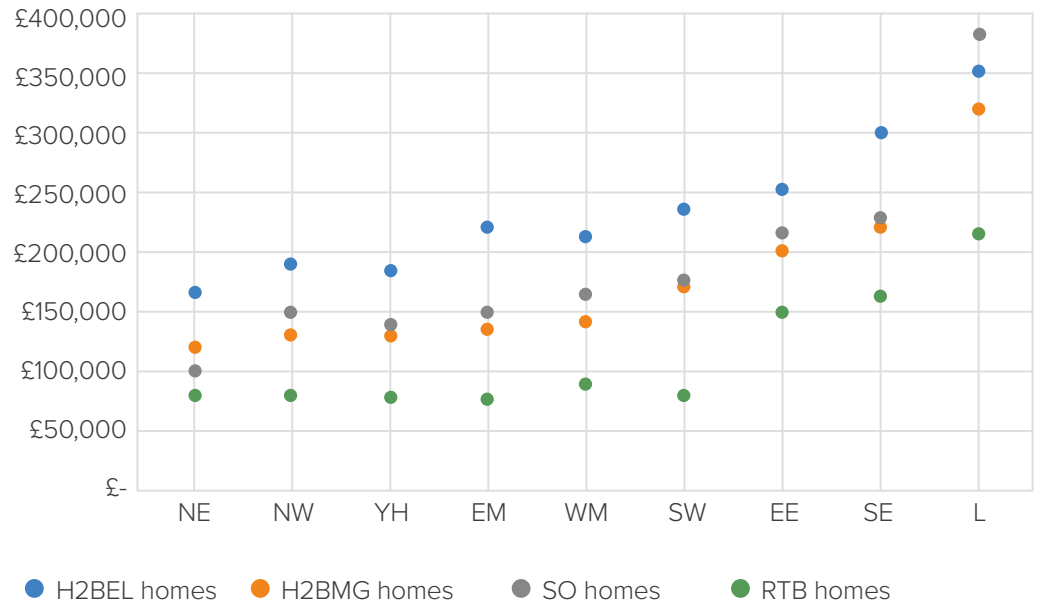
The Government's home-ownership housing schemes are intended to support home buyers of differing circumstances and at different pricing points in the market. Broadly, the Help to Buy schemes are intended to support first-time buyers on 'average' earnings to buy an averaged-priced home for their needs – perhaps a flat or a small house. This is also what is envisaged for Starter Homes. Shared ownership has traditionally been aimed at households on lower incomes and restricted to those who cannot afford to buy a home for their needs on the open market in their local area. It is worth noting, however, that many of the shared ownership income restrictions have been relaxed recently, including the raising of the household income limits in April 2016 to £80,000 (£90,000 London) within the eligibility criteria. Right to Buy is self-evidently aimed squarely at - restricted to - social tenants who typically have the lowest incomes with many social tenants in work earning close to the minimum wage.

We should expect, therefore, to observe *attainable* pricing points for the Help to Buy Equity Loan (and Starter Homes^{xxxxi}) scheme to be the highest of all the schemes, given these allow households to 'stretch' to a higher home price via the equity loan or price discount, as the earlier analysis shows in chapter 3. This should be followed by the next highest pricing point - Help to Buy Mortgage Guarantee. The story about where the shared home-ownership pricing point (taken as the value of the whole property) lies is more nuanced. On the one hand the average household incomes of those accessing shared ownership are lower than the average household incomes of those using the previously mentioned schemes, so should push the pricing point lower than that of the aforementioned schemes. But conversely, a low shared ownership share will allow households to 'really stretch' to a higher home price (again as shown in chapter 3), which might push the pricing point for the whole property up in less affordable areas, where average shared ownership shares are lower (for example in London).

Finally, Right to Buy pricing points will almost certainly be the lowest of all the schemes: although the significant right to buy discount allows the household to 'massively stretch' to a higher home price, the incomes of social tenant households are very low and the value of social housing also low compared to open market housing more generally.

An interesting question is whether this running order of pricing points is what we actually observe in the sale price (or completion) data. Further, do the schemes overlap in terms of the pricing points or are they supporting particular and discrete parts of the market, as intended? The following chart shows the pricing points (for the whole property) observed for the schemes by region from North East LHS to London RHS:

Chart 10:
 Regional sale price points by government scheme, whole property price (2015)^{xxxii}



Sources: DCLG (Help to Buy EL^{xxxiii} & RTB), HM Treasury (Help to Buy MG^{xxxiv}), RMS (shared home ownership)

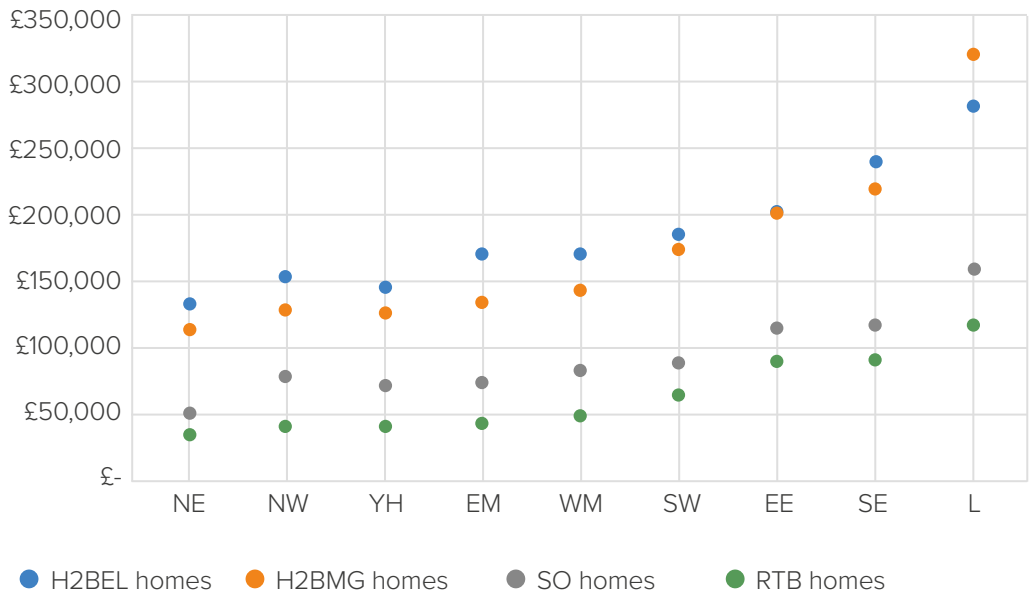
The chart shows that the average Help to Buy Equity Loan home price points (blue dots) are, as to be expected, the highest of the Government schemes apart from in London where they are slightly below Shared Ownership prices (grey dots) – indicative of a significant price stretching effect of shared ownership in the capital or, in other words, low shared ownership shares. In all virtually all other regions and not as expected, average shared ownership price points are generally second highest, not Help to Buy Mortgage Guarantee (orange dots) which are generally third. Finally, average Right to Buy price points (yellow dots) are without exception the lowest of all the schemes.

To the extent that the Help to Buy Equity Loan scheme prices points (blue dots) can be compared Help to Buy Mortgage Guarantee ones (orange dots), the data convey that those using the equity loan are doing so to ‘stretch’ to a more expensive home, that is, one that is bigger or one in a better area. In particular, it is worth noting that the average incomes of households using the Help to Buy Equity Loan scheme are not massively dissimilar to those using Help to Buy Mortgage Guarantee.

Outside London, the Help to Buy Equity Loan and Shared Ownership pricing points are clearly situated in very different parts of the (new build) market, given the price differentials we observe. However, inside London they are operating at very similar price points (£352,934 Help to Buy Equity Loan versus £378,800 shared ownership). The pricier shared ownership homes could imply they are bigger dwellings than Help to Buy Equity Loan homes overall. It could also imply a family effect on affordability: instead of buying a 2 bed flat under Help to Buy, the household is, say, buying a 3 bed house under shared home-ownership because a 2 bed flat is inadequate for its needs.

The next chart shows the sale price points as before but (i) net of equity loan under Help to Buy: Equity Loan (ii) just for the ownership share under Shared Ownership, and (iii) the discounted price paid under the Right to Buy.

Chart 11:
Regional sale price points by government scheme, actual purchase amount (2015)^{xxxiv}



Sources: DCLG (Help to Buy EL & RTB), HM Treasury (Help to Buy MG), RMS (shared ownership)

The main key observation here is that the expected running order of price points, of Help to Buy Equity Loan > Help to Buy Mortgage Guarantee > Shared Home-ownership > Right to Buy, is broadly observed when prices are shown in this way. Help to Buy Equity Loan prices are generally slightly higher than Help to Buy Mortgage Guarantee (apart from London, surprisingly) and around twice the price of shared ownership (a reflection that average shared ownership shares are around 50% outside London and 40% or less in London).

Right to Buy prices inclusive of a discount (typically in the order of ~50%) are significantly lower than the price of a ~50% ownership share, again likely to be a reflection of the fact that Right to Buy is overwhelmingly older dwellings in less desirable (including mono social-tenure) localities, whereas shared ownership is likely to be new and in mixed housing localities of market housing and affordable housing.

The other noteworthy observation is that the price points of the schemes are, as to be expected, more spread out, conveying greater market segmentation than conveyed by the previous 'whole dwelling' price points.

In sum, at the regional level the Government schemes appear to be operating in discrete parts of the market taking account of new build dwellings or old, in terms of pricing points for the ownership or equity shares acquired – de facto, in terms of target household groups. In particular, although in London Help to Buy Equity Loan and Shared Ownership

seem to be supporting homes at similar market pricing points when considered in terms of the whole dwelling, there is obviously household group segmentation: shared ownership particularly at low ownership shares is being used to overcome the affordability problem of inadequate income to obtain a home for the household's needs, typically being acquisition of a 40% ownership share or less, whereas Help to Buy Equity Loan is nearly always an 80% equity stake (in 2015) – that is, double the price for double the stake, all else equal. We also observe significant household income differences between Help to Buy Equity Loan participants (much higher) and shared ownership ones (much lower).

It is worth also adding a caveat about the somewhat simplistic analysis so far of shared ownership. The numbers presented simply assume a uniform shared ownership share of 50% outside London and 40% in London, which correlate strongly with the 1st purchase shared ownership shares on aggregate, by region. But the reality of course, and one of the strengths of shared home-ownership, is that the purchaser can generally choose the share they buy of typically between 25% and 75%.

In terms of the scheme adjusted pricing points, the minimum shared ownership shares closer to 25% occupy a similar space as the Right to Buy in many regions (though again in the context of new build versus old dwelling types respectively, meaning they won't necessarily compete head on, as products). However, the maximum 75% ownership shares do not appear to occupy the pricing space of the Help to Buy Equity Loan (80% equity shares being close to the 75%) scheme or the Help to Buy Mortgage Guarantee scheme to the same extent, outside London. In London shared ownership at 75% occupies pretty much the same pricing space as the Help to Buy Equity Loan.

This space overlap will be greater now that the London Help to Buy offers a 40% equity loan (not apparent in the 2015 data here). However, only 10% of shared ownership purchasers currently buy a share of more than 50% suggesting that, for the most part, the pricing space will remain highly segmented between Help to Buy and Shared Ownership schemes including in London.

This discussion has not yet touched on Starter Homes. As outlined in chapter 1, these will be available at a 20% discount to the market price (of new build). Being restricted to first-time buyers under 40 one would expect the property type purchased to be similar to Help to Buy Equity Loan given the equity loan is also 20%. Therefore, Help to Buy Equity Loan and Starter Homes could end up operating in the same part of the market in terms of pricing points and households. This was less of a problem while Starter Homes were restricted to Brownfield sites only but, as already discussed, in the Government's Productivity Plan the intention is that every 'reasonably sized' housing site should include a proportion of Starter Homes mean they could compete head on with Help to Buy Equity Loan more widely.

Scheme volumes (or 'Market Shares')

There were 866,004 home sales in England in 2015, according to the Land Registry. Of these, there were 92,107 new build home sales. In all regions, new build sales were close to 10% of all home sales (as they are nationally).

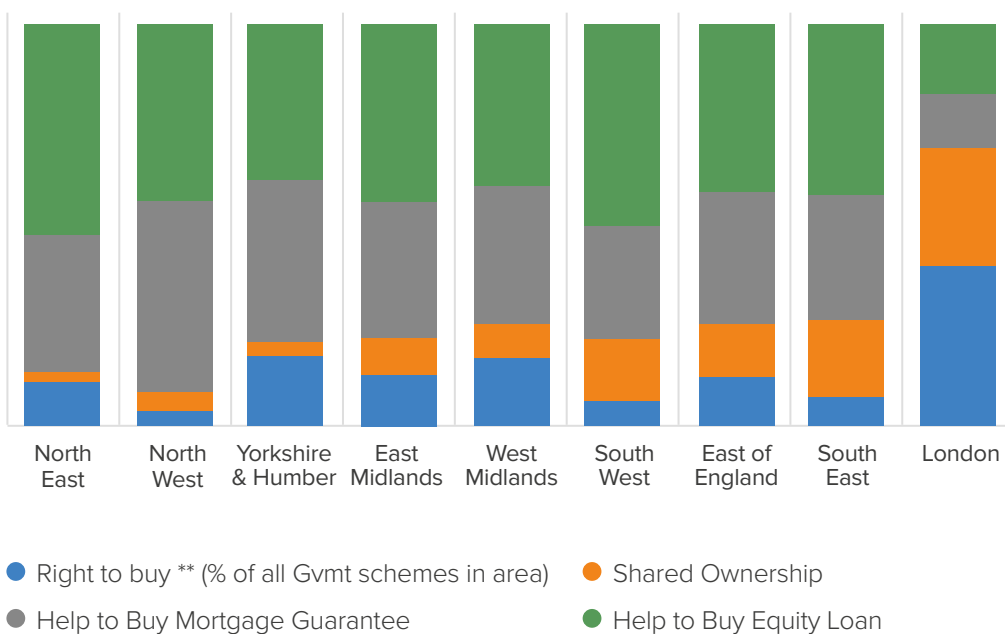
The largest scheme nationally by take-up in 2015 was Help to Buy Equity Loan and there were 31,827^{xxxvi} new build home sales through the scheme (35% of all new build sales). There were around 9,696 new build home sales through shared ownership.^{xxxvii} So something in the order of half of new build sales in 2015 were supported by Government schemes - Help to Buy Equity Loan and Shared Ownership.

Help to Buy Mortgage Guarantee was the second biggest scheme in 2015 with 26,498^{xxxviii} home sales of both new build and old dwellings (mainly the latter). There were also 12,292^{xxxix} Right to Buy Sales, so under 5% of existing dwelling sales were through Government schemes and as intended with a less pronounced affect than the Government schemes on the new build market.

There were 300,000 first-time buyers in 2015. Around 68,000 homes were sold under the Help to Buys (58,325) and Shared Ownership schemes (~10,000), of which around 80% or ~55,000 were to first-time buyers. So these schemes are supporting a significant number of first-time buyers – nearly 1 in 5 - but that’s clearly nowhere near most.

Regional ‘market’ shares of the different schemes (as a % of all schemes) can tell us a great deal about how these schemes are interacting (and competing) with each other at the regional levels and also their place in the housing market nationally. The regional numbers convey some significant differences between the Help to Buy Equity Loan and Mortgage Guarantee schemes on the one hand and shared ownership / Right to Buy on the other, in terms of the markets and households they serve:

Chart 12:
Government scheme shares by region (2015)^{xi}



Sources: DCLG (Help to Buy EL, RTB), HM Treasury (Help to Buy Mortgage Guarantee), CORE (shared ownership)

The overwhelming standout is the contrast in the prevalence of (i) the Help to Buy Equity Loan and Mortgage Guarantee schemes which are far bigger players in the northern and midland regions and (ii) shared ownership and Right to Buy which are far bigger players in London (and to a much lesser extent, the South East). The standout is London where shared ownership accounts for a far higher 'market share' of Government schemes (around 30%) than in any other region, suggesting it is being used to bridge severe affordability constraints here more than anywhere else in the country. Shared ownership accounts for around 20% of Government scheme sales in the South East – the next highest behind London. Contrast this in particular to the nearly non-existent presence of shared ownership in the northern and regions (1% to 4%) and then midland regions (8%). In other words, shared ownership is most prevalent in parts of the country where affordability is worst: it almost mirrors the analysis in Chapter 3 showing affordability was best in the north followed closely by the midlands and least, by far, in the South East and London.

It is also striking that the Help to Buy Equity Loan and Mortgage Guarantee schemes combined account for only 30% of Government scheme sales in London, the same as shared ownership and less than Right to Buy (around 40%) on their own. The 30% in London contrasts to the combined Help to Buy Equity Loan and Mortgage Guarantee schemes share ranging from 75% (South East) to 90% (North West). There is an almost direct inverse relationship between the prevalence of the Help to Buy Equity Loan and Mortgage Guarantee schemes and affordability. In other words, these schemes are most prevalent in the areas that are relatively more affordable in house price to earnings terms, suggesting they are being used as intended to meet deposit requirements (that is, to overcome accessibility constraints) rather than bridge an affordability gap. It could also indicate that The Help to Buy Equity Loan is being used to 'stretch' to a more expensive home (trade up), that is, a bigger home and/or one in a 'better' area.

Finally, the story for Right to Buy is more nuanced: in London it accounts for around 40% of Government scheme sales, but there is also a much higher prevalence of Right to Buy in the Midlands and Yorkshire than in the rest of the country. So beyond London there is no clear link between scheme prevalence and affordability. This is possibly muddied by the regional distribution of local authorities that have retained their housing stock (non stock transfer local authorities) and also the historic pattern of Right to Buy sales.

The North South divide according to scheme by region also suggests less overlap (and competition) between the schemes at a localised level.

Conclusion

The Government housing schemes to promote home ownership have evolved over many years. But whilst it is difficult to argue therefore that they are the result of an overarching strategy and coherent whole, they have at least evolved into a suite of policies that act upon different households and different parts of the market. It is noteworthy too that once Help to Buy: Mortgage Guarantee comes to an end in December this year, all of the Government housing schemes to promote home ownership will support housing supply, directly or indirectly. This reflects a clear Government strategy to entwine their supporting housing supply and promoting home ownership policy objectives, which are the pillars of the Government's housing policy.

However, when it comes to supporting housing supply, the Government's flagship Help to Buy: Equity Loan is not boosting supply in the parts of the country that need it the most. Clearly there is a bias towards the north and away from London in particular and this is likely to explain why the Government has 'evolved' Help to Buy Equity Loan further, to create London Help to Buy. Perhaps more still could be done to re-orientate the scheme's effectiveness and take-up in the south and outside of the capital.

This study has only briefly touched on the effect of the housing schemes on house prices partly for reasons of scope, but acknowledges that, to the degree that the housing schemes are not additional to housing supply, they are house price inflationary, particularly in the new build part of the market. This has the potential to dilute the overall affordability enhancing credentials of the schemes.

The housing schemes are designed to improve affordability for those disadvantaged in income terms and/or accessibility for those disadvantaged in equity (deposit) terms. The latter is inevitably a younger versus older people dynamic and about levelling the playing field between first-time buyers (no equity) and existing home-owners and buy to let landlords (lots of equity). It is difficult however to ascertain the degree to which they have boosted home-ownership amongst the groups they are aimed at on the one hand and the degree to which they have simply enabled households to buy a 'better' home than they otherwise would have – a charge levelled frequently at Help to Buy: Equity Loan.

The Government has been explicit that it wants to help people enter home-ownership and it wants to help first-time buyers and social housing tenants the most. The extra generosity of Starter Homes and of the Right to Buy reflects this. But the fact that shared ownership is one of the least generous schemes and taken up by those who are affordability-constrained the most throws up an interesting anomaly. It is questionable whether this is fair, it certainly isn't progressive.

The housing schemes do appear to be acting on different parts of the market with a high degree of market segmentation. This is indicated by a good spread of pricing points between the schemes which indicate a low level of overlap between the schemes in the market place. This is also confirmed broadly by income data for the schemes (not covered in this report). The high degree of segmentation by *geography* has been touched up on above but again it cannot be taken entirely as a positive.

The Government housing schemes are almost inevitably more by accident than design: it is hard to conceive we would have the current array of schemes (particularly the mix of shared ownership and shared equity) if the Government was starting from scratch. But they do appear to be coherent and they are at least fulfilling the Governments key strategic objectives. This coherence could be further conveyed through simplification. For example, by aligning the key thresholds such as the maximum home purchase price within scheme eligibility - the Help to Buy: Equity Loan (currently up to £600,000) and Starter Homes (currently up to £450,000 in London and £250,000 outside). Similarly for the Help to Buy : ISA

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- x <https://www.london.gov.uk/sites/default/files/house-prices-in-london.pdf>
- xi The Right to Buy Extension is currently being piloted by five housing associations and the first sale was completed in September 2016.
- xii David Cameron, speech at the Conservative Party conference, October 2011.
- xiii Additionality of affordable housing may also vary over the economic cycle.
- xiv So-called because of the voluntary deal to introduce it struck between the National Housing Federation and the Government.
- xv Although social tenants living in traditional housing association housing will also soon have their right to buy, their qualifying period is more likely to be 10 years, not the 3 years for council / stock transfer social tenants.
- xvi The Scottish Government has recently ended the Right to Buy policy in Scotland (devolved). The Welsh Government has also recently announced a legislative programme which includes a Bill to end the Right to Buy in Wales too.
- xvii As announced in the Government's Productivity Plan Fixing the Foundations (July 2015) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443898/Productivity_Plan_web.pdf

- xviii And run by different Government Departments, that is, DCLG and HM Treasury respectively.
- xix First time buyers only
- xx Government advertising to promote its homeownership schemes
- xxi Apart from Right to Buy, explored separately
- xxi Assuming affordability of £1,025 per month for mortgage and/or rent and a £10,000 deposit
- xxii Gradual increases in mortgage interest rate levels are assumed over the next 5 years, by circa 50-75 bps
- xxiv They may have the option of shared ownership home in a locality where they cannot afford to buy on the open market through the equity loan scheme
- xxv This is also an average of full time and part time earnings.
- xxvi These are the average salaries of the people living in these regions. An alternative would be to take the average salaries of the people *working* in them.
- xxvii https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/539256/First_Time_Buyers_and_Potential_Home_Owners_Report.pdf
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- xxix Product Sales Data mortgages only
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- xxxi Noting we cannot observe pricing points for Starter Homes yet.
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