



MARKET MOMENT

SPOTLIGHT ON FIRST TIME BUYERS

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INTRODUCTION



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The question of how to handle First Time Buyers (FTBs) seems to have been a perennial problem in the housing market, and today it seems to be heading into extreme territory where the empirical and anecdotal evidence of how difficult it is to make that first step onto the housing ladder is reaching new highs, or rather, new lows.

We all know and realise that without a fully functioning FTB market the rest of the housing market can't really exist, it is the foundation and fulcrum for the overall market, allowing people to move up the housing ranks as people look to move within their life cycle.

However, the number of FTBs who bought a home with a mortgage fell to its lowest level in a decade in 2023, according to a leading Lender.

Figures, from the Yorkshire Building Society, are the latest evidence that housing affordability has been stretched to the limit by rising mortgage interest rates and high house prices. As covered by The Guardian, they calculated that across the UK there were an estimated 290,000 FTBs in 2023¹. Down by a fifth compared with 2022, when the number reached 370,000, and the lowest since 2013, when the total was 260,000². Whilst the average cost of a home for a FTB fell 5%, from a peak of £302,008 in 2022 to £288,136², the research showed that borrowers were finding it harder to meet Lenders' affordability requirements.

Nevertheless, figures for Q1 2024 suggest this sector is fighting back. Mortgage Strategy recently showed that: CACI data indicates that the value of applications by FTBs in Q1 was the highest since 2022, according to analysis by First Direct. Application volumes reached £24.2bn for Q1, up by 37% from the same period last year.

[1] The Guardian - Number of UK first-time buyers in 2023 was lowest in a decade
www.theguardian.com/money/2024/jan/02/uk-first-time-buyers2023-interest-rates-house-prices

[2] Halifax - Press Release: Almost two thirds of first-time buyers teaming up to get on property ladder
www.lloydsbankinggroup.com/assets/pdfs/media/press-releases/2024-press-releases/halifax/2024.01.30-almost-two-thirds-of-first-time-buyers-teaming-up.pdf

THE SECTOR IS FIGHTING BACK...

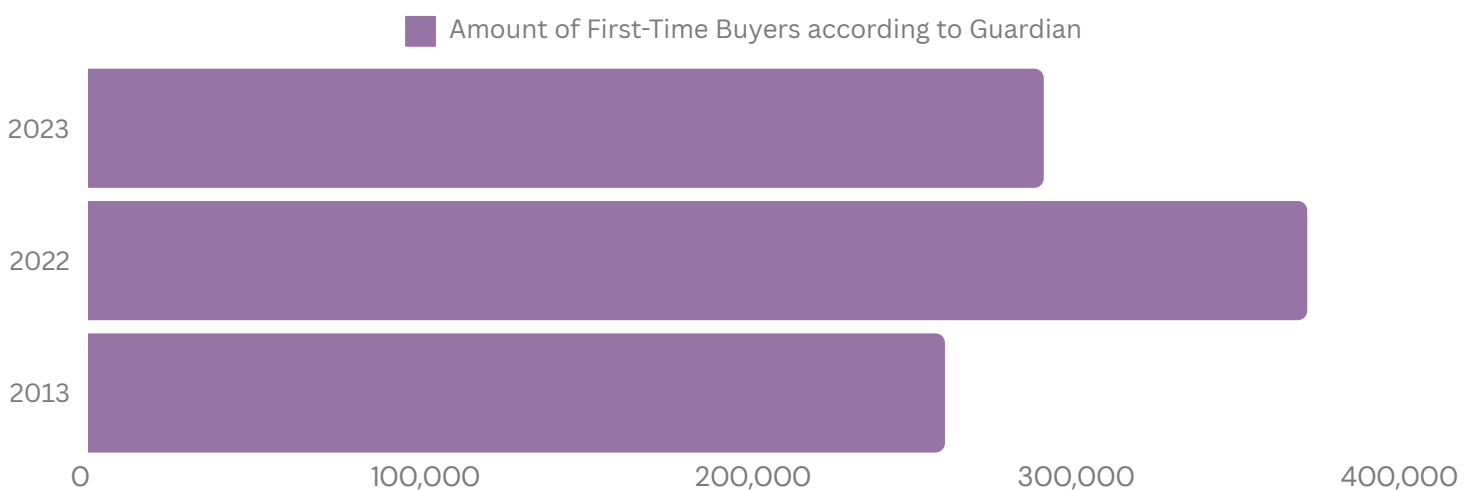
More first-time buyers applied for mortgages in February than any month since March 2022, with applications for the month totalling 49,982. This year's Q1 numbers are similar to 2021's figures for the same quarter, where the total value of first-time buyer applications was £24.7bn³.

And the statistics keep coming! The average age of first-time buyers in the UK has been increasing over the years due to factors such as rising property prices and affordability challenges. Recent data shows that the average age of FTBs is around 34 years old.

Data from Santander UK reveals that nearly one in five (18%) first-time buyers are now aged 40 or over with the oldest customer helped by Santander to buy their first home in 2024 being 67 years old – nearly double the average FTB age⁴.

The size of deposits required by FTBs obviously, vary depending on location and property prices. But on average, FTBs typically put down a deposit of around 15–20% of the property's value.

Given the above it should be no surprise that according to a report by the Building Societies Association, FTBs are facing the toughest conditions in 70 years to buy a home and were increasingly reliant on having two high incomes or receiving parental support⁵.



[3] Mortgage Strategy - First-time buyer lending doubles in February www.mortgagestrategy.co.uk/news/first-time-buyer-lending-doubles-in-february/

[4] Santander – Santander reveals one in five first-time buyers is now over 40, as it helps 67 year old buy first home in 2024 www.santander.co.uk/about-santander/media-centre/press-releases/santander-reveals-one-in-five-first-time-buyers-is-now

[5] BBC News - First-time buyers face toughest test for 70 years www.bbc.co.uk/news/articles/c87zgx42m5go

THE FIRST TIME BUYER MARKET HAS BEEN INFLUENCED BY 5 KEY FACTORS



Government Initiatives: The Help to Buy Equity Loan scheme was and remains perhaps the most successful initiative, and there are many commentators and practitioners who would like to see it re-instated. Other initiatives introduced just haven't got going in comparison, despite Government backing in areas such as Shared Ownership, First Homes initiative plus the various savings schemes available for deposits such as the LISA.

Interest Rates: We all know that the last 10 years of low interest rates made borrowing more affordable for FTBs, however, the last two years has seen the end of such pricing for the foreseeable future, putting further strain on this area.

Lending Criteria: Lenders have tightened their lending criteria in response to the economic uncertainties that we now live in, making it more challenging for FTBs to qualify for a mortgage, particularly if they have limited deposits or less stable income.

Affordability Challenges: Perhaps along with the deposit required, this area dominates the FTBs ability to transact. High property prices in all areas of the UK, but particularly in London and the South East, pose significant challenges for FTBs.

Housing Supply: Limited housing supply, especially of affordable properties, continues to be a challenge for FTBs. The imbalance between supply and demand can drive up prices and make it harder for buyers to find suitable homes within their budget.

So, what to do?

These statistics provide insights into the dynamics of the FTB market in the UK, highlighting both the challenges and opportunities faced by individuals looking to purchase their first home.

Overall, the state of the FTB market in the UK, is clearly influenced by a combination of economic, regulatory and market factors. While Government initiatives and low interest rates provide some support for FTBs, affordability challenges and lending criteria constraints remain significant barriers for many individuals looking to purchase their first home.

It is perhaps no exaggeration to claim we are in the midst of a housing crisis, with fewer people affording to buy a home, and more renters struggling to secure accommodation at a reasonable rent versus their income.

Thus, it could be argued this is the time for a cross-party, but Government-backed, FTB support scheme, along with a strategic and long term plan to deliver more quality, and affordable housing on a national scale in both the private and social sectors. But, if this is not forthcoming in the short term (given we have had 16 Housing ministers since 2010 this is unlikely), who can we look to for innovation and action?

Lenders would be my suggestion, many are already looking and acting in the FTB space with higher LTVs, moving up the risk curve for this cohort, boosting income multiples and adding in to affordability calculators as opposed to taking away, plus ideas as we saw last year with Lenders looking to help renters make that first step onto the housing ladder. So, it is great to see what Accord Mortgages are doing in this regard.

The launch of their £5k Deposit Mortgage for FTBs is to be applauded, and their work through their 'Growth Series' on providing education and information on the overall FTB market can give you the tools to help in your advice proposition.

I recently caught up with Jeremy Duncombe, Managing Director, and Gurpreet Chahal, Corporate Account Manager, for Accord Mortgages, to find out more about this new offering so let's hear what they had to say...



Jeremy Duncombe
Managing Director



Gurpreet Chahal
Corporate Account Manager

QUESTION

So, why did you decide to launch this proposition now?

ANSWER

Jeremy: We know that there are two key barriers for homeownership in the UK – deposit and affordability. We carried out some research among 500 FTBs in our Home Truths report, published in September 2023, and this showed that 78% of people in this category feel homeownership is becoming an elite privilege, while 63% believe the UK is in danger of becoming a nation of renters. We believe that this is a situation that can't be allowed to continue.

In our report, we've recommended that the Government re-introduce some form of state support for FTBs, and an industry-wide review involving lenders, trade bodies and the Government, is needed to start to fix what's broken in the UK housing market.

QUESTION

You have obviously targeted the FTB market in general, but how is this proposition different to others in the market?

ANSWER

Gurpreet: Accord's £5k Deposit Mortgage is designed to help and support FTBs to achieve their goal of homeownership. The FTBs that we support with this proposition will vary and in lots of cases will include those who may be currently renting and therefore unable to save up a 5% deposit.

Our analysis showed a deposit of £5,000 – compared to a typical 5% – would make a huge difference to FTBs across the country by reducing the time it takes them to save up and achieve homeownership, from a maximum of 7.5 years (in London), to around 2.5 years.

While £5,000 represents a 1% deposit for those who need to borrow the maximum amount available, the key is that customers are still putting money into a deposit, they still have to demonstrate strong creditworthiness and pass an affordability assessment to be eligible for a £5k Deposit Mortgage.

What are you expecting from this product in terms of volumes – do you think it will be a mainstream proposition or one that gets limited transaction?

ANSWER

Jeremy: A lot of careful consideration and planning went in behind the scenes before the launch and we believe that the £5k Deposit Mortgage will be a proposition that will help many FTBs onto the property ladder in 2024 and beyond. Without innovative propositions like this, a large number of aspiring FTBs will just simply be unable to achieve their dream of becoming homeowners. Since the launch of the proposition, we're seeing DIPs, Applications and Offers coming through from brokers. We're also delighted that the first case with this proposition has completed which demonstrates that this is a proposition that we have designed to genuinely help support broker and their FTB clients.

Fundamentally this proposition helps to create a level playing field for those who don't have financial support from their families to fall back on, our research showed that 38% of FTBs now receive financial help from friends and family to have the chance of stepping onto the housing ladder.

Can you tell us a bit more about the product?

ANSWER

Gurpreet: This proposition is for FTBs so at least one applicant must be a FTB (defined as never having owned a property in the past) and have no background properties on the application. Both applicants must have indefinite right to reside in the UK. The high-level criteria is below:

- The product is available on pre-existing houses only.
- New build properties are not eligible, flats are not eligible and properties in Northern Ireland are not eligible.
- Maximum LTV – 99%
- Minimum Deposit – £5000

Further details including purchase price and loan size and term criteria can be found [here](#).

Why is it restricted to a 5 year fix only?

ANSWER

Jeremy: We have restricted this proposition to a 5 year fixed rate as we believe that with a 5 year fixed rate product and on capital repayment basis, even in the event of an economic downturn, it provides customers with stability, allows for potential fluctuations in house prices and this will help protect customers from any potential negative equity.

Is there a different credit score applicable for this product, if so why?

ANSWER

Gurpreet: Yes, an enhanced credit score must be achieved for your applicant(s) to be eligible for the product. Where an applicant is not eligible, but meets our standard credit score requirements, MSO will provide further information to the broker. As a lender we need customers to demonstrate strong creditworthiness and we have a duty to encourage financial responsibility in anyone taking out a mortgage.

What else should brokers and their customers know about this product?

ANSWER


Gurpreet: As we want to help support as many FTBs as possible, we will accept concessionary purchases along with gifted deposits - providing they are from an immediate family member. Further information for the proposition can be found here [£5K Deposit | Accord Mortgages](#). Additionally we can still use our Common Sense Lending approach with this proposition so please do speak to your BDM!

We have already received some fantastic feedback from brokers who have told us that the £5k Deposit Mortgages has generated numerous phone calls and leads from customers resulting in business both with and without the £5k Deposit Mortgage and this is where the valuable advice that brokers provide to their customers will really help them stand out.

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