

Policy Analysis

Changes to Help to Buy from 2021

The 2018 Autumn Budget announced a new Help to Buy Equity Loan scheme will run from April 2021 to March 2023, with two key differences from the current scheme:

1. Help to Buy will only be available to first time buyers, completely excluding home movers; and
2. The maximum value for a Help to Buy property will be subject to different caps in each region.

In this first of two notes, we analyse what impact these changes will have on the Help to Buy scheme and housebuilding. Had these restrictions been in place in the year to June 2018, we estimate that up to 17,000 Help to Buy sales, 34 percent of the total, would not have happened.

The Budget also announced that “the government does not intend to introduce a further Help to Buy Equity Loan scheme after March 2023.” We will examine the potential impact of the Help to Buy scheme ending in a later note.

No help for home movers

Restricting Help to Buy to first time buyers from April 2021 will exclude a little under a fifth (18%) of the scheme’s current users. A total of 9,100 home movers took out a Help to Buy loan in the year to June 2018, 3 percent of all mortgaged home movers.

Home mover use of Help to Buy varies substantially by district. In Ipswich and Islington, for instance, there were no Help to Buy sales to home movers last year. At the other end of the spectrum, 40 percent of Hackney’s 206 Help to Buy sales were to existing homeowners, suggesting the scheme has provided a significant boost to upsizers in some more expensive markets.

Table 1 – Top ten local authorities by Help to Buy sales to home movers, year to June 2018

Local authority	Region	All HTB loans	First time buyers	Home movers	% home movers
Hackney	London	206	123	83	40%
Eastleigh	South East	277	170	107	39%
Daventry	East Midlands	247	154	93	38%
Chorley	North West	184	118	66	36%
Redditch	West Midlands	115	74	41	36%
Nuneaton & Bedworth	West Midlands	193	125	68	35%
Charnwood	East Midlands	284	184	100	35%
Wychavon	West Midlands	262	171	91	35%
Amber Valley	East Midlands	128	84	44	34%
Stafford	West Midlands	261	172	89	34%

Source: MHCLG

The average Help to Buy property sold to first time buyers last year cost £272,000, 19 percent lower than the average for home movers £319,000. Therefore, restricting Help to Buy to first time buyers will encourage housebuilders to build smaller, lower value properties that are more affordable to first time buyers.

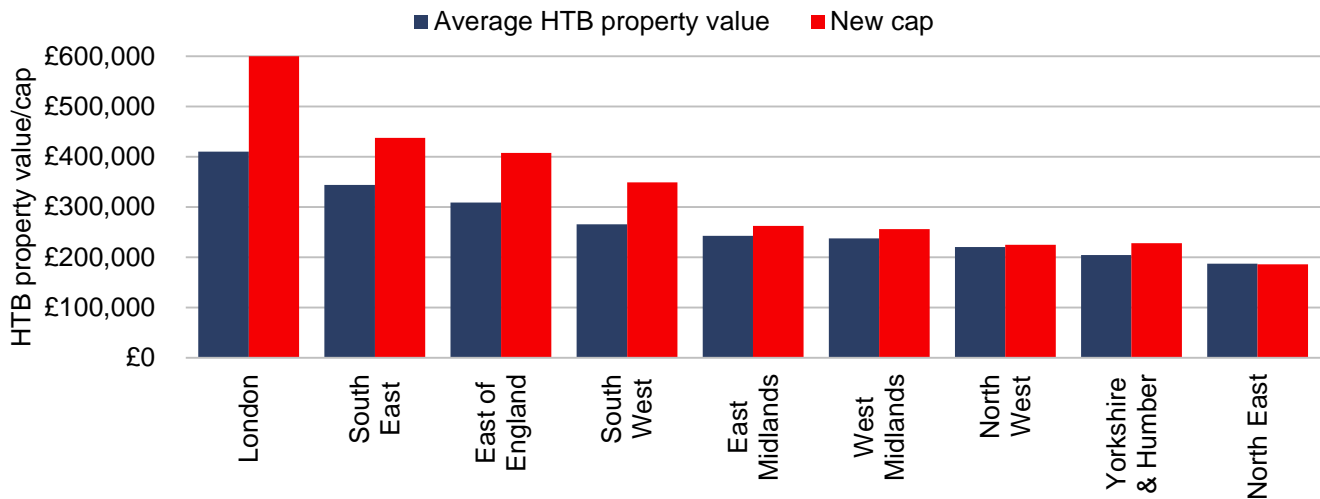
However, there is evidence to suggest that some of the Help to Buy sales excluded by this restriction would happen anyway. The Whitehead & Williams analysis of 2017 sales suggests that while 38 percent of first time buyers using Help to Buy could not otherwise have bought a home, that proportion was just 33 percent for home movers.¹ This suggests that restricting the scheme to first time buyers would have a less dramatic impact than simply reducing transaction volumes by 20 percent, or 9,100 per year, between 2021 and 2023, as only 3,000 of those home mover transactions were additional. We will investigate the extent to which these excluded buyers would be able to access high loan-to-value mortgages as an alternative to HTB in a later note.



A new North-South divide

The extended Help to Buy scheme also imposes regional caps on the maximum property value people can buy using the scheme. These range from maintaining the cap at £600,000 in London to the North East, where the cap has been slashed almost 70 percent to £186,000. The caps exceed the current average Help to Buy value in all regions bar the North East. However, there is considerable variation within regions. Many districts have average Help to Buy values in excess of these caps.

Figure 1 – Average Help to Buy property values and the new caps



Source: Savills Research, MHCLG, HMT

Even at a regional level, it’s immediately clear this will have an impact on what developers are able to sell in the North East. There, the average value of a home bought using Help to Buy is already higher than the proposed cap. Average values are only just short of the cap in the rest of the North and the Midlands.

At first glance, the cap looks like it will only have a limited effect in the South of England. Looking closer, however, some local authorities in the East of England and the South West have average Help to Buy values well in excess of the new regional cap, such as Uttlesford, Epping Forest, and East Dorset.

We have looked at new home sales values below £600,000 recorded by the Land Registry as a proxy for Help to Buy sales. These sales data suggest almost a third (32%) of homes sold through Help to Buy in the year to June 2018 had values above the proposed regional caps. This rises to over three quarters of all HTB transactions in ten local authorities; in Daventry, almost 90 percent of Help to Buy sales would be excluded.

Table 2 – Top ten local authorities with Help to Buy sales over new value caps, year to June 2018

Local authority	Region	New build sales in gap between new and old cap	Number of sales lost to new caps
Daventry	East Midlands	87%	216
South Northamptonshire	East Midlands	84%	274
North Tyneside	North East	82%	187
Stratford-on-Avon	West Midlands	81%	199
Warwick	West Midlands	78%	217
Rushcliffe	East Midlands	76%	135
East Riding of Yorkshire	Yorkshire and The Humber	75%	220
Nuneaton and Bedworth	West Midlands	74%	142
Selby	Yorkshire and The Humber	72%	123
Wychavon	West Midlands	72%	188

Source: Savills Research, MHCLG, Land Registry

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These lower value caps will mean developers have to build lower priced homes in those districts currently above the cap if they wish to make their homes accessible to Help to Buy users. This may mean reducing property sizes and building different types of homes: flats or terraces rather than detached houses, for example.

While this will make Help to Buy properties cheaper, there is a risk this change means that first time buyers won't be able to purchase a property that's suitable for a family. 1.7 million families with dependent children live in the private rented sector in England, and research suggests 20 percent of people are putting off starting a family because of housing pressures.

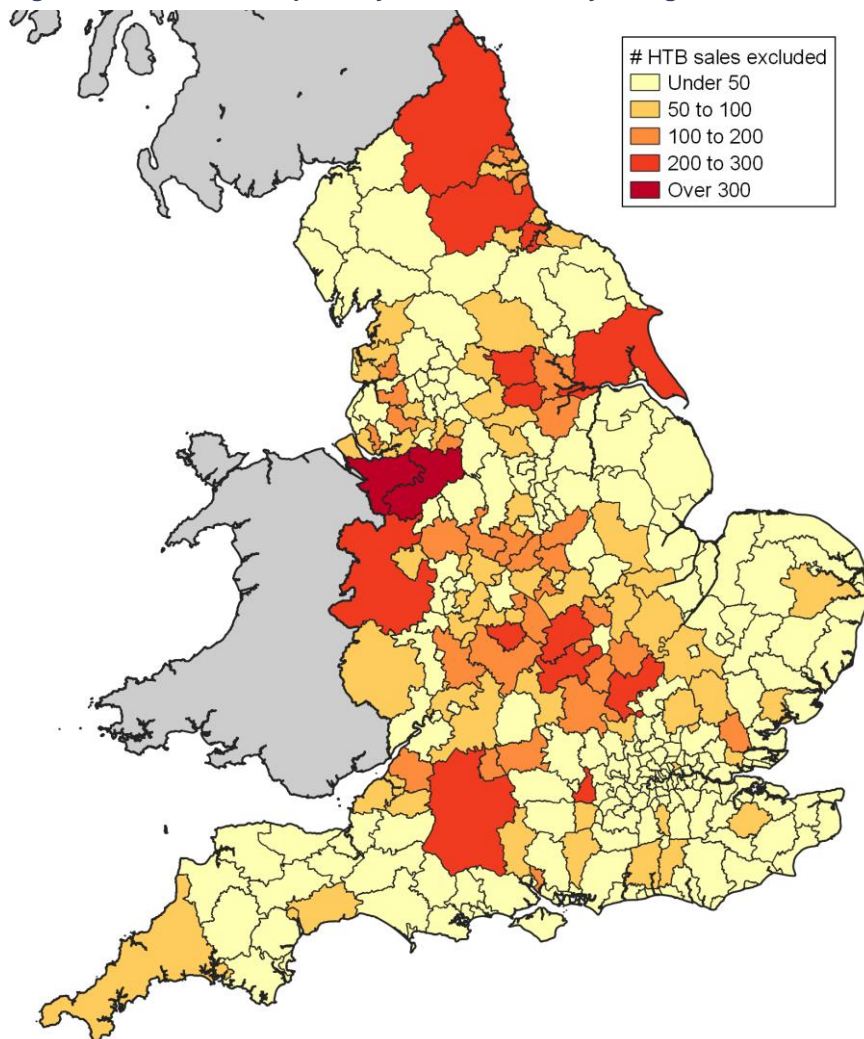
Bringing it all together

What is the effect of both these changes together? Our analysis suggests there is significant overlap in the transactions that would be excluded by each of the new restrictions. That's because home movers using Help to Buy tend to buy larger, more expensive homes, as stated above.

Assuming home movers buy the most expensive Help to Buy properties in each district, 34 percent of Help to Buy transactions last year would have been excluded by one or both restrictions. However, some of these excluded buyers may have been able to buy a different, probably cheaper, new build property. The proportion excluded ranges from one or two percent of sales in most London boroughs, where there is no change to the value cap, to 87 percent of sales being excluded in Daventry.

The map below shows where the Help to Buy changes exclude the most transactions. The new restrictions clearly put pressure on the North and Midlands, where the caps are relatively low.

Figure 2 – Number of Help to Buy sales excluded by changes



Source: Savills Research, MHCLG, HMT, Land Registry

Table 3 – Top ten local authorities by Help to Buy sales excluded by new scheme restrictions, year to June 2018

Local authority	Region	Sales lost to new restrictions	Lost %
Cheshire East	North West	423	71%
Cheshire West and Chester	North West	341	64%
Wakefield	Yorkshire and The Humber	295	40%
Leeds	Yorkshire and The Humber	275	52%
South Northamptonshire	East Midlands	274	84%
County Durham	North East	261	45%
Wokingham	South East	246	50%
Central Bedfordshire	East of England	232	35%
Shropshire	West Midlands	225	49%
Wiltshire	South West	222	38%

Source: Savills Research, MHCLG, Land Registry

What homes are being excluded?

If we continue with our assumption that the distribution of new home sales under £600,000 is the same as the distribution of Help to Buy sales, we can characterise the types of properties that would be excluded by these new restrictions.

Across England in the year to June 2018, most new home sales were detached houses (38%). Semi-detached houses made up 26 percent of sales, terraced houses 16 percent, and flats 21 percent.

Out of the Help to Buy sales that fell above the new regional value caps, 74 percent were detached houses. This suggests that housebuilders could respond to the Help to Buy changes by building more modest properties in some locations, targeting the first time buyer market exclusively. For example, Cheshire East and Cheshire West & Chester had over 750 Help to Buy sales that would have fallen over the proposed North West value cap last year, but our analysis suggests over half those sales were detached houses.

However, some locations don't have this flexibility – particularly high value city markets, demonstrating the issues associated with applying region-wide caps. In Cambridge, for example, our analysis suggests that three quarters of Help to Buy sales over the value cap were flats.

References

1. Whitehead & Williams, October 2018, "Evaluation of the Help to Buy Equity Loan Scheme 2017", 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

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