PROPERTY IS STILL A PRIORITY

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CICERO

EXAMINING THE FINANCIAL ASPIRATIONS OF THE UNDER 35'S

INSIGHT BY BRAHM RESEARCH AND CICERO CONSULTING

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Overall conclusion

Research conducted by Brahm Research and financial services policy specialists Cicero Consulting has found that young people (18-35 year olds) believe that not enough is being done to help first-time buyers get on the property ladder.

While media and industry attention has primarily focused on Stamp Duty reductions, the survey found that the biggest concern for younger people is affording a deposit. Over half (52%) of the respondents agreed that they would like to see a Government-led incentivised savings scheme, set up especially for first time buyers, to help them save for a deposit.

The survey highlighted that property ownership is still a top priority for the younger generation, with 54% of non-homeowners wanting to own their own home within the next ten years. But worryingly, the majority of respondent saw this as unachievable. Over half (52%) of non-homeowners said it was unrealistic that they will be able to buy within the next five years.

Saving for a deposit was cited as the biggest obstacle to purchasing a property with 44% believing it would not be possible within the next two to three years. More than a third (35%) thought that they would not have the income multiple needed to meet the lender's requirements. Almost a quarter (22%) said affording the monthly repayments was their biggest stumbling block. Surprisingly, only 16% of non home owners saw debt as the main barrier to buying their first home.

When asked how first-time buyer affordability could best be resolved, the two most popular responses were; a Government subsidised deposit savings product and a reduction in Stamp Duty specifically for first-time buyers – both polling 52% support. First-time buyer deposit savings products are not uncommon in Germany, France, Canada, Austria, Hungary, Slovenia and Greece. All offer some form of Government-led savings advantage.

Executive summary

The British love affair with owning property continues to be a financial aspiration for the current 18 to 35 year old generation. According to the latest insight piece from Brahm and Cicero Consulting more than half (55%) of those questioned believed that owning their own home made them, or would make them, feel more financially secure in the future.

Just under half (44%) of all respondents in this age group thought that owning their own home would provide a more stable environment in which to raise a family compared to rented accommodation.

Home ownership remains a priority, with 54% saying they would like to own their own home within the next 10 years. However, a similar proportion (52%) thought that this prospect was unrealistic within 5 years.

With the rapid growth in house prices throughout the UK in the last five years it is no surprise to find that for a large proportion (44%) of first time buyers saving for a deposit was the biggest obstacle to purchasing a property.

Salaries were the next barrier to buying a home as more than a third (35%) of respondents thought their income multiple was not high enough to meet lender requirements.

Surprisingly debt, student or otherwise, was not a deterrent for the majority of 18-35 year olds: only 16% cited this as the main reason for not buying a property.

There are three possible solutions to the problems facing first time buyers today, as suggested in the following report: increase the pool of housing available (social and private), reduce Stamp Duty to first time buyers or consider a Government-led incentivised savings scheme especially for first time buyers.

Overwhelmingly the younger generation opted in favour of the latter, with 52% saying they would save money into a special house-deposit savings scheme if it were available.

Objectives

In January 2005, Brahm Research and Cicero Consulting jointly conducted an independent piece of consumer research aimed at finding the root cause of the decline of first time buyers entering the housing market over the last few years. Indeed, figures from Nationwide Building Society show that the number of first-time buyers is at its lowest level for twenty years.

According to Halifax Annual First Time Buyer Review in January 2005 the affordability difficulties confronting first time buyers have significantly reduced the numbers entering the market. There were an estimated total of 361,000 first-time buyers in 2004, the lowest annual total since 1981. The number of first time buyers last year was almost a third lower than in 2002 (532,000).

The overall objective of the research was to identify the key problems preventing 18 to 35 year olds from buying a property. The research set out to determine this group's future financial aspirations and whether or not buying a property was due to conscious choice or market forces.

Research Approach

The research was conducted in two stages. The first stage involved exploratory qualitative research with the target audience in London and Leeds in early January 2005. The groups were split by age and employment status to ensure a cross section of views and experiences ie aged 18 to 20 in full time higher education, aged 18 to 20 in full time employment, aged 21 to 23 in full time employment and aged 24 to 30 in full time employment. Participants were neither homeowners nor parents.·

The exploratory research was used to guide the topic areas for a larger survey of the target group. A total of 1300 UK adults aged 18 to 34 were interviewed face-to-face to prescribed quotas to ensure the sample was an accurate representation of the British population in that age range. Just under a thousand (996) participants were non-homeowners. Fieldwork was conducted using CAPI (computer-assisted personal interviewing) in February 2005.

Summary of main findings

Homeowners and non-homeowners
More than half (55%) of the total group questioned thought that they were more likely to enjoy a financially secure future if they bought their own property.

When questioned 63% of homeowners said that buying a house would make them feel financially secure compared to 53% of non-homeowners.

Just under half (44%) of the total group questioned thought that raising a family in their own home provided a more stable environment for children in than rented accommodation.

Only 1 in 3 (28%) thought that the recently announced assistance from Government to help tenants buy council and housing association property would make a a big difference to the current problems affecting first time buyers.

However, over a quarter (27%) believed that the proposals would only have a modest impact on helping people to afford property and the initiative would not solve the problem facing first time buyers.

Non-homeowners
More than half (54%) of all non-homeowners questioned said that it was important for them to get on to the property ladder within the next 10 years. Only a quarter (26%) said that buying a property was not a priority at present.

Nevertheless 52% thought that the prospect of being able to afford to buy a property in the next five years was unrealistic compared to only 39% who thought they had a good chance.

Stumping up the deposit was seen as the biggest barrier to buying a property in the next two to three years, with over two-fifths (44%) citing this as the main stumbling block.

More than a third (35%) of non-homeowners believed that not having the income multiple to meet the lender's requirement would be the main barrier to property affordability. Only a fifth (22%) claimed that affording the monthly repayments was their biggest obstacle.

Surprisingly only 16% of non-homeowners said that debt was a main barrier to purchasing a property.

Help required for first time buyers?

Non-homeowners were questioned on several concepts or potential solutions to property affordability. Part-owning a property with parents (with options to increase the equity stake over time) was dismissed by over two-fifths (44%) and a fifth (20%) were unsure whether part-ownership was a credible option or not.

Non-homeowners were also questioned on whether repaying a mortgage over 35 instead of the standard 25 would appeal. Two-fifths (40%) considered this proposal appealing, although 22% were unsure about extending the repayments by 10 years and over a third (32%) felt the concept was unappealing.

Part or shared ownership with a financial institution with the option of increasing the share over time was deemed appealing to nearly a third (32%). However, nearly two-fifths (37%) opposed the idea and the remainder were unsure.

Part owning a property with a friend was rejected by non-homeowners with well over half (57%) stating it held no appeal to them at all. Only 19% were in favour of the concept.

Reducing or abolishing Stamp Duty for first time buyers appealed to well over a half (53%) of all non-homeowners. Only a small proportion (18%) claimed that a reduction would not impact on their ability to buy a property.

Reactions were also gauged to a Government-subsidised savings scheme for first time buyers, for example, with fiscal benefits if used as a deposit for the first property. A fifth (20%) were unsure about the concept and only 9% claimed that the proposal held no appeal whatsoever.

Investigating solutions

A Government incentivised savings scheme

The Brahm-Cicero research highlights that the biggest barrier to home ownership for first time buyers is affording a deposit. This is unsurprising given that, according to the Halifax Annual First Time Buyer Review in January 2005, the average UK first time buyer stumps up a deposit of over £20,000, rising to as high as £48,000 in Greater London. This accounted, on average, for 20% of the value of the property. Regionally, the average deposit varied from £48,364 in Greater London to £13,366 in Northern Ireland.

Given these costs, there may be some merit in the UK Government considering providing first time buyers with a savings vehicle that enables them to climb the highest barrier to property ownership without dismissing the value of developing a long term savings culture.

Indeed the survey results showed that the majority (52%) of first time buyers would be in favour of such a savings scheme especially if it was in some way incentivised. This would fall in line with current Government thinking of giving people a "hand up and not a hand out".

A recent survey from National Savings & Investments (NS&I) has indicated that the younger people may be more financially conservative compared to previous generations. From the first quarterly savings tracker produced in December 2004 the under 25s save more as a percentage of income than any other age group. It revealed that 16 to 24 year-olds are the nation's best savers by a considerable margin. They save regularly, save the highest average proportion of their income (10%) and have the clearest savings goals when compared to all other age groups. The next best savers are 25 to 34 year olds, saving 8% of monthly income.

Introducing a Government backed saving scheme would have to be regulated to ensure that the monies deposited could only be used to fund a deposit for property. The concept could stimulate much needed activity in the short term savings market. The challenge to the UK financial services industry would be to develop products that have a natural link to mortgages and even lifetime savings vehicles.

Increase social housing

Public demand for social housing remains strong according to the Brahm-Cicero results. 50% non-homeowners would consider buying a council or housing association property if given the opportunity. This means there is still the public demand for some kind of Government help – for social housing – but there is a problem with supply and finance.

John Prescott has made it clear that he intends to put wider home ownership at the heart of Labour's election campaign. In the ODPM's 5-Year Plan he proposed a "social home-buy" scheme that could offer around 300,000 council and housing association tenants the chance to buy a part-share in rented homes at a discount. Prescott has also promised an extra 10,000 social homes for renting to poorer families by 2007-8 on top of the 30,000 being built. This would be done by boosting the Housing Corporation's budget by £400m. But if more people buy a part-share in their home at a discount, the Corporation would be left to make up the deficit. Also the Government has recently passed the Housing Bill to ease the processing of planning applications to speed up the building of new homes.

However concerns have been voiced from some corners that the ODPM's plan will not be sufficient to achieve Tony Blair's stated aim of 80% homeownership by 2010. Councils and housing associations will not be compelled by the ODPM to offer their tenants a shared equity scheme. A similar scheme has been offered before by the ODPM yet only 3,085 properties were sold to their tenants in 2002/3. Also Prescott has met some fierce resistance from regional assemblies and local residents against major plans to increase housing supply in some areas. The plans for the major expansion of housing supply in the Thames Gateway have been halted by regional assembly consultations, environmental and infrastructure concerns and local resident protest.

Reduce Stamp Duty for first time buyers

Election fever is running high and next month's Budget may provide first time buyers with welcome relief. Labour campaign sources have leaked that "the numbers" for the budget may be better than widely assumed and there may be scope for Stamp Duty cuts. Any cuts proposed by Labour could be limited but politically significant. Campaign sources point out that a cut in Stamp Duty for first-time buyers would cost £400m if it was restricted to properties with a value of £250,000 or less.

The average person buying their first home now pays more than £1000 in Stamp Duty, and in London, that figure rises to nearly £2000 according to a recent report by Nationwide Building Society. Ten years ago fewer than 20% of first time buyers in most regions of the UK were required to pay Stamp Duty. Only in London and the South East did a larger proportion pay it according to the report.

Today the picture is very different and the majority in almost every region now buy houses above £60,000 and therefore have to pay the tax. The Nationwide Building Society believes the threshold should be set at £150,000 for first-time buyers, which would put Stamp Duty in line with house price increases over the last 10 years. It estimates that such an increase would leave 77% of first-time buyers free from Stamp Duty charges.

Lessons from Abroad

State assisted first-time buyer schemes
The UK's situation, whereby first time buyers are struggling to enter the housing market, is not unique. Indeed, many developed countries have faced this problem for some time and Governments, in response, have developed a range of schemes to assist borrowers onto the first-rung of the housing ladder.

Like the UK, most developed countries guarantee housing for disadvantaged groups, such as low-income families and those incapacitated for work, usually via rented social housing. However the UK is one of the few countries not to offer some help for first time buyers outside of social housing.

Given the difficulty faced by first time buyers trying to become owner-occupiers, described above, it is worth considering the merits of state-backed schemes operating in other countries.

First-time buyer grants
Australia and the USA provide first time buyers with a grant to help them into homeownership. The Australian First Home Owner Grant is available to all those who have not previously owned a property, irrelevant of age and income. The standard grant is for A$7,000 (about £2,900), but can rise to up to A$10,000 (about £4,100) if they build or purchase a new house.

The American Dream Down-payment Initiative, started in 2004, is designed to help lower-income first time buyers, particularly those in ethic minorities, own their own home. Through this scheme those earning less than 80% of area median income can qualify for a $10,000 (about £5,300) grant to provide down-payment, closing costs and home improvement (to bring the house up to acceptable standards) assistance.

If the UK were to adopt a similar measure there would be the danger that this further pushes up house price inflation. Equally this option does not inherently enhance a "savings culture" amongst the first time buyer demographic.

First-time buyer Stamp Duty concessions
Ireland has recently abolished Stamp Duty for first time buyers purchasing a second-hand property with a maximum cost of €317,500, saving them a potential €11,500 (about £7,900), as house prices have risen by 130% in just over a decade. However, initial reports suggest that this has led to further house price inflation, with many more first-time buyers instantly entering the market and sellers upping their prices to just below the price cap.

There would be a similar danger of house price inflation, at the tax thresholds, if the UK was to adopt a similar tax cut. While Government revenue from Stamp Duty has increased significantly over the last decade, the average first time buyer, according to the Halifax, pays only £1300, which compared with the other costs involved in purchasing a house led the Treasury commissioned, Barker Review to conclude that a reduction would not make a significant difference.

Subsidised savings products

Germany offers help to first time buyers through its Bauparkassen loans. These mortgages offer a below-market level fixed interest rate to savers who have contracted to save a set amount for around seven years. This accounts for around 9% of all German mortgages. Austria, Hungary and Slovenia have introduced a system based on the German Bausparen scheme. In Hungary savings intended for first-home purchases are annually subsidised by up to 30% of the amount saved with a ceiling of about £200.

In 2001 this scheme had attracted about 787,000 savers. Under the Slovenian National Housing Scheme savers contract to save a monthly set amount for between 5 and 10 years. The state then annually tops this up by adding another month's worth of savings. Though the savings are given below market interest rates, mortgages purchased with these savings have reduced interest rates. When the scheme was first launched in 1999 the demand outstripped supply.

In Canada, under the Home Buyers' Plan first time buyers can withdraw up to C$20,000 (about £8,600) tax-free from their Registered Retirement Savings Plan, to use towards house purchase. This amount remains tax-free provided the withdrawn amount is paid back into the plan within 15 years.

In Greece, first time buyers are offered mortgages with slightly lower interest rates provided they have saved with the bank for the last six months. In Finland first time buyers between 18 and 30 who have saved 15% of the house price can benefit from up to a 70% subsidy on any mortgage interest over 4.5%.

France operates a state-subsidised savings plan, named Plan d'Epargne Logement, whereby households save a set amount over a 4 to 10 year period, with a state-enhanced interest rate. The savings can only be used to purchase a house, and once the household has sufficient savings they qualify for a mortgage with a subsidised interest rate.

Final thoughts

The UK Government has a long history of providing tax-incentivised savings through pensions and savings products like ISAs. An incentivised deposit savings scheme for first-time buyers could benefit from similar breaks such as tax-free interest and/or income-tax exemption. Furthermore employers may find it beneficial, in terms of staff recruitment and retention, to offer younger workers contributions to such a scheme in place of pension contributions. The examples above show that it is possible to restrict these savings to housing deposits and that ultimately, such schemes are workable.

About Brahm

Leeds-based, with around 150 people, Brahm is one of the largest independent communications agencies outside London. It is a complete brand communications agency, approaching client business from a totally neutral stance. This means it can provide "impartial advice" and develop solutions built around the needs of the client.

Whilst Brahm has impressive credentials in each of the specialist areas in which it operates, two key strengths set it apart. Firstly, insight. As well as having an independent research consultancy (Brahm Research), which is one of the fastest-growing in the country, Brahm brings a strategic focus to project and campaign planning which ensures that solutions are rooted in deep market knowledge and customer understanding.

Secondly, creativity. Brahm has over 30 writers, art directors and designers who conceive and develop "profitable ideas" - ideas that have a truly positive impact on client business. "Insight and excite" – that is its mission. And whether building a brand, promoting a product, generating leads or raising awareness, that's what delivers results for clients.

Previous work in the financial services sector is wide-ranging and covers the following:

- The Child Trust Fund;
- Consumer reaction to the Pensions Green Paper;
- Attitudes towards long term, fixed rate mortgages;
- Expressing modern day mutuality;
- Financial capability;
- Long term savings.

About Cicero Consulting

Cicero is the leading independent UK consultancy helping clients consider, design and implement financial services public policy strategies at Westminster and Brussels.

Whether representation to UK Government, officials or regulators, contributing to the policy debate through green papers, training for select committee interviews, legislative support drafting Private Members Bills or undertaking specific political intelligence reports Cicero will help achieve success.

- A selection of recent work includes:
- A full impact assessment of the Pensions Act on the asset management industry and response;
- An analysis of policies towards mortgage lending and key research on the non-conforming sector;
- The development of policies to create the Child Trust Fund incorporating consumer research;
- An industry-wide campaign to retain the dividend tax credit for ISAs;
- Drafting four major Parliamentary Bills on annuity reform as part of an award winning campaign;
- Promoting property as a key retail asset class;
- Strategic advice on development of EU gender discrimination policies.

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