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Who is helped by Help to Buy schemes?

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Economic and Social Research Council

Homes England

Motivation

- **Rising house prices and declining homeownership**
  - Doubling of house price-earnings ratio in UK over last half-century
  - Fall in homeownership rates particularly among young adults
  - Growing intergenerational persistence of housing tenure

- **Increasing interest in demand-side policy**
  - e.g. Help to Buy policies in UK, similar examples internationally
  - Benefits may flow to those who would have bought anyway
  - Overall effects will depend on supply impacts – but likely to have important *distributional* effects

Our focus

- We look at the ‘Help to Buy’ schemes introduced by the UK government in the 2010s
- Ask **how these schemes affected housing affordability for different individuals, by income, parental background and location**
- Develop new metric to assess affordability

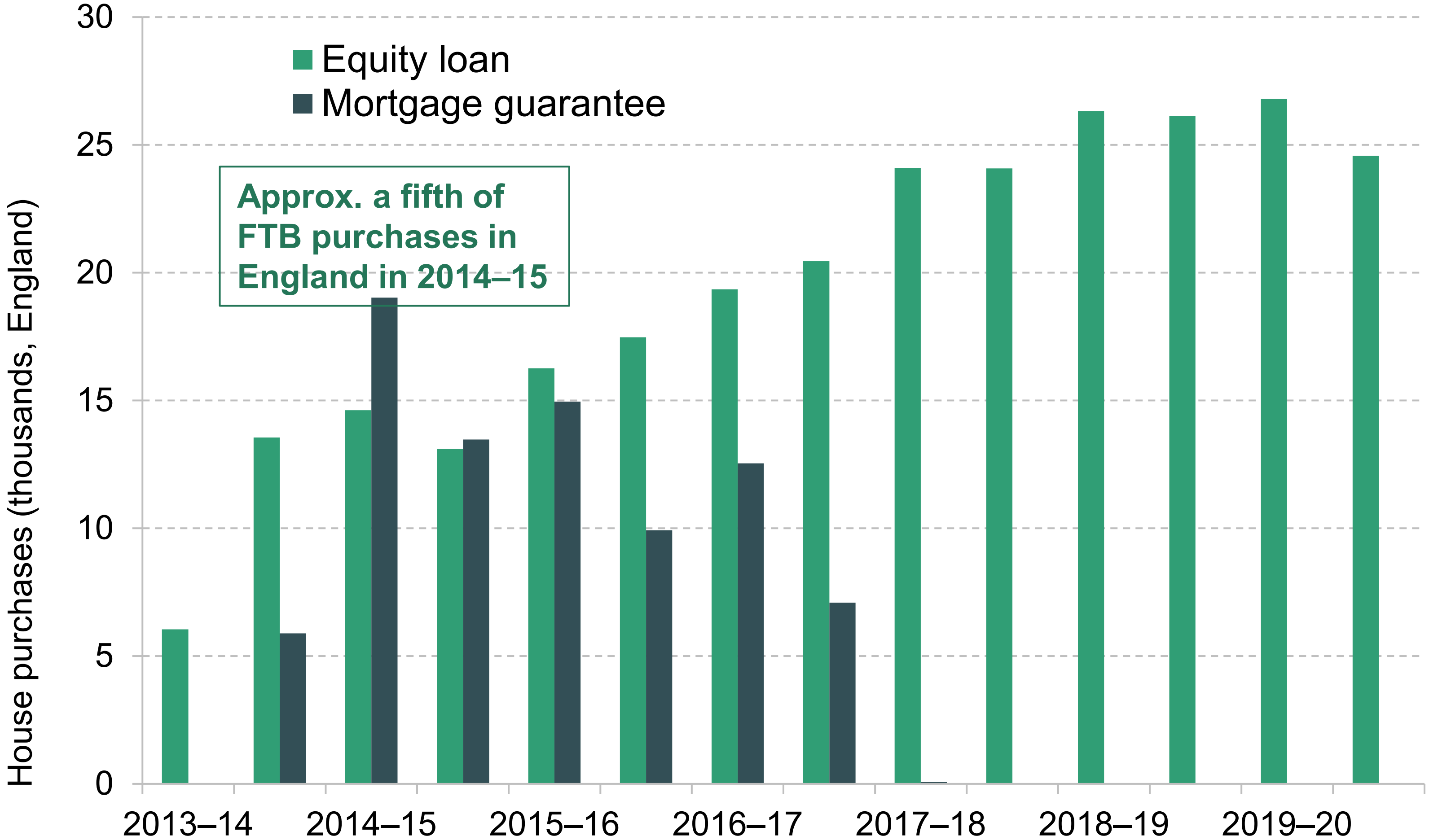
- Data: Understanding Society, a representative household panel survey
- Sample: non-homeowners aged 22-44 living in England in the early 2010s

‘Help to Buy’

- Two ‘Help to Buy’ schemes announced in the 2013 Budget
  - Increasing access to house purchase with a 5% deposit
  - Aiming to boost homeownership and stimulate housebuilding
  - Value of homes under the two main schemes capped at £600k
  - Open to FTBs and existing homeowners, mainly used by FTBs
- **Mortgage guarantee scheme**
  - Govt offered lenders a guarantee on high loan-to-value mortgages
- **Equity loan scheme**
  - Govt provided 20% equity loans for new-build purchases

Take-up of schemes

Number of house purchases under the Equity Loan and Mortgage Guarantee schemes in England, 2013–14 to 2019–20



Assessing affordability

- Define ‘affordability’ as the *possibilities* people have in terms of buying a house:
  - Highest-value house buyable based on income and estimated maximum deposit
  - Share of properties sold in local authority for prices below this maximum
- Steps:
  1. Estimate *maximum deposit* each non-homeowner could raise
  2. Translate to *maximum affordable house price* under pre- and post-policy borrowing constraints
  3. Map to *local house characteristics* to calculate shares affordable

Estimating maximum deposit

- For each individual, estimate the largest deposit they could plausibly raise
  - Use similar individuals who have recently bought a house
  - Based on age, sex, region, education, household composition, parents' occupation and education
  - Estimate larger deposit capacity than implied by self-reported savings at a point in time
- Adjust these to account for the fact that those buying a home are likely to be a selected group
- Account for unobservable differences in deposits by simulating many draws of potential deposits, averaging across draws

Deposit → maximum price

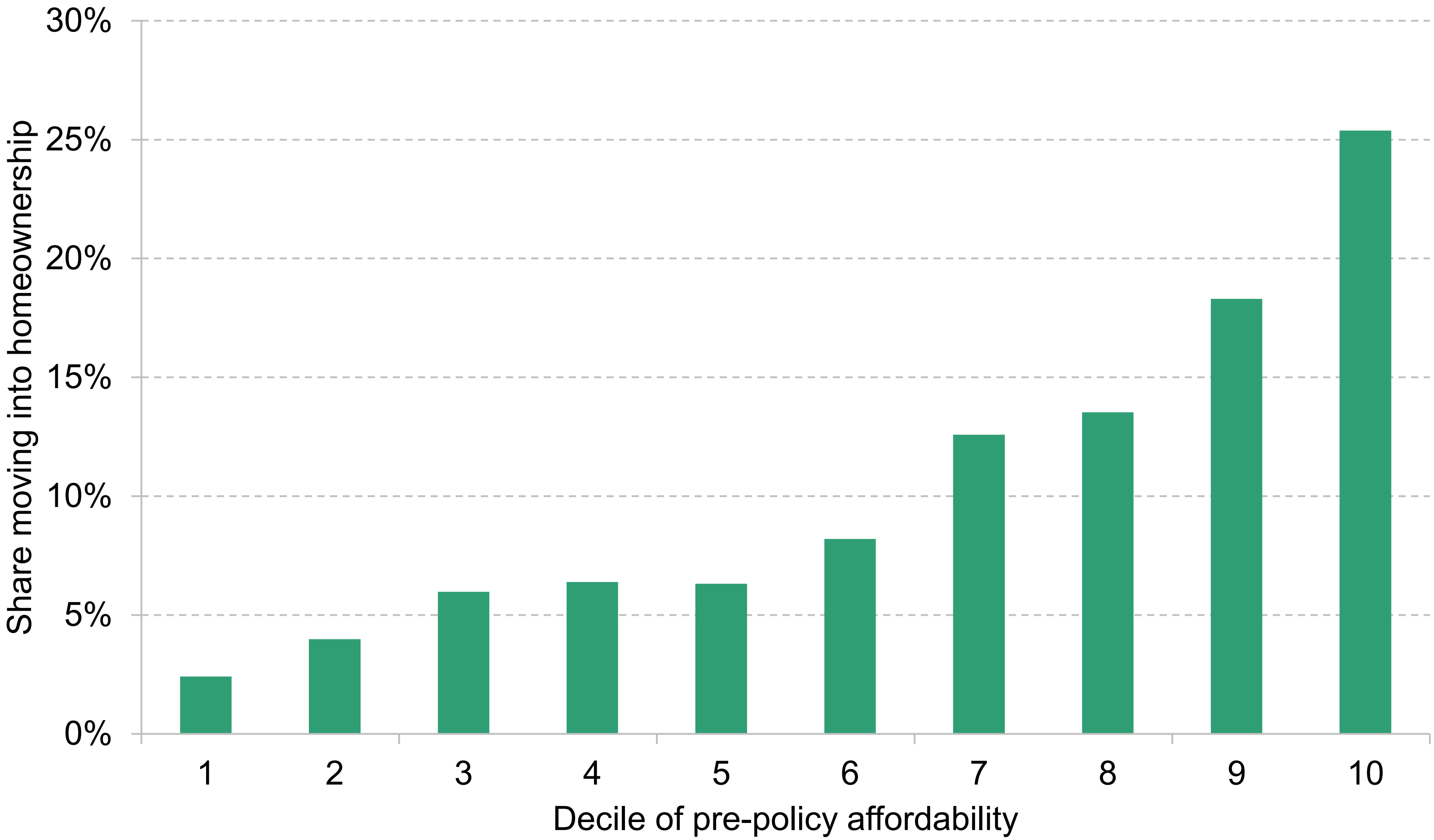
- Two constraints determine how much individuals can borrow
  - *Deposit constraint*: deposit must be a certain share of price
  - *Income constraint*: can only borrow a certain multiple of income

- Use deposit, income, pre- and post- Help to Buy borrowing constraints to calculate maximum price
  - Rise in max LTV from 90% to 95%
  - 20% equity loan for newbuilds

- Locate each person's maximum affordable price on the local house price distribution → share of properties affordable

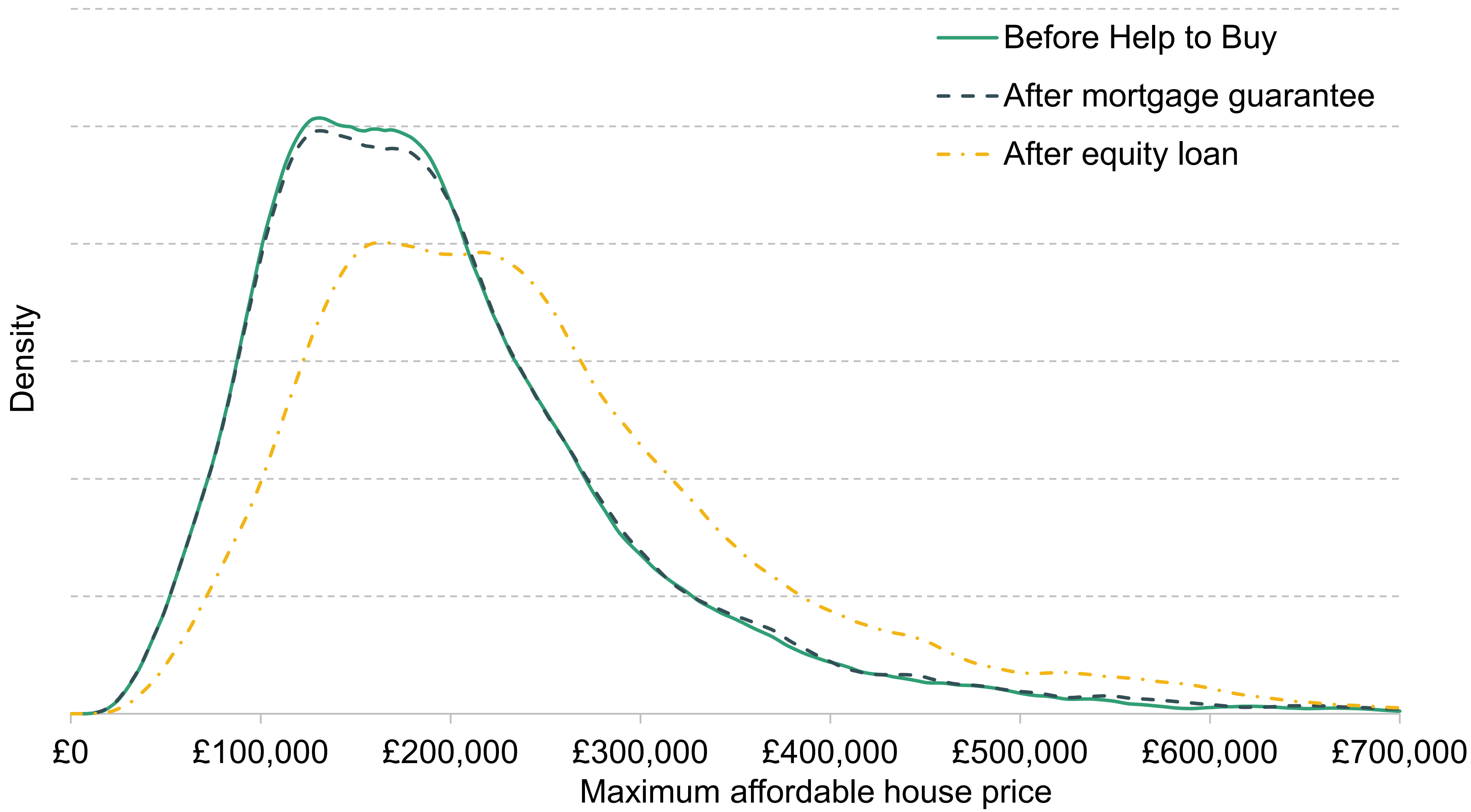
Our affordability measure predicts transitions

Share of non-homeowners moving into homeownership by decile of pre-policy affordability, 2009–10 to 2012–13



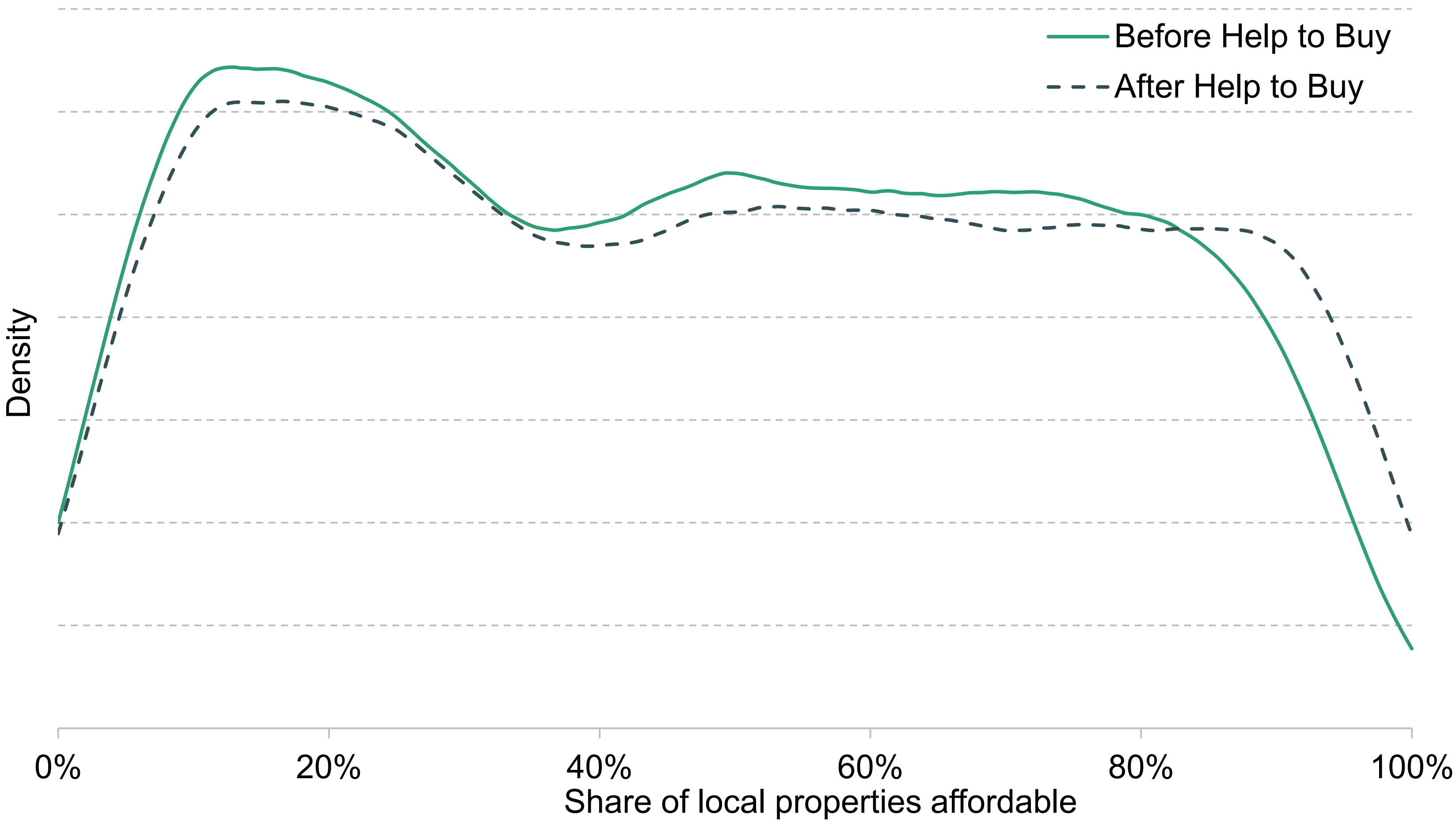
Equity loan more effective than mortgage guarantee

Distribution of maximum affordable house price under different borrowing constraints, 2011–12



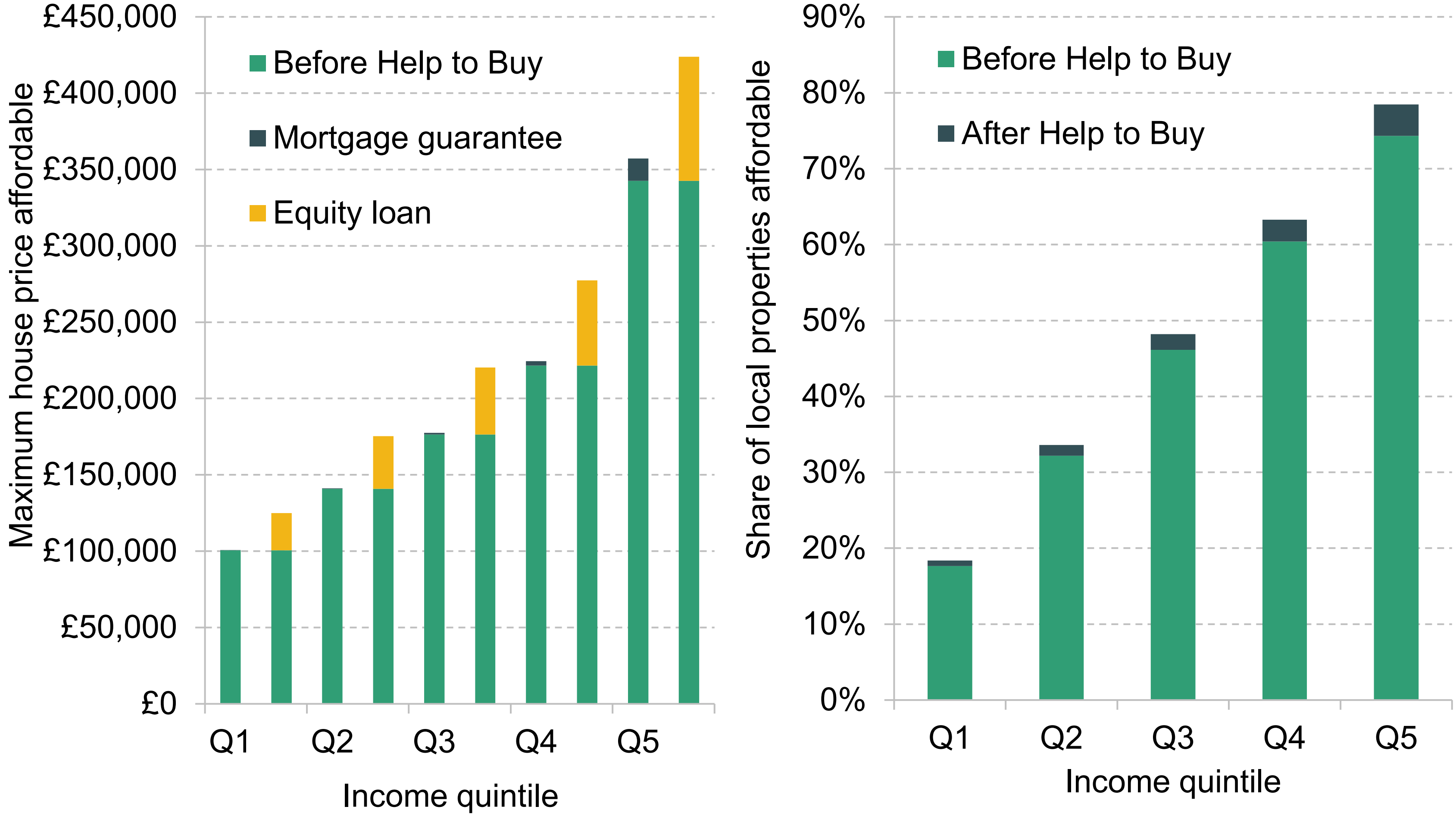
Relatively muted shift in share of properties affordable

Distribution of share of local properties affordable under different borrowing constraints, 2011–12



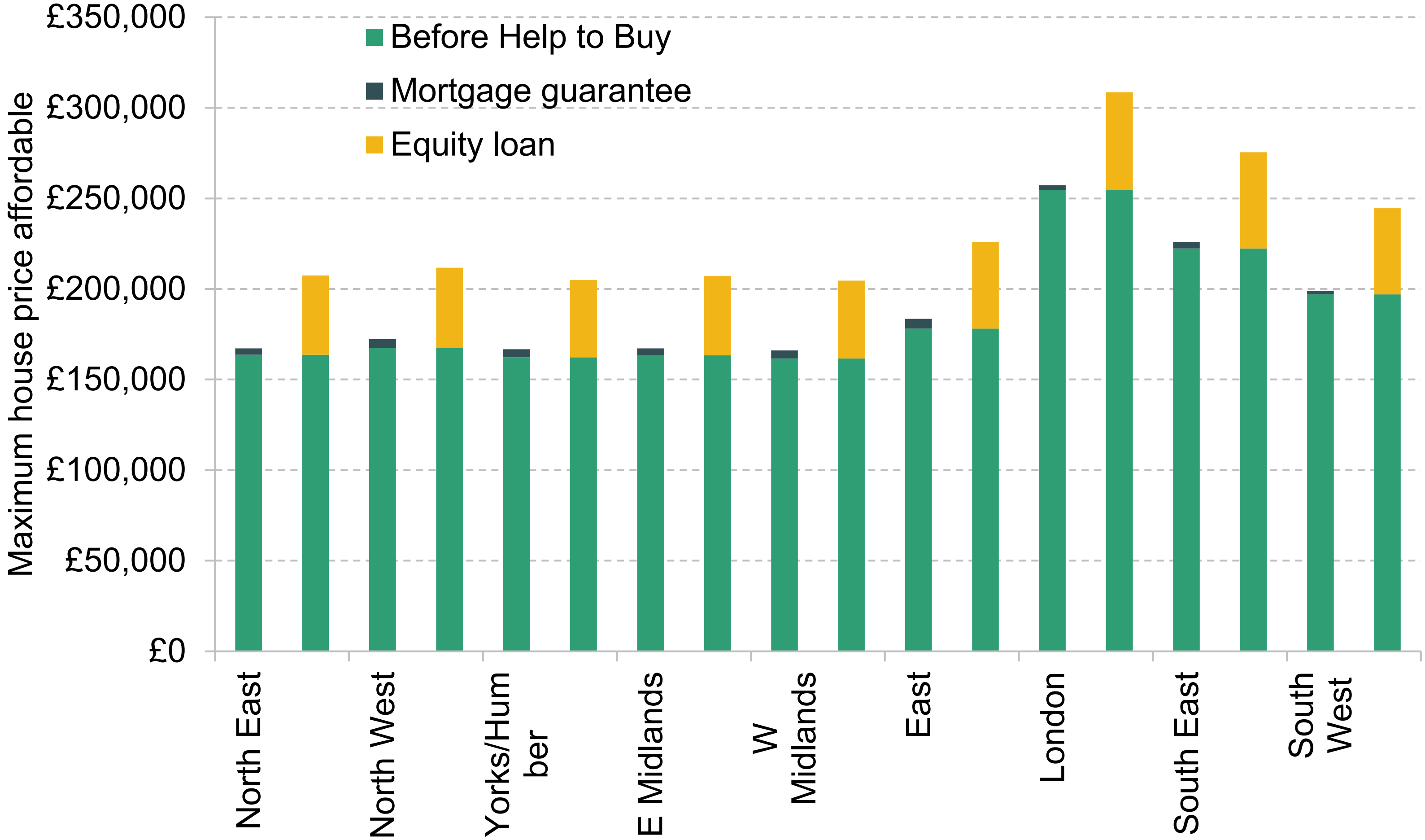
High income non-homeowners see largest affordability gains

Maximum affordable house price and share of properties affordable by income quintile, 2011–12



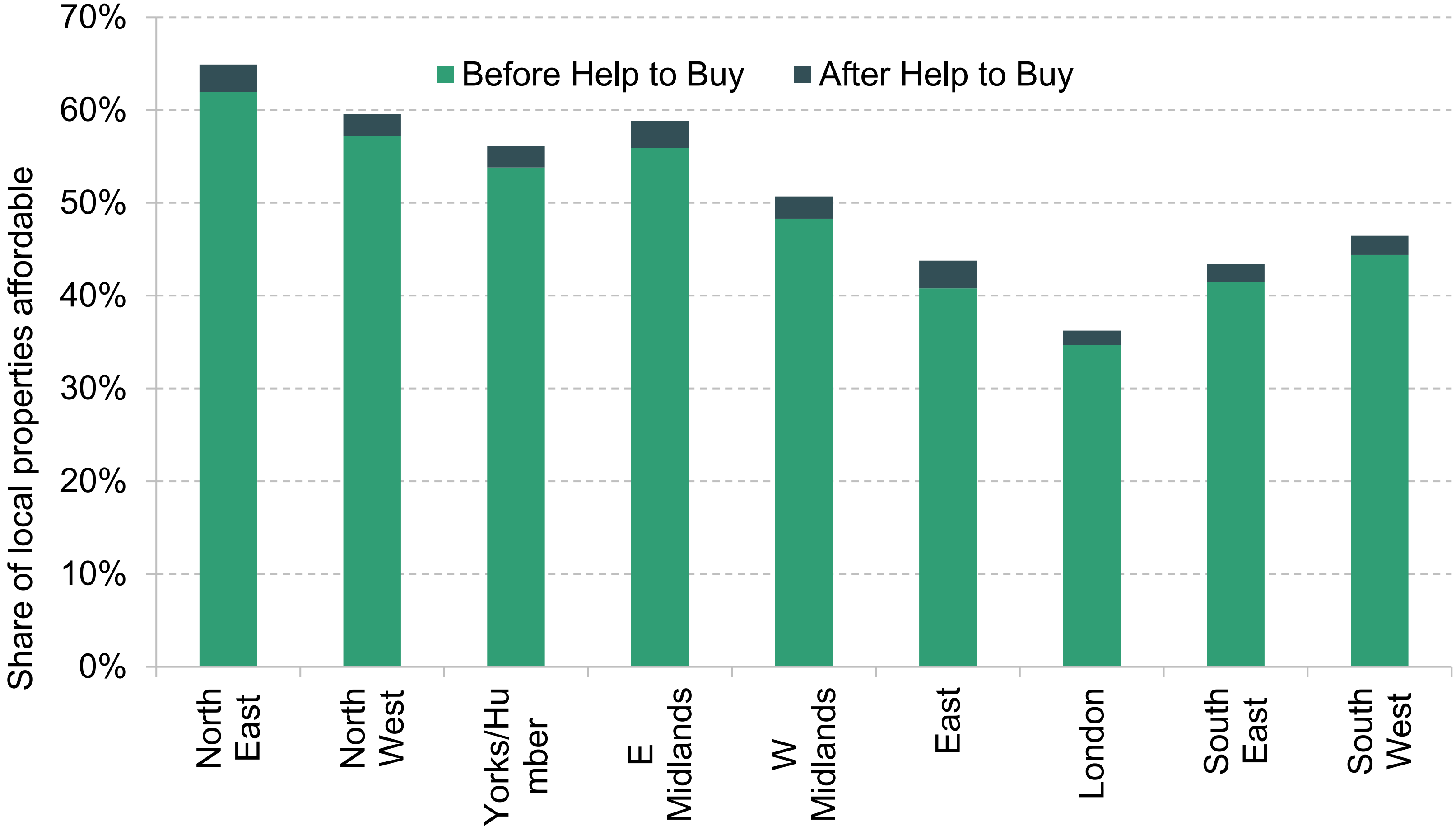
Larger increases in maximum price affordable in Ldn & SE

Maximum affordable house price by region, 2011–12



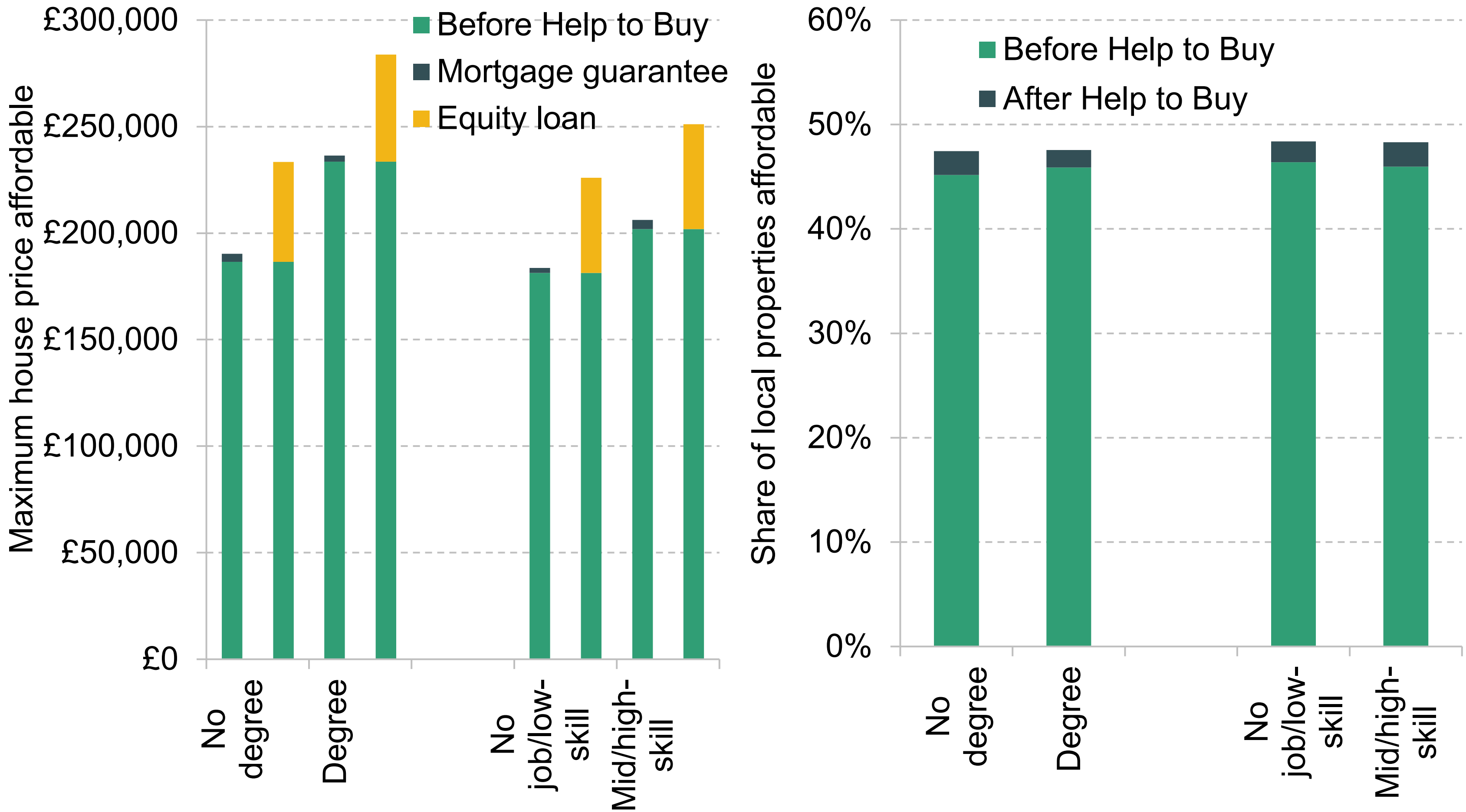
But *smaller* increases in share of properties affordable

Share of local properties affordable by region, 2011–12



Parental background matters much less than income

Maximum affordable house price and share of properties affordable by parental background, 2011–12



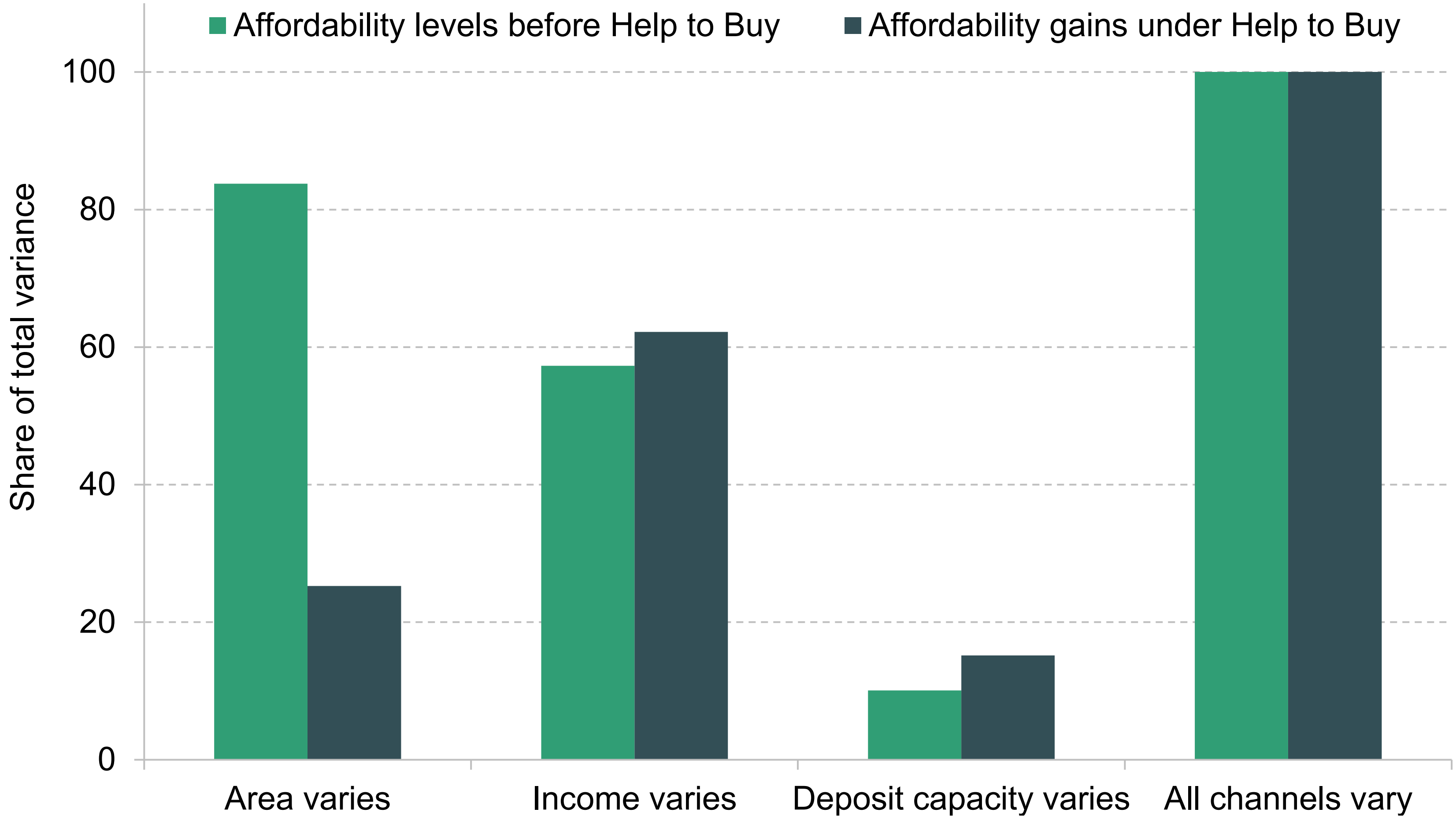
Decomposing affordability variation

- Can decompose variation in housing affordability into:
  - Income
  - Local housing characteristics (local prices, share of new-builds in local areas)
  - Maximum deposit capacity

- Hold two fixed and only allow one to vary → see how much each channel contributes to variation across non-homeowners

Income and area drive differences in affordability (gains)

Share of cross-sectional variation in affordability explained by different channels, 2011–12



Summary

- Propose a new approach to evaluating housing affordability, applied to 2010s Help to Buy policies in England
- Income-based, not deposit-based, constraints were more binding in the early 2010s
- Affordability gains concentrated among higher-income non-homeowners, did not significantly differ by parental background
- Those in London and the SE saw larger increases in maximum price, smaller increases in the share of local properties affordable
- To the extent that these schemes pushed prices up, will undermine overall affordability gains

Implications and reflections

- Income constraints can be more important than often assumed

→ Schemes that only relax deposit constraints may be unlikely to have significant effects on homeownership rates

- To the extent that these schemes do not increase overall supply, main effects will be *distributional* – likely to increase prices
- Also involve government increasing its exposure to housing market downturns

→ Clear trade-offs if considering introducing or expanding these sorts of schemes

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