

No help to buy

Summary

- Based on the latest data release from the English Housing Survey, the average household income¹ in the PRS is approximately £27,000 (before tax).
- Using typical mortgage and deposit levels we estimate that last year, the average private renter's budget to buy a home was approximately £115,000; while the average house price was, £242,396.
- Despite being the government's flagship policy for combating the housing crisis, the average first-time buyer accessing Help to Buy had a household income of £50,000; this is 85% higher than typical private renters. In fact, only around 19% of private renting households in England earn that much, or more.
- Three quarters of private renter households earn less than £40,000 a year but the likelihood of finding them among Help to Buy beneficiaries is one in 278. Meanwhile those on £100,000 or more make up one in 100 renting households, but account for one in 20 Help to Buy beneficiaries.

Introduction

Help to Buy is one of the current government's flagship housing policies. Since its launch by the coalition government in 2013 it has provided support to over 220,000 households (221,405) in England via the equity loan scheme (i.e. support for a deposit). The total value of the deposits (not accounting for inflation across the 6 years) equals £12.5 billion; that's about £2 billion each year. On average, the value of support to each household has been £56,000 each. But is Help to Buy a useful tool for tackling the housing crisis or is it merely tinkering at the edges?

Based on the latest data release from the English Housing Survey, the typical household income² in the PRS is around £27,000 (before tax). The following table shows the mean and the median values for England and London.

Table 1: Annual gross household incomes in the Private Rented Sector; 2017/18

	Median	Mean
England	£27,076.40	£31,591.02
London	£32,500.00	£40,059.18

Source; English Housing Survey, 2017-18

¹ In this analysis we define the household income as the combined annual income from wages and savings for the head of the household (HRP), and their partner if they have one.

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Bank of England data on mortgage borrowing³ suggests the typical mortgage is approximately 3.6 times a household’s income. Mortgages typically provide 84% of the purchase price, with the remaining 16% made up of the buyer’s deposit. Help to Buy provides up to 20% of the value of a purchase (rising to 40% in London) with the buyer providing the other 5% as a minimum requirement.⁴

Using the mortgage and deposit estimates (in the absence of Help to Buy support), we can estimate that last year the average (median) private renter’s budget would have been approximately £115,000; meanwhile the average house price was, £242,396. For London, the differential is much larger. The average London renter’s budget was £139,000 while the average home cost £477,253.⁵ These are substantial gaps in funding for a purchase.

Table 2: Estimated homebuyer’s budget – 3.6 Loan to Income and 16% deposit

	Median	Mean
England	£115,418.15	£134,662.55
London	£138,537.24	£170,759.64

Source; *English Housing Survey, 2017-18; Bank of England MLRA, Shelter analysis*

So, given the challenges faced by the typical private renting household, who is Help to Buy helping?

Help to Buy beneficiaries

In 2018-19, one in six users of the programme were not first time buyers. If we look at all six years of the programme this increases to one in five.

The average (median) income of first time buyers using help to buy was £50,000 in 2018. This means the typical Help to Buyer has an income 85% higher than the typical renter. Looking at actual household incomes of private renters across England – as the chart below illustrates – only around 19% have incomes at or above this level.⁶

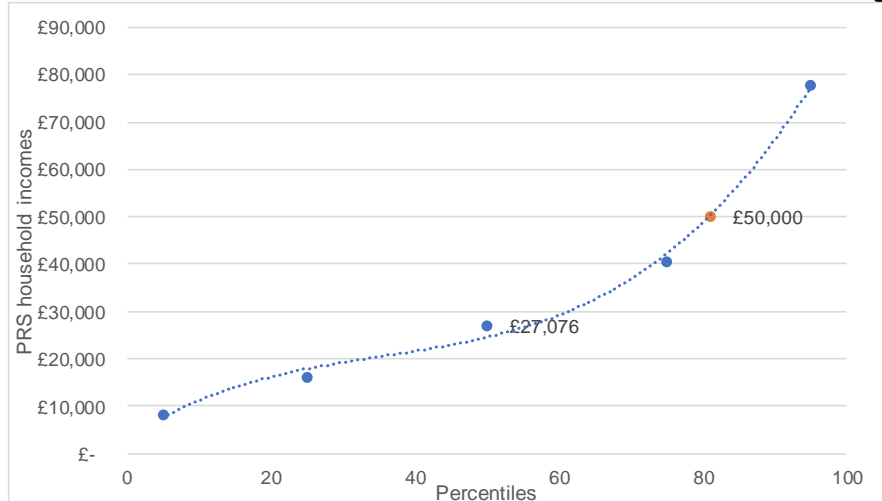
³ Value for loan to income multiple is estimated from the most recent Bank of England Mortgage Lending Annual Return (MLAR) publication; table 1.31

⁴ In these two examples – London and England as a whole, the 20% Help to Buy loan would be approximately £48,000 and £23,000 respectively.

⁵ House prices are quoted from HMLR April 2018 figures for all homes sold in England, and London respectively

⁶ This is based on the modelled distribution of household incomes (as defined earlier, the HRP and partner income) in the PRS; this allows us to identify the percentile value for any given household income in that tenure. The English Housing Survey was used to estimate the distribution.

Chart 1: Modelled household income distribution of Private Renters in England

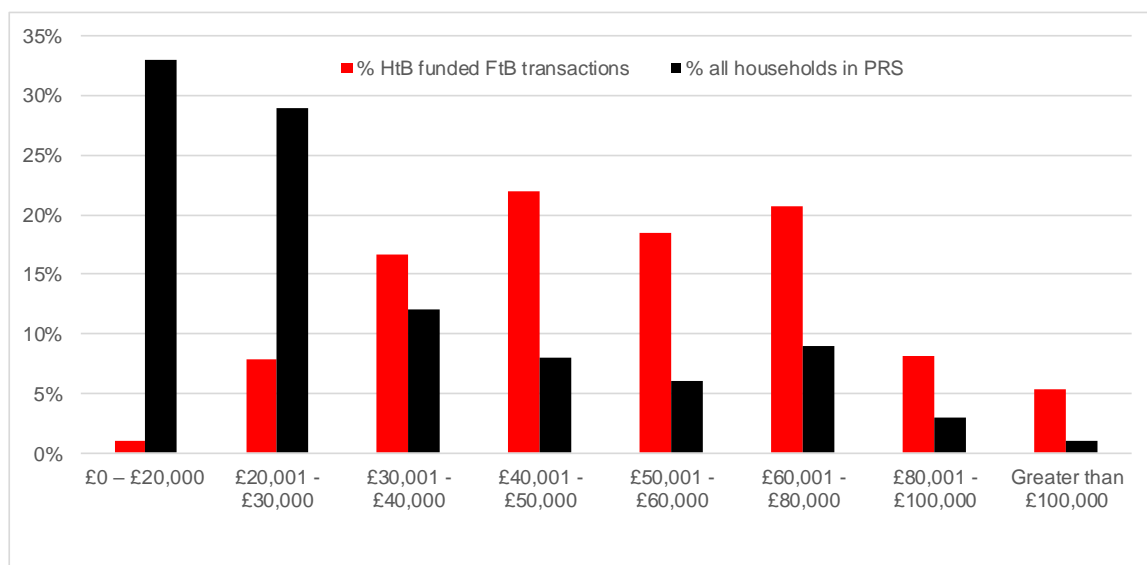


Source: English Housing Survey, 2017-18; Shelter analysis

All this evidence points to a programme that both consumes a lot of government money and does little to target those most affected by the housing crisis. A detailed look at the beneficiaries of Help to Buy shows this particularly well, as is presented in the chart below. Chart 2 compares the distribution of households by incomes, for first time buyers accessing Help to Buy in 2018-19 and is compared with the household incomes of private renters.

Three quarters of households in the PRS have an income of less than £40,000, yet they make up only a quarter of first-time buyers supported via Help to Buy last year. While those with the highest incomes in the PRS – £100,000 or more – account for only one in 100 PRS households but they account for one in 20 of those supported by Help to Buy.

Chart 2: Percentages of Help to Buy, first time buyer beneficiaries and PRS households by income



Source; English Housing Survey, 2017-18; MHCLG Help to Buy statistics & Shelter analysis

At the last count there were 4.5 million households in the PRS, and 43,159 first time buyers accessed Help to Buy (roughly equivalent to 1% of all private renting households).⁷ 3.3 million households in the PRS are on incomes below £40,000, but only 3,900 Help to Buy properties were purchased by households earning this amount; that's equivalent to 1 in 281.

Table 3: Help to Buy sales 2018-19 and private renting households by income

Household Income	Help to Buy Transactions (First time Buyers)	%	Households In the PRS	%	Ratio of PRS household to Help to Buy beneficiaries by income
£0 – £20,000	479	1%	1,493,894.16	33%	One to 3,119
£20,001 - £30,000	3,663	8%	1,290,181.32	29%	One to 352
£30,001 - £40,000	7,617	18%	525,126.43	12%	One to 69
£40,001 - £50,000	9,764	23%	348,575.30	8%	One to 36
£50,001 - £60,000	7,818	18%	271,617.12	6%	One to 35
£60,001 - £80,000	8,309	19%	421,006.54	9%	One to 51
£80,001 - £100,000	3,230	7%	131,281.61	3%	One to 41
Greater than £100,000	2,279	5%	45,269.52	1%	One to 20
All properties	43,159		4,526,952		One to 105

Source; English Housing Survey, 2017-18; MHCLG Help to Buy statistics & Shelter analysis

Conclusion

Our analysis of the Help to Buy programme alongside the incomes of households in the private rented sector underlines how little it is doing to help the average renter. Help to Buy is presented as the government's flagship housing policy; however, it appears to be mainly supporting those who already have the means to get on the housing ladder. Last year an independent government evaluation of Help to Buy showed that only two in five (41%) Help to Buyers needed the programme to buy a home; the majority of buyers used the programme to buy bigger and more expensive homes than they otherwise would have done.⁸

While Help to Buy is certainly a substantial equity loan to households, there is still a constraint on the *value* of the support on offer, that is perhaps overlooked. The equity loan is capped at 20% of the property value outside of London and 40% in London (up to a sale value of £600,000).

⁷ While it is not possible to say that every beneficiary of Help to Buy is a private renter it is highly likely the majority are. According to the English Housing Survey 2017-18 around 70% movers to owner occupation properties were moving out of the PRS, 24% were newly formed households (so potentially moving from family homes) and the remainder were formerly social renters (of which two thirds would be accounted for by annual Right to Buy sales).

⁸ The evaluation asked whether buyers could have afforded a property they wanted anyway; the same property they ended up buying; or a similar property on the second-hand market.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/751359/Evaluation_of_the_Help_to_Buy_equity_loan_scheme_2017.pdf

Household Income £	Mortgage at 3.6 x Income £	England			London		
		5% deposit £	20% equity loan £	Potential home buying budget using HtB (mortgage + deposit + loan) £	5% deposit £	20% equity loan £	Potential home buying budget using HtB (mortgage + deposit + loan) £
20,000	71,613	4,774	19,097	95,484	6,510	52,082	130,206
40,000	143,226	9,548	38,194	190,968	13,021	104,165	260,411
60,000	214,839	14,323	57,290	286,452	19,531	156,247	390,617
80,000	286,452	19,097	76,387	381,937	26,041	208,329	520,823
100,000	358,065	23,871	95,484	477,421	32,551	260,411	651,028

As the table above shows, the larger your income, the bigger the mortgage you'll be able to access, and that means the equity loan you can access will be larger too. Help to Buy is regressive – supporting the well off to a greater value than those on lower incomes. So effectively, the real restriction for a buyer under Help to Buy is still the size of the deposit they can muster themselves and their income, which combined with mortgage regulation, limits the value of a mortgage advance. If they are lucky enough to have a substantial deposit of their own, they can get more out of the Help to Buy offer. If they only have the 5% minimum then support is limited.

When looking at Help to Buy in this way, it is not surprising that it is used most by higher income households. The high cost of a home remains a barrier for the vast majority of households and Help to Buy is not really a policy tool for overcoming this issue. The housing crisis is about affordability. The high cost of renting – 41%⁹ of a household's income even when benefits are taken into account – makes saving for a home incredibly difficult and means Help to Buy is of no help to those struggling in our dysfunctional and expensive housing system.

⁹ English Housing Survey 2017-18, Annex table 2.3