

# How much help is Help to Buy?

Help to Buy and the impact on house prices

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## Summary

In the 2013 Budget, the Chancellor George Osborne launched two schemes under the title 'Help to Buy', which were intended to slow the decline in homeownership in England by helping buyers get access to a mortgage. Since then, the two distinct Help to Buy schemes have supported over 100,000 home purchases across the UK. With the extension of the scheme until 2020, the government will spend up to £6 billion on equity loans and will guarantee up to £12 billion worth of mortgages.

While these home buyers no doubt appreciate the assistance they have received, Shelter has serious concerns about the schemes' impact on the wider housing market. The fundamental problem with Help to Buy is that it tries to solve the problem of unaffordable house prices by making it easier for potential buyers to access a mortgage. As the amount of mortgages issued are a key driver of house prices, the schemes push up prices further.

Drawing on official statistics and analysis, this research finds that **Help to Buy has added around £8,250 to the average house price**. In other words, it has helped a small number of people to buy, at the expense of worsening the overall affordability crisis for everyone else.

Further analysis of local and regional data shows that in the places where Help to Buy loans and guarantees have been used most, house price inflation has run above regional trend rates, suggesting that Help to Buy does indeed contribute to driving house prices up.

Millions of people have already been locked out of homeownership by rising house prices. Helping a few of them to buy by inflating house prices further is counter-productive, and demonstrates why the only long term solution to housing affordability is not to increase the amount of debt flowing into the housing market, but to take bold action to increase the supply of homes.

While the Help to Buy schemes have brought forward home ownership for some of the 100,000 buyers that have used the scheme, they are making it progressively harder for many of the 4.4 million private renters who are priced out to buy a home of their own. In the forthcoming Comprehensive Spending Review the Chancellor should set out real plans to build the homes per year we need so that homes become more affordable, not less.

## What is Help to Buy?

Help to Buy is currently structured into two separate schemes: the equity loan scheme, and the mortgage guarantee scheme. Both schemes are available to anyone wishing to buy a home, as long as they plan to live in it rather than rent it out.

### Help to Buy equity loan

The equity loan scheme is only available on new build homes only. It involves the government acquiring an equity stake in a home of up to 20% of the purchase price. This reduces the size of the mortgage and deposit that the buyer requires, allowing them easier access to mortgage finance to purchase a home. The scheme is restricted to new build homes only, and does not apply to established houses.

The equity loan must be paid back at a value reflecting future house prices, either when the home is sold or over time before a sale. After five years, if the loan hasn't been repaid then a fee is introduced which starts at an annual rate of 1.75% of the equity loan amount (eg £700 per year for a home bought for £200,000 with a £40,000 equity loan) and rises gradually each year with the retail price index plus 1%.

The Help to Buy equity loan scheme was the first to be launched, with the first equity loans issued in April 2013 in England. Over 56,000 equity loans have been issued in the first 27 months the scheme has been running in England<sup>1</sup>, 82% of those being issued to first time buyers. Almost two-thirds of purchasers have bought with a deposit of 5% of the purchase price. In Scotland and Wales there have been almost 6,000 purchases made under the different schemes launched in those countries.

### Help to Buy mortgage guarantee

The Help to Buy mortgage guarantee scheme is available for new or existing homes across the UK worth up to £600,000. It involves a guarantee from the government to mortgage lenders to repay a proportion of the loan if the buyer defaults. This guarantee of a repayment in the case of default incentivises mortgage lenders to lend at greater loan to value rates than they would otherwise be prepared to do (i.e. to provide 95% mortgages). For the buyer, this reduces the size of the deposit required to buy a home, but also means that they can take out a larger mortgage.

This scheme was launched six months after the equity loan scheme, with the first mortgage guarantees issued in October 2013. By June 2015 over 56,000 mortgage guarantees used by home buyers to purchase property, with 78% of these being first time buyers. The average deposit size for mortgage guarantee loans to date is 5.7%<sup>2</sup>.

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<sup>1</sup> [Help to Buy equity loan scheme statistics](#)

<sup>2</sup> [Help to Buy mortgage guarantee quarterly statistics – June 2015](#)

## How does Help to Buy impact house prices?

Policies which stimulate demand for housing such as Help to Buy are often said to push up prices, although exactly how this works in practice is less discussed.

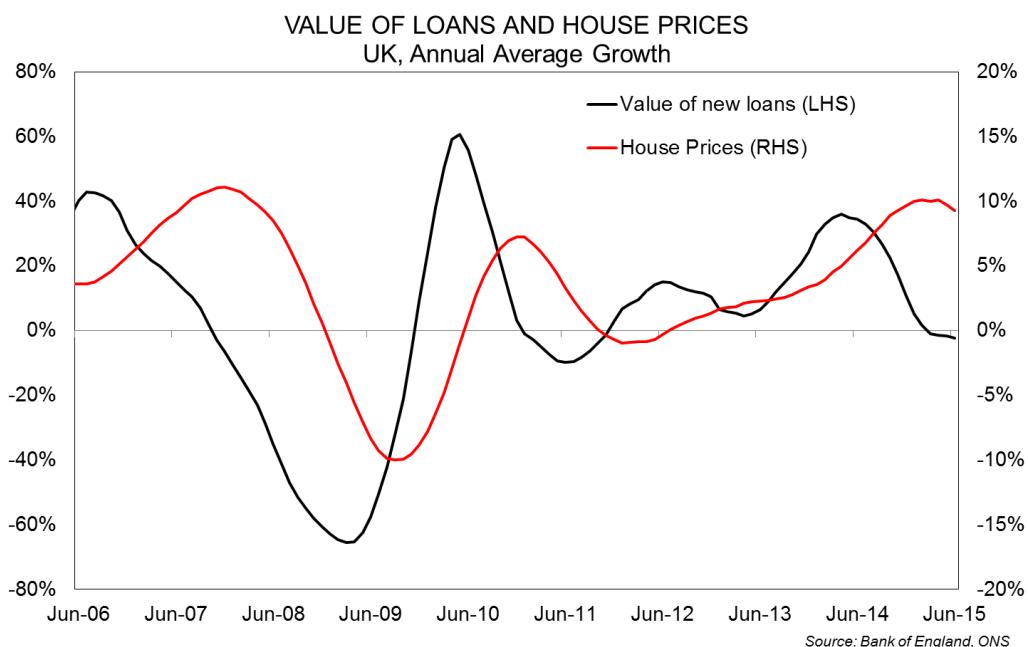
The section explores the dynamics between Help to Buy, the mortgages that it helps create, and the impact that this can have on house prices.

### The relationship between Help to Buy and house prices

House price inflation occurs when demand for homes in an area outstrips the supply of homes for sale. When this happens buyers increase their offers in order to outcompete one another. This increase in demand can only be realised if buyers have the *means* to increase their offer, such as extra savings, parental support or – most commonly – taking out a bigger mortgage.

This relationship between mortgages and prices is clear from the data on changes in the total value of lending for home purchase and average house price inflation (see Figure 1). When the value of lending for home purchases grows, it is followed by an increase in house price inflation; when lending growth slows, it is followed by a fall in house price inflation.

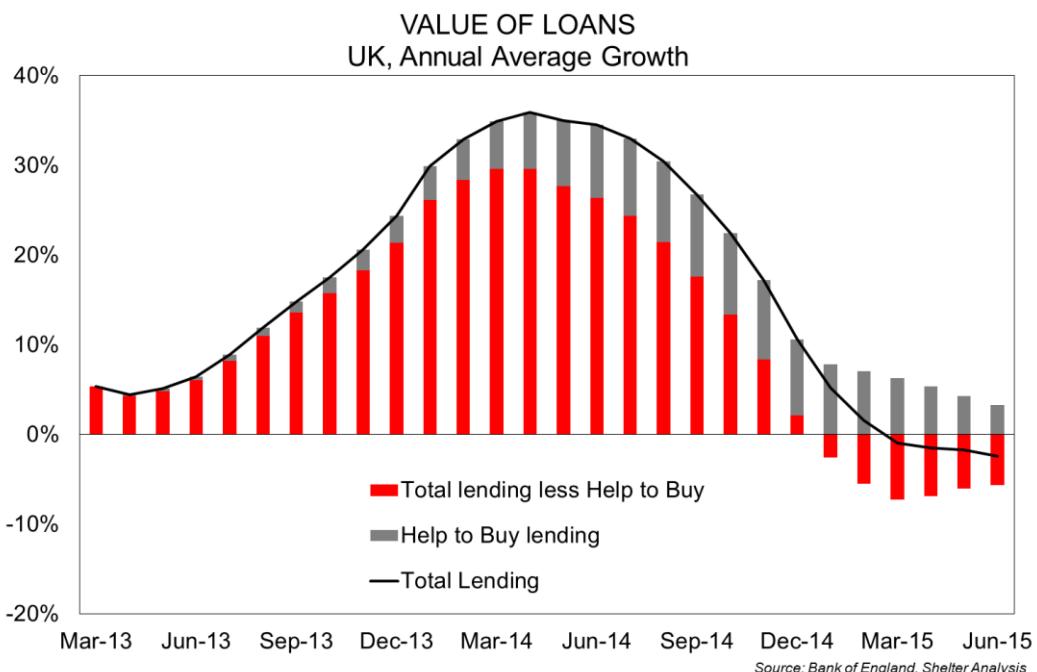
**Figure 1: The relationship between lending and house prices**



The impact of Help to Buy on house prices can be understood by identifying the component of mortgage growth that can be attributed to Help to Buy<sup>3</sup>. As shown below (Figure 2) borrowings from Help to Buy have added to the growth profile of the overall value of loans since Help to Buy was introduced in March 2013.

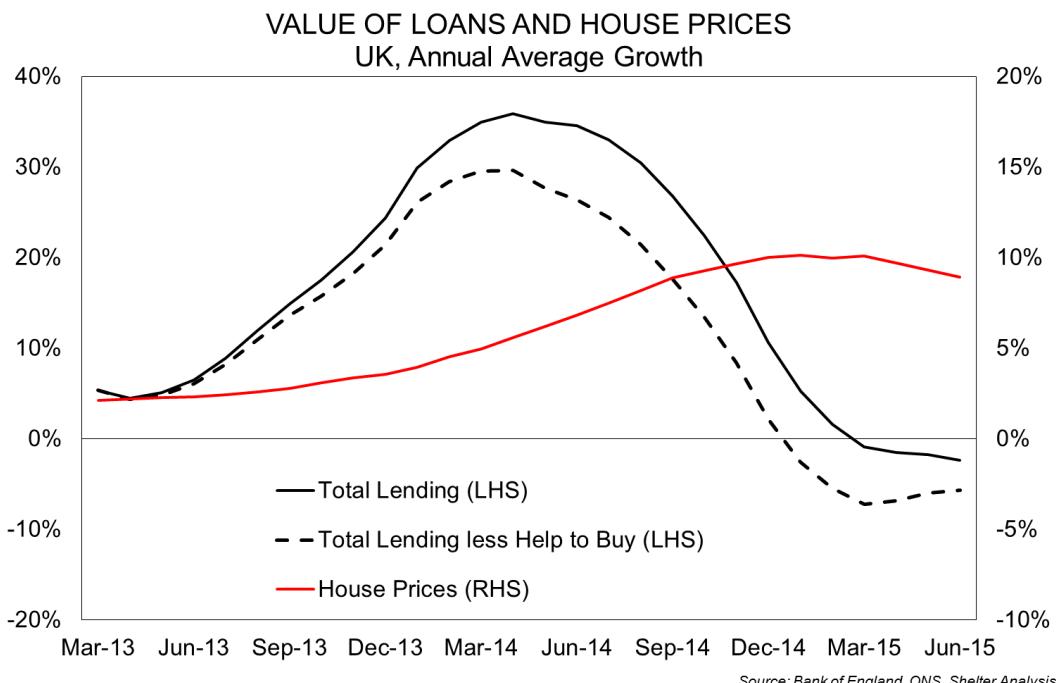
<sup>3</sup> It is assumed that those who used the Help to Buy schemes would not have taken on mortgage debt otherwise (so that HTB is additional) and the methodology does not reflect any dampening effect that the extra supply of homes built through HTB would have had on house prices.

**Figure 2: Components of housing loan value**



Considering the relationship between house prices and mortgages, and looking at the profile of mortgage growth absent of Help to Buy mortgages, this demonstrates how Help to Buy can contribute towards higher house prices (Figure 3). Since the schemes were introduced, total mortgage lending has been 8.4% higher than it would have been if all Help to Buy mortgages had not been issued.

**Figure 3: Help to Buy impact on value of loans**



## How much has Help to Buy increased house prices?

While it is commonly accepted that demand-side policies such as Help to Buy must push up house prices, there has been no official attempt to quantify the impact on house prices. However, previous studies have analysed the impact on prices of other increases in mortgage demand. Research by the National Housing and Planning Advice Unit (a former government body) in 2008 estimated the impact that Buy-to-Let purchasers contributed to house price inflation by quantifying the impact that increased mortgage lending had had on house prices.

This study estimated that over the long-term, for each 1% increase in mortgage credit, house prices would increase by 0.36%<sup>4</sup>. This approach is consistent with the analysis of mortgage credit outlined above, but uses a more sophisticated economic model to determine this estimate. By applying this ratio to the increase in mortgages finance as a result of Help to Buy, we can estimate the impact that Help to Buy mortgages issued so far will have on house prices.

Based on the volume Help to Buy mortgages so far, it is estimated that so far the scheme has increased house prices by 3.0%. That is around £8,250 based on the current UK average house price of £274,000<sup>5</sup>.

**Table 1: Impact of Help to Buy on house prices**

	Equity Loan	Mortgage Guarantee	Total Help to Buy
<b>Increase in mortgage lending</b>	4.6%	3.8%	8.4%
<b>Increase in house prices</b>	1.6%	1.4%	3.0%
<b>Increase in average house price</b>	£4,500	£3,750	£8,250

The impact to date has been driven slightly more by the equity loan scheme, with just over half of the £8,250 increase in the average house price due to the equity loan scheme. However the mortgage guarantee scheme was introduced later than the equity loan, so over time it is likely the impact of this scheme on house prices will get stronger over time.

<sup>4</sup> NHPAU, 2008

<sup>5</sup> ONS House Price Index, June quarter 2015

## Localised impacts of Help to Buy

The estimates of the price impact of Help to Buy above are calculated at a UK wide level, but in practice the impact of Help to Buy on house prices is likely to be stronger in areas where there are more Help to Buy purchases.

Analysing data on where Help to Buy has been used more often in England, and the changes in house prices in those areas, can give an indication of the impact of Help to Buy at regional or even local levels.

### Regional impacts

At a regional level, Help to Buy transactions in the first two years of the scheme are more prevalent in the most affordable areas of the country (see Table 2).

**Table 2: Help to Buy concentration and housing affordability, by region**

Region	Help to Buy share of market	Price to Income Ratio <sup>6</sup>
North East	6.7%	5.0
East Midlands	5.6%	6.0
North West	5.3%	5.5
West Midlands	5.2%	6.2
Yorkshire and the Humber	5.1%	5.6
East	4.5%	8.0
South West	4.1%	7.8
South East	3.7%	8.7
London	1.8%	10.4

This suggests that Help to Buy is doing little to help people become home buyers in the highly unaffordable areas of the country such as London or the South East, and is helping more people in relative more affordable parts of the country to purchase a home. Therefore, it is also more likely that Help to Buy is putting greater upward pressure on house prices in these more affordable regions, than the less affordable parts of the country.

### Local authority impacts

Table 3 shows the 20 local authority areas in England which Help to Buy transactions made up the largest share of the housing market over 2013 and 2014. Of the top 20 areas, 19 experienced stronger house price growth than the average for their region during 2013 and 2014. South Norfolk was the only area not to experience faster house price growth its region, although at 10.5% over the two-year period, house price inflation was close to the regional average of 10.7%.

<sup>6</sup> [Greater London Authority, June 2015](#)

**Table 3: Top 20 local authorities for all Help to Buy purchases, England**

Local Authority	Help to Buy share of housing transactions (2013 – 2014)	House Price Growth (2012 – 2014)	Regional Growth (2012 - 2014)	Difference	Price impact of additional growth (£)
Corby	20.3%	10.3%	6.8%	3.5%	4,244
Ashfield	12.0%	9.5%	6.8%	2.7%	3,015
Chorley	11.7%	2.7%	2.2%	0.5%	700
Peterborough	11.4%	13.6%	10.7%	2.9%	3,892
Dartford	11.2%	11.9%	11.6%	0.3%	550
Bedford	10.4%	10.8%	10.7%	0.1%	227
Hinckley and Bosworth	10.2%	13.8%	6.8%	7.0%	10,133
South Tyneside	10.2%	13.4%	0.9%	12.4%	13,691
Halton	10.2%	10.6%	2.2%	8.4%	9,486
St. Helens	10.1%	9.1%	2.2%	6.9%	7,580
Kingston upon Hull	10.1%	8.4%	3.0%	5.3%	4,769
Barnsley	9.7%	8.6%	3.0%	5.6%	5,844
South Derbyshire	9.3%	9.8%	6.8%	3.0%	4,429
South Norfolk	9.3%	10.2%	10.7%	-0.5%	-915
Bolsover	9.3%	14.2%	6.8%	7.4%	7,150
North West Leicestershire	9.2%	20.9%	6.8%	14.1%	19,433

These figures support the conclusion of the UK-wide analysis that Help to Buy contributes to house price inflation, but they do not prove that Help to Buy alone has caused stronger price growth in these areas. Other factors also influence house prices, in particular where supply of new homes is not sufficient to keep up with demand. In areas where this is the case, the construction of new homes could correlate with house price growth as supply responds to meet additional demand.

As Help to Buy equity loans apply to new build housing only, these results may be skewed towards areas that have higher rates of new build housing. In order to account for this, we ran the same analysis focusing on Help to Buy mortgage guarantee loans only.

Table 4 shows that 18 of the top 20 local authority areas for Help to Buy mortgage guarantee purchases also experienced growth in house prices that exceeded growth in the wider region over 2013 and 2014. The two exceptions are Medway and Forest Heath: price growth was 0.5% lower than the regional level in Medway, however prices still rose by 11.1% over the two year period. In Forest Heath, house price growth was significantly lower at 2.9% compared to 10.7% for the East region<sup>7</sup>.

<sup>7</sup> Forest Heath is a relatively small market (the 21<sup>st</sup> smallest in England), so small sample size may be affecting this result.

**Table 4: Top 20 local authorities for Help to Buy mortgage guarantee purchases, England**

Local Authority	Help to Buy share of housing transactions (2013 – 2014)	House Price Growth (2012 – 2014)	Regional Growth (2012 -2014)	Difference	Price impact of additional growth (£)
Corby	5.7%	10.3%	6.8%	3.5%	4,244
Halton	5.1%	10.6%	2.2%	8.4%	9,486
Wigan	4.8%	7.7%	2.2%	5.5%	6,080
Ashfield	4.3%	9.5%	6.8%	2.7%	3,015
Bolsover	4.2%	14.2%	6.8%	7.4%	7,150
Salford	4.2%	4.3%	2.2%	2.1%	2,470
Mansfield	4.1%	9.5%	6.8%	2.7%	2,855
St. Helens	4.1%	9.1%	2.2%	6.9%	7,580
Barnsley	4.1%	8.6%	3.0%	5.6%	5,844
Tameside	4.1%	9.3%	2.2%	7.1%	7,619
Forest Heath	4.1%	2.9%	10.7%	-7.8%	-12,382
Rossendale	4.0%	14.3%	2.2%	12.1%	12,690
Stoke-on-Trent	4.0%	8.6%	5.5%	3.1%	2,709
Tamworth	3.9%	8.2%	5.5%	2.7%	3,663
Copeland	3.9%	3.8%	2.2%	1.6%	1,813
Medway	3.9%	11.1%	11.6%	-0.5%	-761

These results suggest that the correlation between higher price rises and the higher prevalence of Help to Buy is not simply the result of higher prices triggering higher build rates, and so lend further support to the conclusion that Help to Buy itself is a driver of house price inflation.

## Conclusion

While the Help to Buy schemes have brought forward home ownership for some buyers, by adding to house price inflation they are making it progressively harder to buy a home for millions more who have been priced out.

In the forthcoming Comprehensive Spending Review the Chancellor should set out real plans to build the homes per year we need so that homes become more affordable, not less. Public spending should be focused on increasing the number of homes built, rather than driving house prices further beyond the reach of ordinary working families.

## Appendix A - Methodology

### Estimating the value of Help to Buy mortgages

The total value of new mortgages is based on mortgage lending data for house purchase by individuals in the UK<sup>8</sup>.

The value of Help to Buy mortgages from the equity loan scheme are based on statistics published by the Department of Communities and Local Government for England<sup>9</sup>, the Welsh Government<sup>10</sup>, and the Scottish Government<sup>11</sup>. The scheme does not operate in Northern Ireland. Statistics for the mortgage guarantee scheme are published for the entire UK by HM Treasury<sup>12</sup>. Data for the mortgage guarantee across the UK, and the equity loan scheme in England is used up until June 2015. Statistics for Wales and Scotland for the June quarter are not yet available, so these go up to March 2015.

The statistics for the equity loan scheme do not include totals for the value of mortgages issued under the scheme, but these are estimated based on other published statistics including the value of the equity loans issued by the government, the total value of properties purchased, and the share of purchasers which sit within each deposit bands.

In order to estimate the average deposit size it was assumed that the share of mortgages issued in each deposit band took out a deposit equal to the upper-end of the band (for example, all purchasers in the up to 5% band are assumed to have a deposit of 5%). This assumption is likely to underestimate the size of the value of mortgages issued associated with equity loans.

For the equity loan scheme, it was also assumed that the equity loans counted as mortgage credit, as they are debts that have to be repaid by the purchaser, and they increase the capacity of the buyer to purchase the property.

### Estimating the price impact of Help to Buy

Previous research by the NHPAU estimated the impact that Buy-to-Let purchasers contributed to house price inflation by quantifying the impact that increased mortgages had on house prices<sup>13</sup>. The econometric model used for the research found that for a 1% increase in mortgage credit, house prices would increase by 0.36% over the long-run.

In order to estimate the price impact of Help to Buy, the total mortgage credit that is associated with Help to Buy purchases was measured as a share of overall mortgage credit, to estimate the increase in mortgage credit due to Help to Buy. This percentage was then multiplied by 0.36% to determine the impact on growth in house prices. The determined impact on price was applied to the June 2015 average UK house price, in order to quantify this impact.

This approach assumes that all purchases made under Help to Buy would not have taken place without the scheme. So the estimates here are for the upper-bound of the impact of

<sup>8</sup> Bank of England Interactive Database

<sup>9</sup> [DCLG, Help to Buy equity loan and Help to Buy: NewBuy statistics, June 2015](#)

<sup>10</sup> [Help to Buy – Wales shared equity loan scheme - Data to March 2015](#)

<sup>11</sup> [Scottish Government, Help to Buy monitoring report, June 2015](#)

<sup>12</sup> [HM Treasury, Help to Buy mortgage guarantee scheme quarterly statistics, June 2015](#)

<sup>13</sup> [NHPAU, 2008](#)

Help to Buy on house prices. This is consistent with that used by the NHPAU to estimate the impact of buy-to-let on house prices.

In practice, some purchasers may have purchased anyway without Help to Buy. However, it is likely that many of these buyers may have used Help to Buy to borrow a larger amount than they would have otherwise in absence of the scheme. In this case, Help to Buy would add to house price inflation due to the increase in the size of their debt.

### **Estimating geographical impacts of Help to Buy**

Help to Buy statistics include data on Help to Buy purchases by local authority. However, different local authority areas have widely varying housing markets. In order to standardise the comparison, the number of transactions occurring in each local authority over the period since Help to Buy was introduced was estimated.

This was done by dividing the average turnover rate<sup>14</sup> of the privately owned housing stock in 2013 and 2014, by the estimated privately owned housing stock as per the 2011 census. The number of Help to Buy purchases in each local authority was divided by the estimated number of transactions to determine the share of the housing market that was from Help to Buy.

Estimates of changes in house prices is based on data from the Land Registry. Regional estimates are based on growth of the house price index for each region between 2012 and 2014, local authority estimates are based on the median house price for the area.

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<sup>14</sup> [ONS Housing Summary Measures, August 2015](#)