

Why the government's Help to Buy scheme won't reach the right people

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*The government's Help to Buy scheme intends to boost homeownership by reducing the down payment required. Analysis by **Robbie de Santos** and **Toby Lloyd** of Shelter, also detailed in a [report](#) launched today, shows that overall affordability is a bigger problem than the big deposits required by mortgage lenders. Easy finance into a supply constrained market can only boost up house prices, pushing them further out of reach for the millions of lower and middle income households already frozen out of the housing market.*



When the government launched the Help to Buy scheme in the budget back in March, it was couched in the terms 'aspiration nation'. A cornerstone of which was about helping people achieve 'that most human of aspirations': owning a home. It's not hard to see why the government are focusing on this. In the last decade, homeownership has declined for the first time since records began. That most human of aspirations has started to look wholly unachievable for most hard working families.



They are mostly renting from a private landlord now – there are now nine million people in the private rented sector, which has grown by 69% in the last decade. Renters have to grapple with a market dominated by short tenancies (in some places 6 months is the norm), [high rents and big increases](#) (people paying an extra £300 rent this year compared to last), meaning that more than half of renting families can only save £50 or less a month. For families in particular – 1.3 million of them, a third of the sector – the lack of stability and predictability can be a nightmare. 44% of renting families think their children would have a better childhood if they weren't renting.

Importantly and as we've highlighted, renters are looking ever more like the archetypal swing voter – their incomes cluster round the median, they are more likely than any other group to be in full time work, and they are really, really feeling the squeeze. This is a key living standards issue, which is why influential think tanks like the Resolution Foundation are also looking at solutions for generation rent.

What's the problem then?

So far a lot of the debate has focused on the big deposits required by mortgage lenders. A typical first time buyer deposit went from 5% at the peak of the lending frenzy to an average closer to 20% in the current market. On high overall house prices (current average about £160,000) that would be £32,000 – a big challenge for anyone without wealthy parents and a well paid job. But our analysis shows that overall affordability is the bigger problem. Even if you managed to qualify for a 90% mortgage, the average family (with a 1.5 FTE income) would only be able to afford the average local home in 59% of the country.

The high cost of housing is driven by the shortage of housing – let's not forget we have historically low interest rates on borrowing, even with first time buyers paying high rates compared to those with more equity in their home.

How does Help to Buy work and who does it help?

Confusingly, Help to Buy comprises of two quite different schemes:

Help to Buy equity loan

Formerly known as FirstBuy, the government gives a 5 year 20% interest free loan to all buyers (previously it was just first time buyers) of new build homes, who then only have to put up a 5% deposit. This means that they only

have to borrow 75% of the property's value through a mortgage. This is aimed to help 74,000 people over three years.

Help to Buy mortgage guarantee

Previously known as NewBuy and only available on new build homes, this allows buyers to take out a 95% mortgage on any home worth up to £600,000, but the government underwrites 15% of the mortgage to take on some of the lender's risk. This is aimed to help 600,000 people over three years.

Our initial analysis of Help to Buy showed a counter-intuitive logic – that the lower the deposit (i.e. the government's 95% mortgage indemnity pledge) the more expensive the running costs because you're borrowing more. As a result, with the 95% mortgages possible through Help to Buy, only in 49% of England would the average 1.5 earner family be able to afford the mortgage on an average home. And only in 12% of England would the lower quartile 1.5 earner family be able to afford the average home. Figures are substantially better for the shared equity element, but this is much smaller in scale.

The wider consequences of Help to Buy

An [unprecedented number of commentators](#) have roundly condemned the mortgage guarantee element of the scheme, which – not being linked to new build – will not do enough to stimulate new developments being built. Easy finance into a supply constrained market can only push up house prices, pushing them further out of reach for the millions of lower and middle income households already frozen out of the housing market.

The lack of exit strategy for the scheme is also a worry. When the guarantees dry up and mortgage availability constrains, we could then see a large number of new buyers trapped in negative equity if prices fall from their new peak. Finally, there are currently no provisions to stop the mortgage guarantee being taken up by people buying property to rent out or buy a second home.

What *should* the government be doing?

It's clear that if government wants to get Britain back on track to be a nation of homeowners, it's going to have to [focus some serious effort on building homes](#) that are affordable to people in low and middle income groups across the country, and invest money directly in building more homes – [as mooted by the CBI](#). Otherwise, this is certainly not the second coming of Thatcher's Right to Buy revolution.

The government will also have to consider how the help it gives at least [goes to the 'right' people](#). My hope is that government will introduce a new legal mechanism to keep these subsidised homes with owner occupiers – presumably by beefing up the law on restrictive covenants, so that enforceable restrictions can travel forward with the deeds for the home. Finally, if we finally get building the homes we need to build, and this is to offer promise to a generation of first time buyers, government will need to think how it really helps a wide range of people compete in the market.

Key to this is ongoing affordability, which current initiatives have failed to address. Our analysis suggests that shared ownership or different ways of reducing mortgage amounts through more creative equity schemes are more likely to bring ownership back in reach of the kind of people who benefited from Right to Buy. A more politically astute housing policy for the 2015 general election will have to meet that challenge.

Shelter has launched a [campaign](#) and published a [report](#) today regarding the difficulties many face in owning their own homes.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

About the Authors

Robbie de Santos leads Shelter's policy work on private renting and mortgage issues. Over the last few years he has developed Shelter's policy proposals to improve the private rented sector, including the Stable Rental Contract and action to rid the sector of rogue landlords. He is currently working on a major project looking at housing options for the squeezed middle. Outside of work Robbie is a food blogger, cyclist and active in neighbourhood planning in Hackney.

Toby Lloyd has worked in housing policy across the public, private and voluntary sectors for ten years, and joined Shelter as Head of Policy in 2011. Previously he led Navigant Consulting's policy and strategy division, where he advised local and national government and the private sector on housing, planning and regeneration. He has been a senior policy manager for the Greater London Authority, a project manager for the London Rebuilding Society, and taught financial history at LSE. In his spare time he is part of the Hackney Cohousing Project, a community led scheme seeking to develop fifteen homes in a mixed tenure, multi-generational neighbourhood.