

Generation Rent

Five years of Generation Rent:

Perceptions of the first-time buyer housing market 2015



Introduction

The Halifax Generation Rent Report is the largest research project of its kind in the UK.

Produced by Halifax, the UK's leading lender to first-time buyers, the fifth annual Report examines current perceptions and changes in the first-time buyer market. It contains data from interviews with over 40,000 20-45 year olds built up over five years, and over 4,000 parents of 20-45 year olds over the last four years.

The impact on the UK housing market by the global financial crisis was significant and the effects are still being felt today. From a peak in 2006 of 402,800 first-time buyers, numbers fell as low as 192,300 in 2008, before climbing back to 311,400 in 2014. In the last year, improving economic conditions, and Government schemes such as Help to Buy, saw the highest number of first-time buyers purchase their first home for seven years. First-time buyers accounted for 46% of all house purchases made with a mortgage in 2014, up from 44% in 2013.

Despite this improvement the latest Generation Rent Report finds there is a growing disconnect between the perception of potential first-time buyers and the reality. The latest official figures reveal that Help to Buy scheme has helped 88,420 people buy a new home since its introduction in 2013. And, in March 2015, there were 195 95% loan to value mortgages available from UK lenders, the highest seen since May 2008. However, the Report shows relatively little improvement in how potential first-time buyers perceive their chances of getting on the housing ladder.

At the same time we are seeing the emergence of a new demographic split between those who want to get on the ladder and those who say they don't. The presumption that the UK is obsessed with homeownership may need reevaluating and a lower level of homeownership may become the new normal.

The makeup of the UK housing market aged 20-45

Homeownership profile of 20-45 year olds over time:

Homeowners



2011	→	46%
2015	→	45%
5 year change	→	-1%

Likely first-time buyers



2011	→	20%
2015	→	18%
5 year change	→	-2%

Impeded first-time buyers



2011	→	22%
2015	→	22%
5 year change	→	0%

Don't want to own



2011	→	13%
2015	→	16%
5 year change	→	3%

In the last year, improving economic conditions, and Government schemes such as Help to Buy, saw the highest amount of first-time buyers purchase their first home for seven years.

Over the last five years there has been no increase in the proportion of homeowners and a slight increase in the proportion of those who don't want to own, with fewer likely first-time buyers. If this pattern continues then it suggests that over the long-term, homeownership levels in the UK will continue to decrease.

However, looking at the changes within each age group over the past five years a number of interesting patterns emerge. In the last five years, the Report has tracked a noticeable shift in the pattern of homeownership within the different age groups covered by Generation Rent. Perhaps surprisingly, it shows the proportion of homeowners in younger age groups (20-29) has increased in the last five years. Among 20-24 year olds in particular there is a notable increase in homeownership between 2011 and 2015, with the figure rising from 16% to 21%.

Despite this, the proportion of 20-24 year olds who see themselves as 'likely' first-time buyers has decreased. There could be a number of explanations for this; it may be that the policies implemented over the last five years have pre-eminently helped a certain type of likely first time buyer, or it could indicate a disconnect between the reality of the current market for first-time buyers and the perception among potential borrowers.

As people get older they are more likely to be homeowners, either owning their own home outright or through a mortgage, but at the same time the proportion of those aged 40-45 who own their own homes has decreased falling to 56% in 2015, down from 62% in 2011.

Attitudes to homeownership and renting



There is evidence to suggest that the perception of how difficult it is to get on the housing ladder is vastly different between parents and people aged 20-45. While there has been little change in attitude over time among the younger age group, considerably fewer parents believe getting a mortgage is now virtually impossible. More than a fifth (21%) of this year's respondents in the 20-45 age group still believe it is virtually impossible for first-time buyers to obtain a mortgage, compared to just 12% of parents.

In the last three years in particular (following the launch of the Help to Buy Schemes in 2013) a significant proportion of parents have moved away from saying getting a mortgage is virtually impossible and very hard (down 16 percentage points) towards saying it is merely hard or even easy (up 16 percentage points).

Perceived difficulty of obtaining a mortgage

How easy or hard is it for first-time buyers to obtain a mortgage?	2011	2015	5 year change
Very easy	2%	1%	-1%
Easy	7%	7%	0%
Hard	30%	37%	7%
Very hard	39%	34%	-5%
Virtually impossible	22%	21%	-1%

Perceived difficulty of obtaining a mortgage (parents)

How easy or hard is it for first-time buyers to obtain a mortgage?	2012	2015	5 year change
Very easy	0%	0%	0%
Easy	2%	6%	4%
Hard	32%	44%	12%
Very hard	45%	38%	-7%
Virtually impossible	21%	12%	-9%

With a greater number of people falling into Generation Rent, it's important to understand how the quality of people's lives are affected by renting as opposed to owning.

It's possibly a result of the change in the market but attitudes towards renting are improving slightly. Just over half (54%) of people are now saying they'd never feel fully settled or feel 'at home', but fewer are worried about retiring if they have to rent for their entire life (52% as opposed to 57% in 2013). Around 40% said that they do not want to raise children in rented accommodation compared to 43% in 2013.

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Barriers to homeownership



In 2015 the three main barriers to homeownership among those who do not own a property are: the size of the deposit (57%), high property prices (56%), and low income (53%).

At the same time those saying high property prices have increased 10 percentage points, and those highlighting low incomes have increased 6 percentage points.

Despite the increase in the number of high loan to value mortgages (in March 2015 there were 195 95% loan to

value mortgages available from UK lenders, the highest seen since May 2008) and the launch of the Help to Buy and New Buy schemes. The proportion viewing a deposit as the top barrier to homeownership has fallen 3 percentage points since 2013.

The increase in those saying high property prices and low incomes are the main barriers to homeownership closely follow the changes in the market, as Halifax House Price Index data shows the average first-time buyer house price has risen 14.8% in the last five years. And official ONS figures show that the average income has only increased by 4.2% (2011-2014).

In terms of the specific issues putting people off applying for a mortgage over the last five years, there has been an increase in the number of 20-45 year olds saying they are scared of being turned down (55% in 2011 vs. 65% in 2015), and also in the number of those saying they don't want to go through the stress and anxiety of applying for a mortgage (61% in 2011 vs. 69% in 2015).

With the increase in availability of high loan to value mortgages and the introduction of the Help to Buy and New Buy schemes it is perhaps surprising that this figure has not fallen further and suggests there is more work to do in order to communicate this.

Issues that are putting first-time buyers off applying for a mortgage

	2011	2015	5 year change
Fear of falling house prices	n/a	59%	n/a
Being too scared of being turned down to apply	55%	65%	10%
Not wanting to go through the stress and anxiety of applying for a mortgage	61%	69%	8%
Hearing horror stories from friends or family about their mortgage applications	57%	64%	7%
The fear that if they are rejected for one mortgage, it will damage their chances of being accepted for another one or by a different lender	74%	78%	4%
A general perception that almost everyone is rejected by lenders so there is little point in applying	67%	70%	3%
The belief that banks don't want to lend to first time buyers at the moment and find excuses to turn them down	84%	79%	-5%
The general fear that its too risky getting a home at the moment because too many things could go wrong (interest rate rises, falling house prices, losing their job)	89%	81%	-8%
Fear of possible interest rate rises	n/a	82%	n/a
Job insecurity	n/a	84%	n/a

Saving expectations



Over the last five years there has been a notable change in saving habits, with potential first-time buyers now expecting to have to put in more effort to save than existing homeowners did. Non-homeowners are currently prepared to save for average of 5.35 years in order to save for a deposit whereas recent home buyers saved for an average of 3.6 years.

Nonetheless, the proportion of people saving to buy a home had remained stable for the three years preceding 2015, but in this most recent survey the proportion has dropped six percentage points. Just 43% are currently saving to buy a property compared to 57% who are not, indicating that some people may be giving up on homeownership.

The average amount that non-homeowners can afford to save toward a deposit each week is now £33.35. This has increased only marginally, by just £1.01 in the last two years (£32.34 in 2013). However, this increases to £62.90 for those who feel they are likely to be first-time buyers.

At the same time, those currently saving to buy a property report being more worried about buying a home than those who are not. This suggests that either people are becoming more confident they will be able to buy and do not need to save, or there are growing subsets who believe no matter how much they save they will always struggle to buy. Those saving and on the cusp of buying are the most worried, which could mean they are informed to a certain degree but that this understanding causes them to worry more. Further education and support is needed to ease these fears.

This research suggests that people are not prepared to compromise on the type of property they want to buy in order to get on the first rung of the housing ladder.

Compromises for homeownership



An analysis of the types of properties people are saving for shows 39% of 20-45 year olds favoured two-bed properties (split between flats and houses: 18% versus 22%). Three-bed properties were second with 35% of respondents saying that they were saving up for such a property (once again split between flats and houses: 4% and 31%). One-bed properties were chosen by just 13% of respondents, while four-bed and larger houses by 12%.

While there has been some volatility over the last five years, the overall pattern has not changed. This information needs to be taken into account by house builders; however it also suggests that people are not prepared to compromise on the type of property they want to buy in order to get on the first rung of the housing ladder.

There has been more movement around compromising over location and features of the property in the last five years. Eighty per cent of property owners said they made compromises when buying their first property (an increase from 75% in 2013). This is just 10 percentage points' fewer than non-homeowners who would like to buy a property.

When looking at compromises made with regards to particular features of a property the results were similar. However, the one feature that owners were more likely to compromise on than non-homeowners who would like to buy was the location (37% compared with 31%).

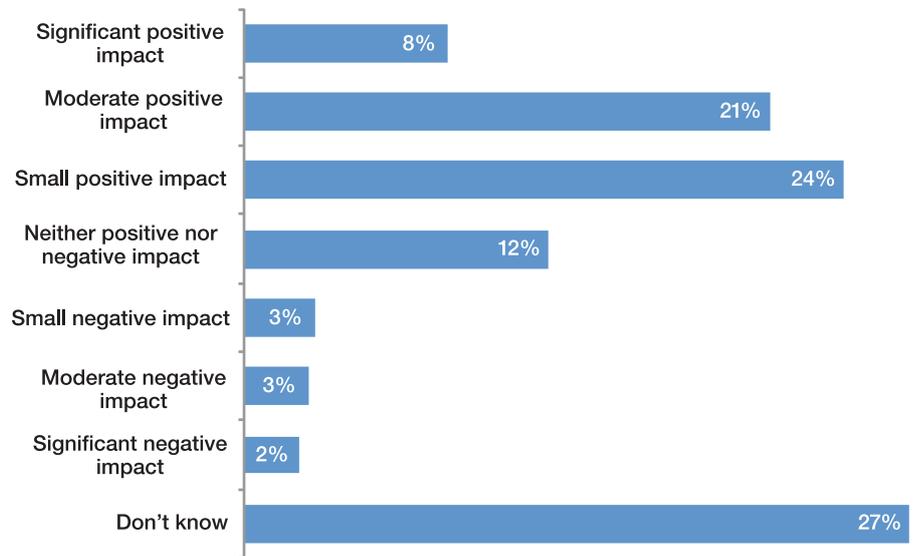
It is also interesting to see that owners have been compromising on a growing number of features over the last three years. In 2015, 26% of owners reported to having compromised on parking compared with 18% in 2013, while the proportion of owners who compromised on garden space and number of bedrooms increased by seven percentage points each since 2013.

Impact of Help to Buy

More than half of 20-45 year olds (53%) think the Help to Buy scheme has had a positive impact, compared with 8% who think it has had a negative effect, 27% who don't know, and 12% who are undecided.

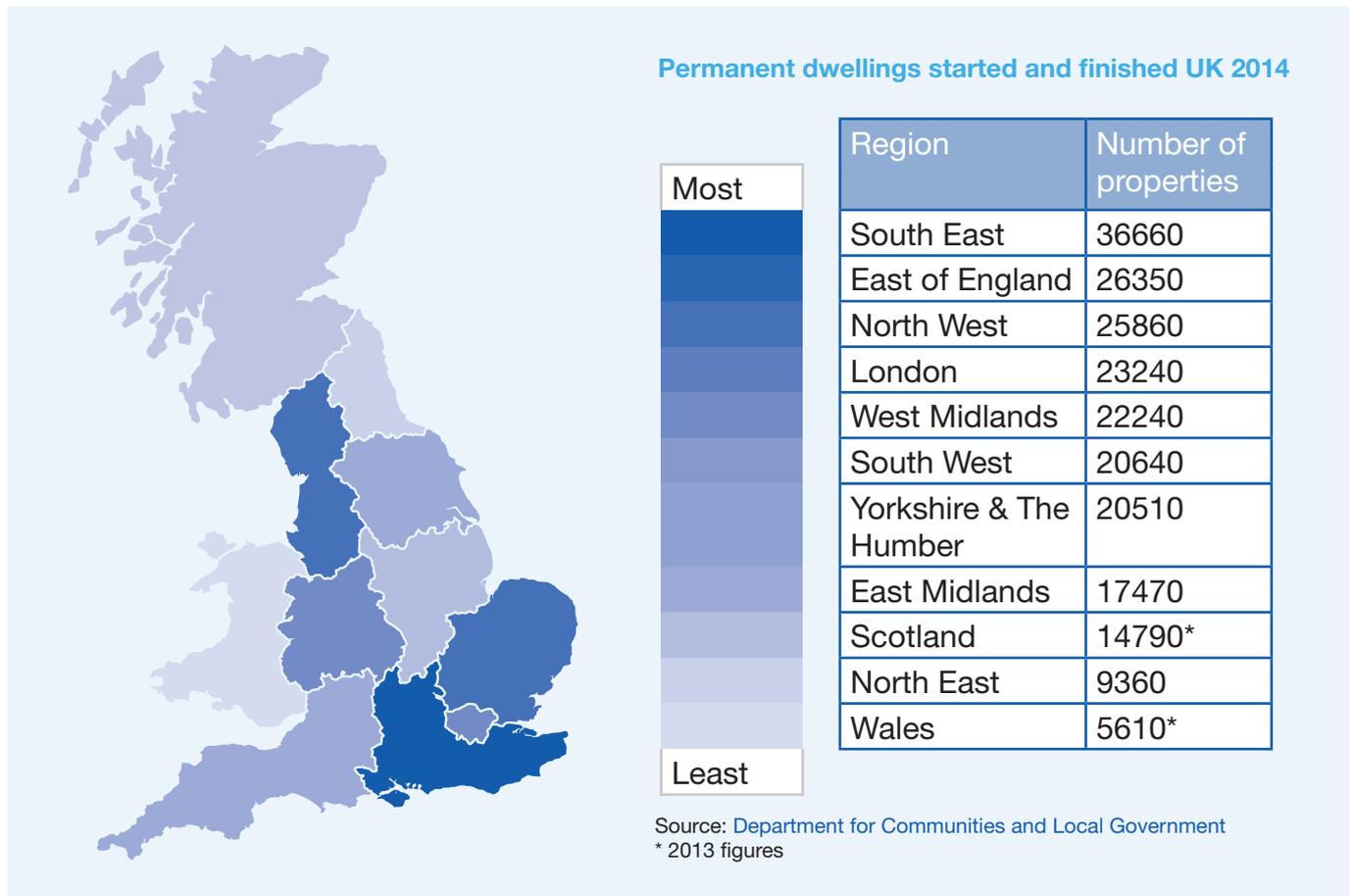
The fact that 39% either don't know or are undecided strengthens the argument of a growing gap between the reality and the perceived view of the market for first-time buyers, as it demonstrates that more work is needed to educate people as to the benefits and how the schemes work.

The impact of Help to Buy and New Buy schemes



Regional analysis

The following pages set out the regional differences among young people aged 20-45 as regards their attitudes towards homeownership. To put this in context, the heatmap below shows where the greatest concentration of new build properties were built in the last year.



London

London stands out as being different to other regions. It's an area of high incomes and strong desire for homeownership but also high property prices.

68% of Londoners cite high property prices as the most significant barrier to homeownership compared to the UK average of 56%. Compared with other regions, London has the lowest proportion of homeowners aged 20-45 (39%) and the highest number of people in this age range who worry they will never be able to buy a house (82%).

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95% of Londoners who don't own a property but would like to buy reported being prepared to make compromises, the highest across all of the regions. Londoners are most likely to compromise on location and type of property, with 31% of Londoners reporting saving to buy a flat rather than a house, by far the highest proportion saving for a flat across all the regions. Furthermore, 82% of Londoners who want to save for a deposit have taken some kind of a measure to get the money together, the highest out of all of the regions.

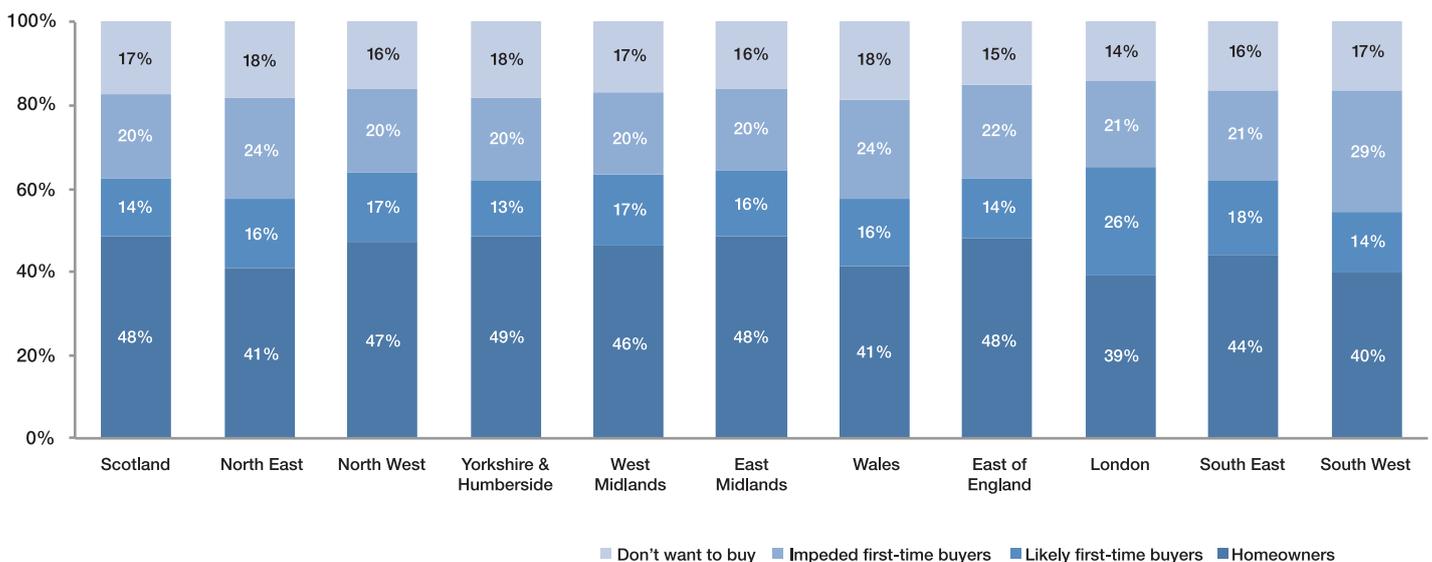
Non-owners in London reported being able to save the most for a deposit, an average of £52 per week and would be able to pay the most towards a mortgage each month (£552). The highest proportions of non-owners who expect to receive help from parents live in London and Wales (both with 39%).

Regional homeownership profile

Across most regions in the UK, homeownership among 20-45 year olds is just under 50%. London and the South West stand out with levels at just 39% and 40% respectively. However, the greatest proportion of likely first-time buyers were in London (26%), followed by the South East (18%). The lowest proportion of likely first-time buyers were in Yorkshire and Humberside (13%).

The proportion of 20-45 year olds who said they don't want to buy varied across the regions at 16-18%.

Homeownership profile



Regional concerns and compromises

When asked whether they were worried about never being able to buy a house, across all regions, the majority of non-owners report being worried to some extent. Concern was highest in London, with 82% of participants expressing some level of worry. The North West had the smallest proportion of participants who reported being worried (71%).

The highest proportion of potential first-time buyers who are willing to compromise in order to buy their first property were based in London (95%), followed by the Eastern Region (92%), with those living in Wales being least likely to make any compromises (84%), followed by the South West (85%).

Individual types of compromises varied across regions to different extents. The most evident difference was in

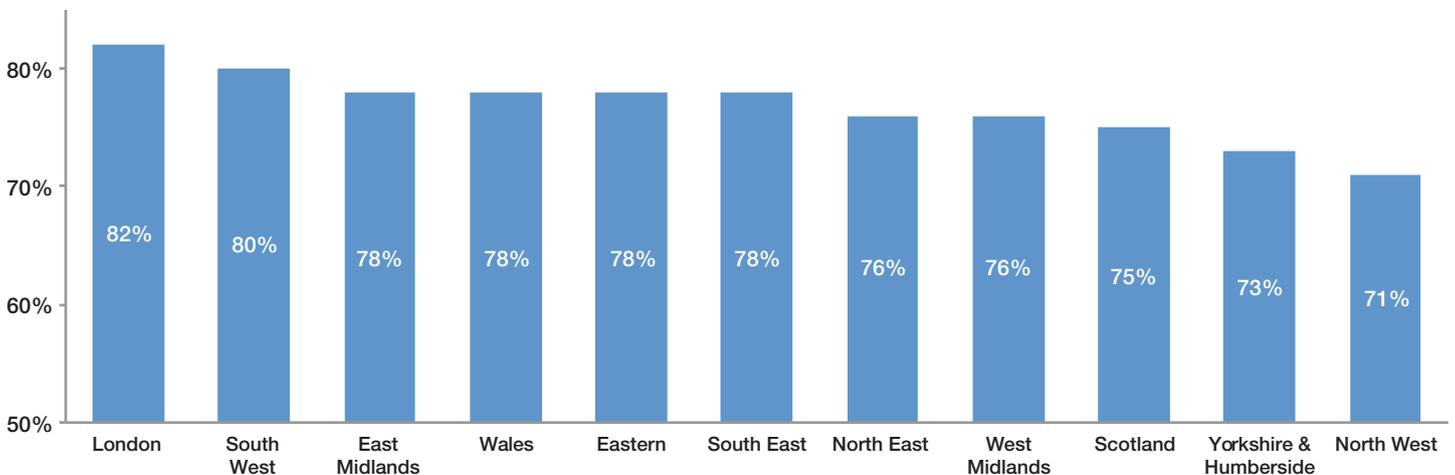
compromising on the type of property (for example a two bedroom flat instead of a two bedroom house), which Londoners were most willing to do (37%, compared with 17% of those living in the East Midlands). Londoners were also most likely to compromise on location - 41% compared with 22% of participants in the East Midlands.

Regional property types

There is a clear regional difference in whether non-owners are saving for flats or houses. By far the biggest proportion of those who were saving for flats were based in London (31%), with non-owners living in the West Midlands and the North West the least likely to be saving for flats (both with 7%).

Out of all of the regions, non-owners in the West Midlands and Yorkshire and Humberside are most likely to be saving for a house (33% and 32% respectively), while participants in the South West and London were least likely to be (21% and 23% respectively).

Non-owners that worry they will never be able to buy a home



The highest proportion of potential first-time buyers who are willing to compromise in order to buy their first property were based in London (95%)

Barriers to homeownership

Overall, the most significant barrier to homeownership perceived by non-owners was the size of the deposit required. Broken down by region, the largest proportion of non-owners that found this to be the most significant barrier were in the Eastern region (63%), followed by the South West (61%). The smallest proportion of non-owners that deemed the size of deposit to be the biggest barrier were in Wales (51%), followed by the North East (52%).

The second most significant barrier, high property prices, was overwhelmingly cited by those in London (68%), followed by the South East (63%). Non-owners in the North East were least likely to see this as a barrier (43%).

The third most significant barrier is low income; the biggest proportion of respondents that viewed this as a barrier live in the South West (59%) followed by the East Midlands (58%). However, this was least likely to be cited as a barrier by those in London (48%), followed by the Eastern region and West Midlands (50% each).

Top three barriers to homeownership

	The size of deposit required	High property prices	Low income
Scotland	55%	48%	54%
North East	52%	43%	53%
North West	58%	52%	55%
Yorkshire & Humberside	57%	50%	54%
West Midlands	60%	51%	50%
East Midlands	58%	48%	58%
Wales	51%	46%	56%
Eastern	63%	60%	50%
London	56%	68%	48%
South East	60%	63%	53%
South West	61%	59%	59%

Savings differences

There is a notable difference between regions in terms of how much non-owners are able to save towards their deposit each week, which is reflective of the average income in the regions.

London and the South East have the highest average income, thus participants living in London are able to save the most, an average of £52, followed by those living in the South East with £37. The region in which non-owners are able to save the least money toward their deposit is Scotland, with an average of £25.

How much non-owners are able to save towards a deposit each week

London	£52.04
South East	£36.87
West Midlands	£31.57
North East	£29.78
East Midlands	£28.00
North West	£26.91
Eastern	£26.70
Yorkshire & Humber	£25.73
South West	£25.70
Wales	£25.55
Scotland	£24.98

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Conclusions

In the five years since the launch of the Generation Rent Report there has been an increase in the number of first-time buyers. However, we have also seen a growing number of people aged 20-45 who do not believe they will ever own their own home.

A major issue for the market is the clear disconnect between the reality of the housing market in the UK for potential first time-buyers aged 20-45 and the perceptions of many 20-45 year olds.

Since 2013 and the much publicised launch of the Help to Buy schemes, there has been a significant increase in the number of first-time buyers. On top of this, in the 12 months following the launch of the Mortgage Market Review, there has been a significant rise in the number of mortgages requiring just a 5% deposit.

If this perception gap can be addressed it may see the number of first-time buyers continue to increase, but failure to do so could have implications for the housing market as a whole. First-time buyers are crucial to the housing market and indeed the house building industry. They keep the market moving and enable people to keep moving up the ladder.

Five years of research indicates that Generation Rent is here to stay. There are educational and housebuilding

issues which need immediate attention if we are to reverse the growing trend among people aged 20-45 to give up on the idea of homeownership.

It is often said that a higher proportion of people in mainland Europe rent for longer or never own their own home. The European experience does, however, vary greatly across the continent. The figures show that homeownership in the UK is trending down and moving closer to that of Germany. As a model, Germany is not unattractive. It has a mobile workforce, with a successful economy and a higher per capita income than in the UK.

However, this shift has implications for the private rental sector as this demographic still has a need for high quality, affordable housing. This in turn comes back to the need to build more of the right kind of homes, in the right places, with the right amenities.

In the last five years the fundamental issue at the heart of the UK housing remains unchanged. We still need to address the matter of agreeing a sustainable house building programme over the long-term. Last year 118,760 homes were completed in England. This is 8% per cent higher than in 2013 but is still 33% lower than the level seen in 2007. To give an indication of the scale of the task facing us, earlier this year Lloyds Banking Group's independent Commission on Housing proposed that we need to see a further 2 to 2.5 million new homes built by 2025.

