Digging Deeper

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Help to Buy Equity Loan

Residential Analysts Ltd

26th February 2021

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Help to Buy: Equity Loan

The House of Commons Committee of Public Accounts report provides a useful summary of the Help to Buy: Equity Loan scheme:

The Ministry of Housing, Communities & Local Government (the Department) introduced the Help to Buy: Equity Loan scheme in April 2013 to address a fall in property sales following the financial crash of 2008 and the consequent tightening of regulations over the availability of high loan-to-value and high loan-to-income mortgages. Originally intended to last three years, in 2015 the Department announced the extension of the scheme to 2021. The scheme has two principal aims: to help prospective homeowners obtain mortgages and buy new-build properties; and, through the increased demand for new-build properties, to increase the rate of house building in England.

Homes England administers the scheme on behalf of the Department. Home buyers receive an equity loan of up to 20% (40% in London since February 2016) of the market value of an eligible new-build property, interest free for five years. The loan must be paid back in full on sale of the property, within 25 years, or in line with the buyer's main mortgage if this is extended beyond 25 years. The scheme enables buyers to purchase a new-build property with a mortgage of 75% (55% in London) of the value of the property. The current scheme, which will run to March 2021, is not means-tested and is open to both first-time buyers and those who have owned a property previously. Buyers can purchase properties valued up to £600,000. A new scheme, to follow on immediately from the current scheme for two years to March 2023, will be restricted to first-time buyers and will introduce lower regional caps on the maximum property value, while remaining at £600,000 in London.

Further information is available here:

https://www.helptobuy.gov.uk/equity-loan/equity-loans/

This document provides a summary of the publicly available data on Help to Buy: Equity Loan. Please let us know if we've missed anything.

The data covers England unless stated otherwise. For the purposes of this document Help to Buy refers to just Help to Buy: Equity Loan. We have strived to ensure the accuracy of this analysis but it is always possible for mistakes to appear. We accept no liability for your use of this analysis.

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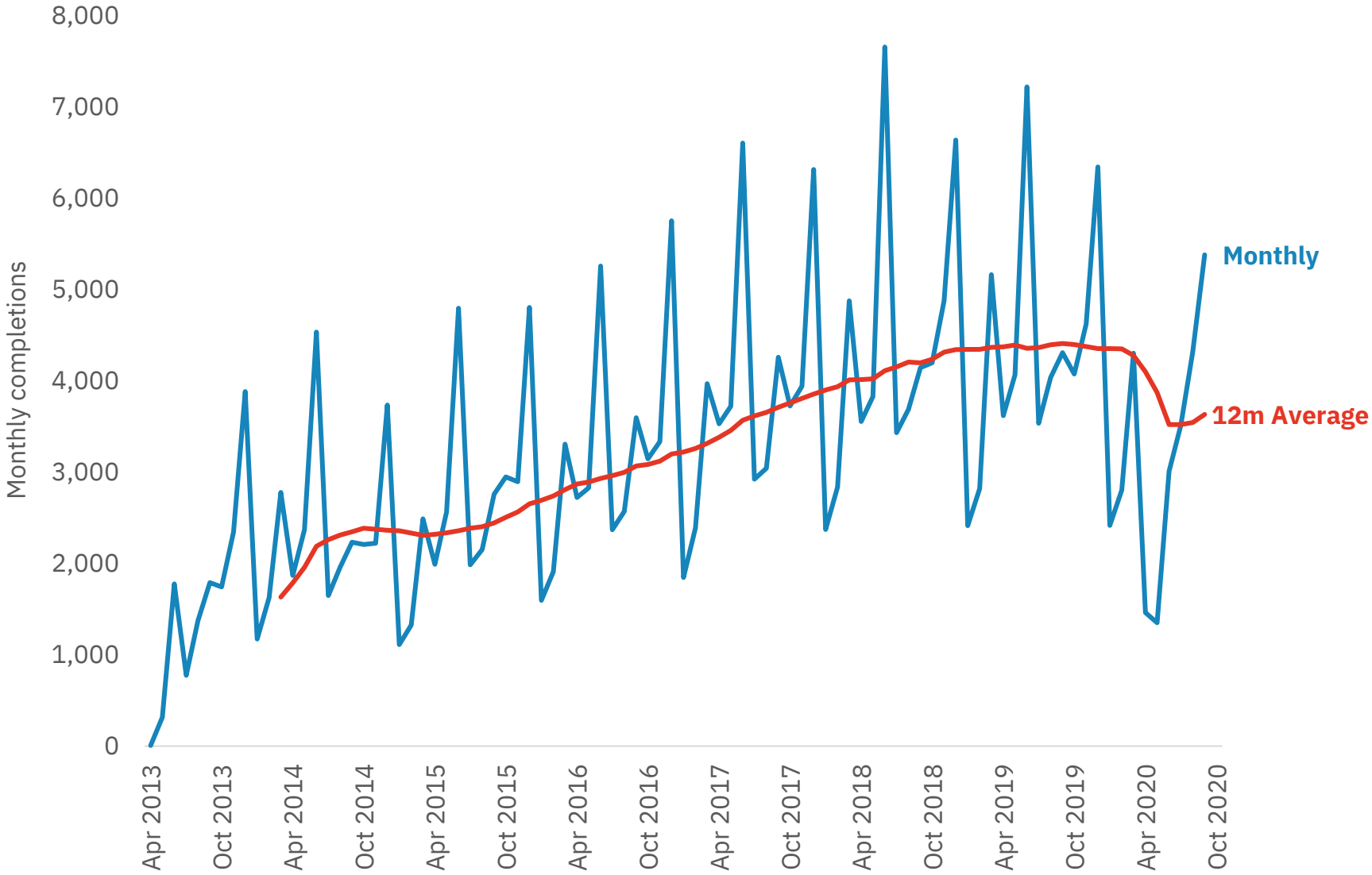
Monthly Completions

Source: MHCLG



The latest available data from MHCLG on Help to Buy covers the period to the end of Q3 2020. Most of the data in this analysis is available from here.

Help to Buy completions are very seasonal with spikes in months at the end of quarters, particularly June.

The level of completions had risen to around 4,350 per month (over 52,000 p.a.) in 2018 and remained around that level until the pandemic hit in March 2020.

Since the pandemic hit, completions have fallen significantly, though there are signs of a recovery in recent months.

By the end of September 2020, there had been 291,903 completions since the start of the scheme.

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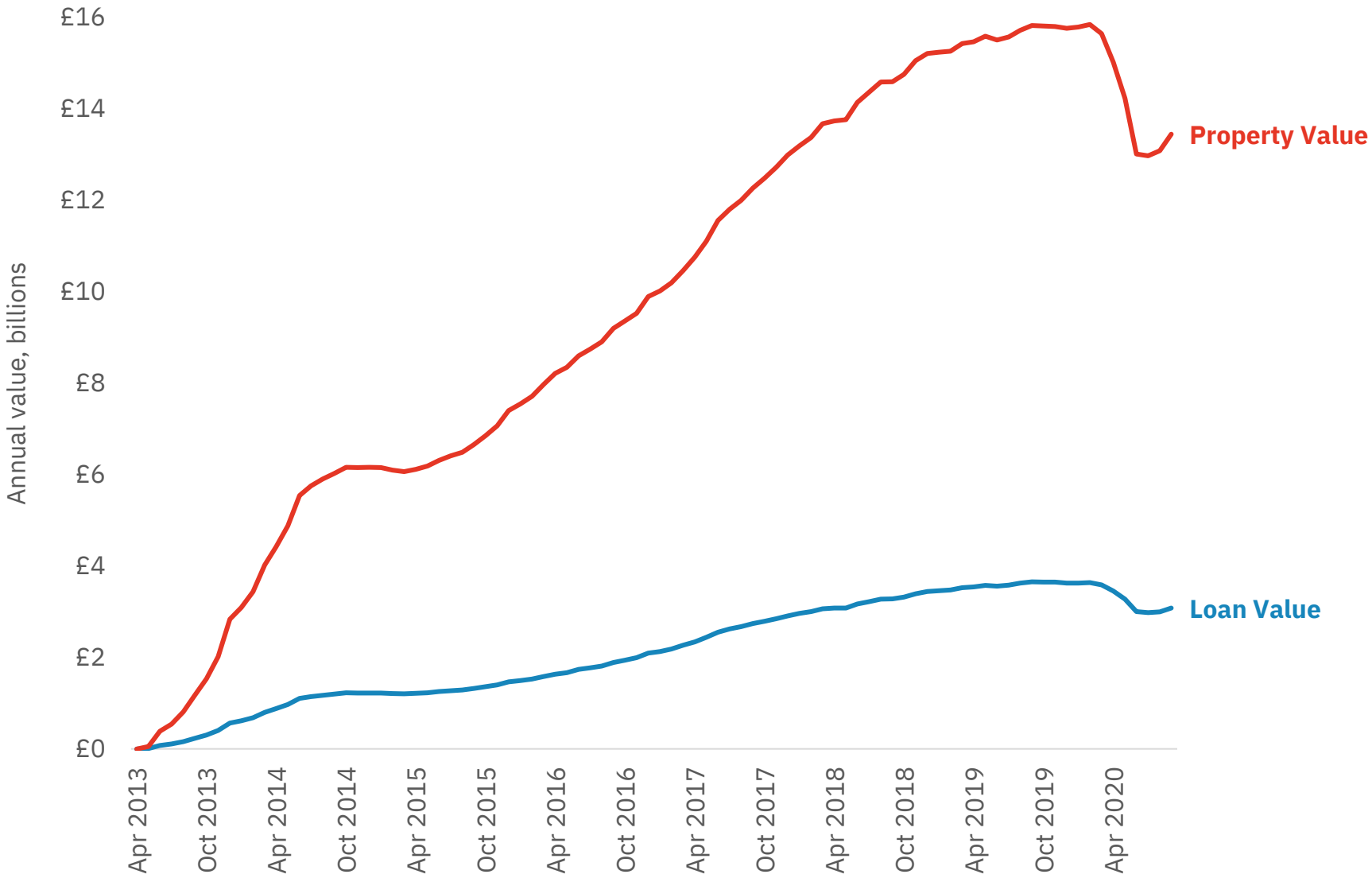
Annual Value of Loans & Properties

Source: MHCLG



The total value of properties bought has risen rapidly as the number of completions rose. The introduction of Help to Buy London and underlying house price inflation have also helped to increase the value of property bought and equity loans over time.

At the end of September 2020, the scheme had been used to buy over £79.2 billion of homes with £17.4 billion of equity loan.

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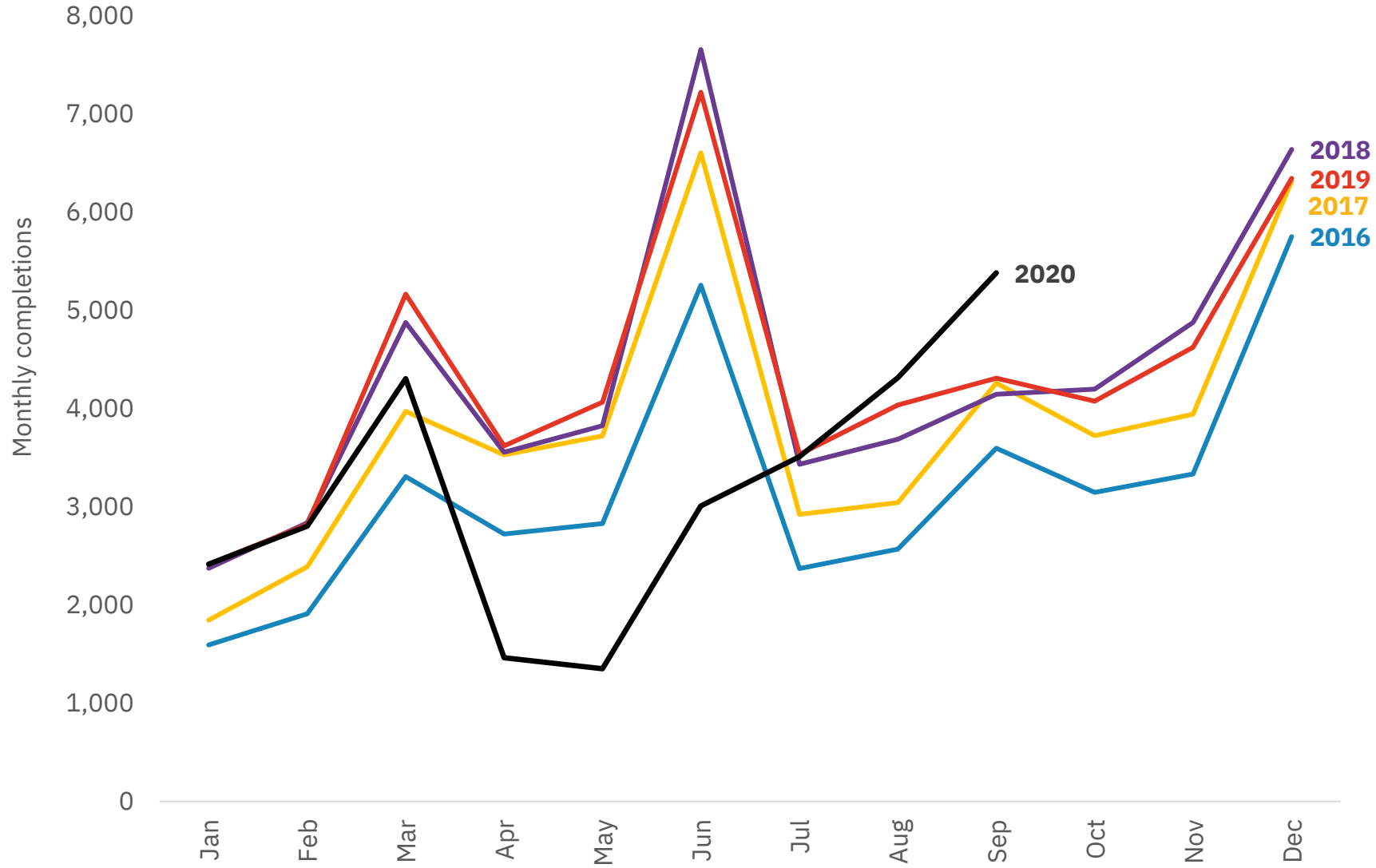
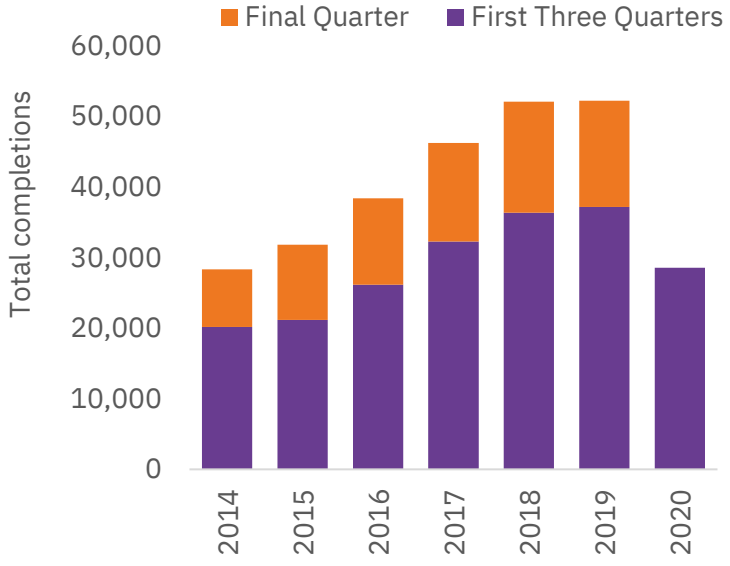
The Impact of the Pandemic

Source: MHCLG



Completions in Jan/Feb 2020 had been tracking recent years and it appears the lockdown prevented some from completions in March. The trajectory then followed the wider housing market collapse and recovery, with higher than normal levels of completions in Aug/Sep. This is likely to continue through to the end of the scheme with the new deadline for completion of 31st May 2021.

The chart below shows that completions were 23% lower in the first three quarters of 2020 when compared to the same period in 2019.



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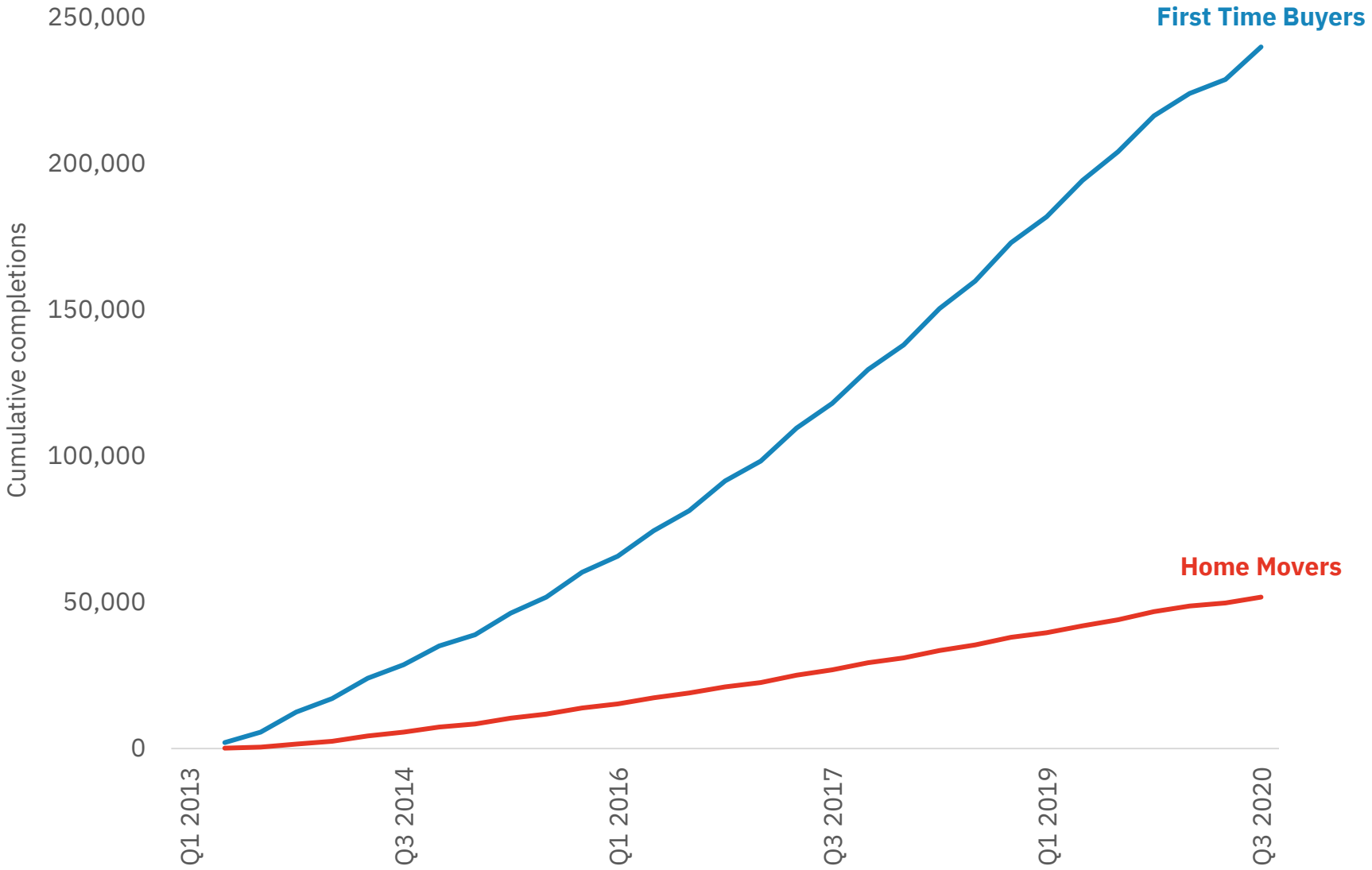
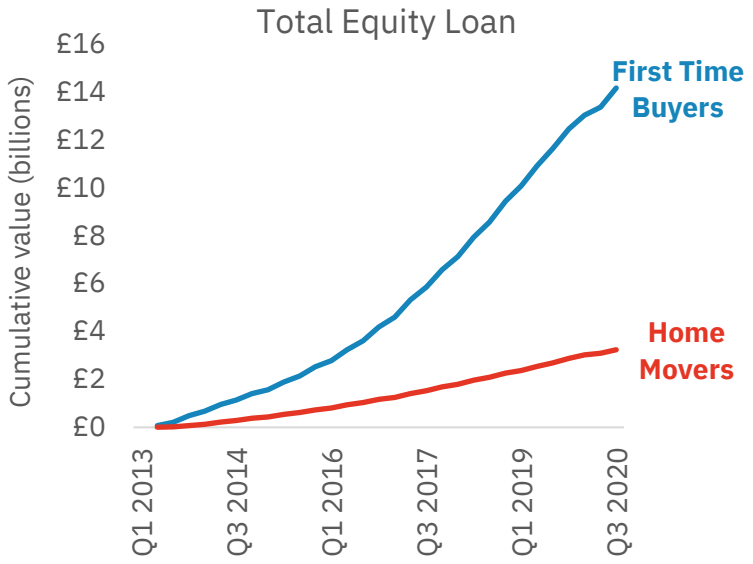
Total Completions by Buyer Type

Source: MHCLG



The current Help to Buy scheme is open to all home buyers with both first time buyers and home movers qualifying. However, most completions in the scheme (82%) have been first time buyers and they account for 81% of the total equity loan value.



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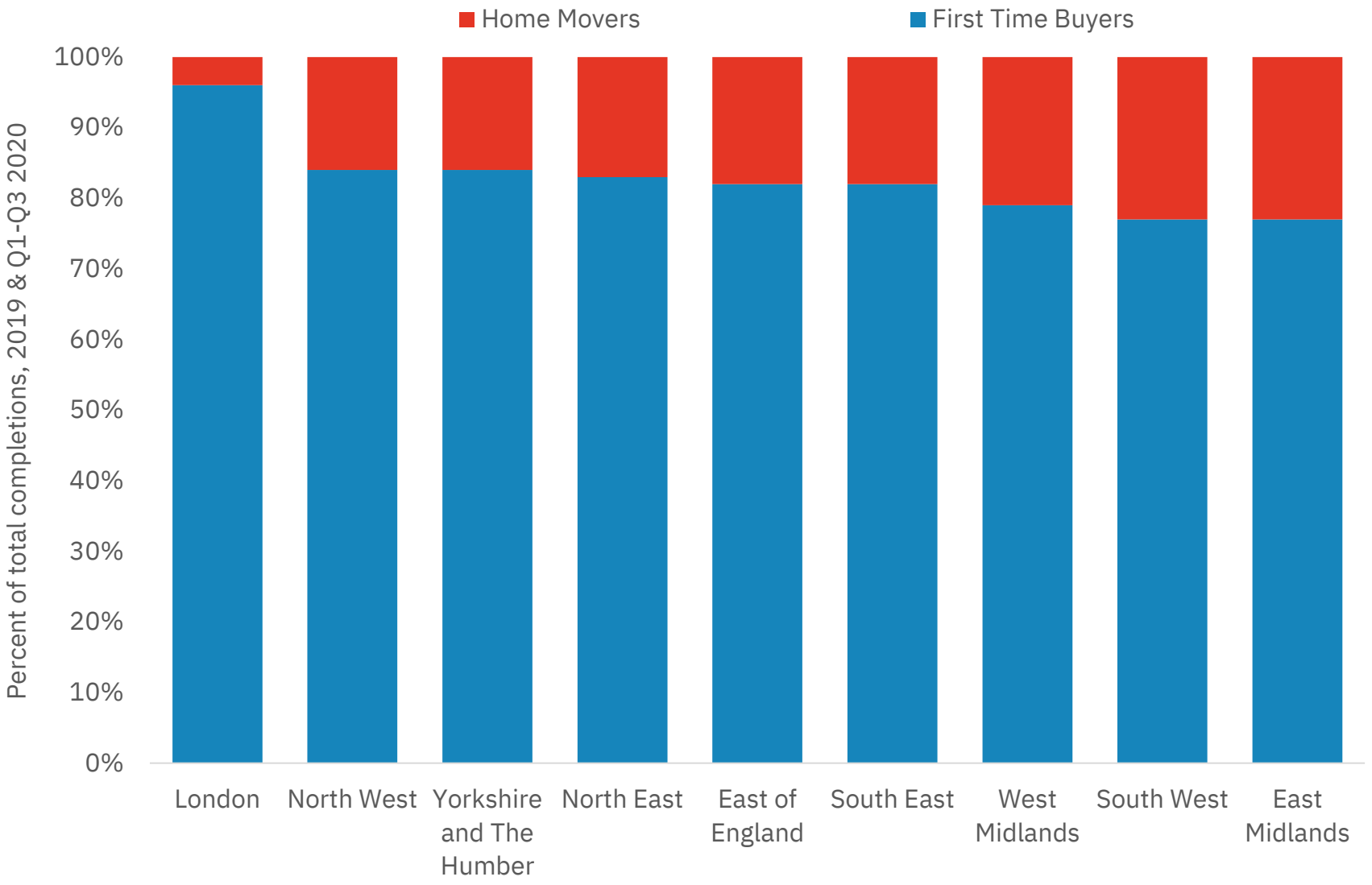
Buyer Type by Region

Source: MHCLG



The chart opposite shows the proportion of recent buyers (Q1 2019 to Q3 2020) by buyer type in each region. London had the highest proportion of first time buyers (96%) while the South West and East Midlands had the lowest (23%).

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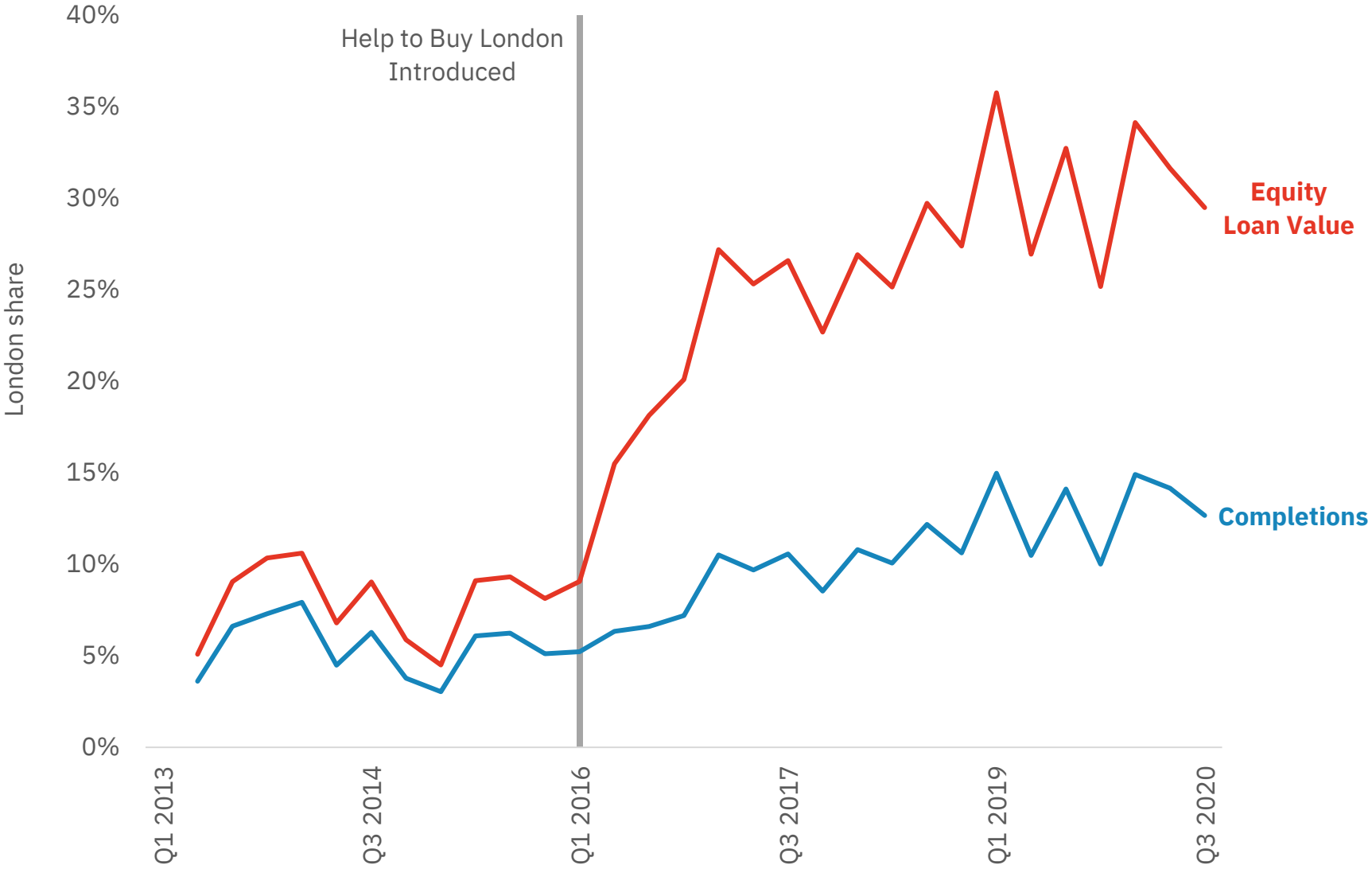
Help to Buy London

Source: MHCLG



Help to Buy London was introduced in February 2016. It allows buyers to take out an equity loan of up to 40% (20% elsewhere).

The impact of the change is clear with the percentage share of completions in London averaging 5% up to Q1 2016 and rising to an average of 11% since Q1 2017.

The rise in London's share of equity loan value is even greater, reflecting both the larger percentage share and higher house prices. It averaged 8% up to Q1 2016 and has risen to an average of 28% since Q1 2017.

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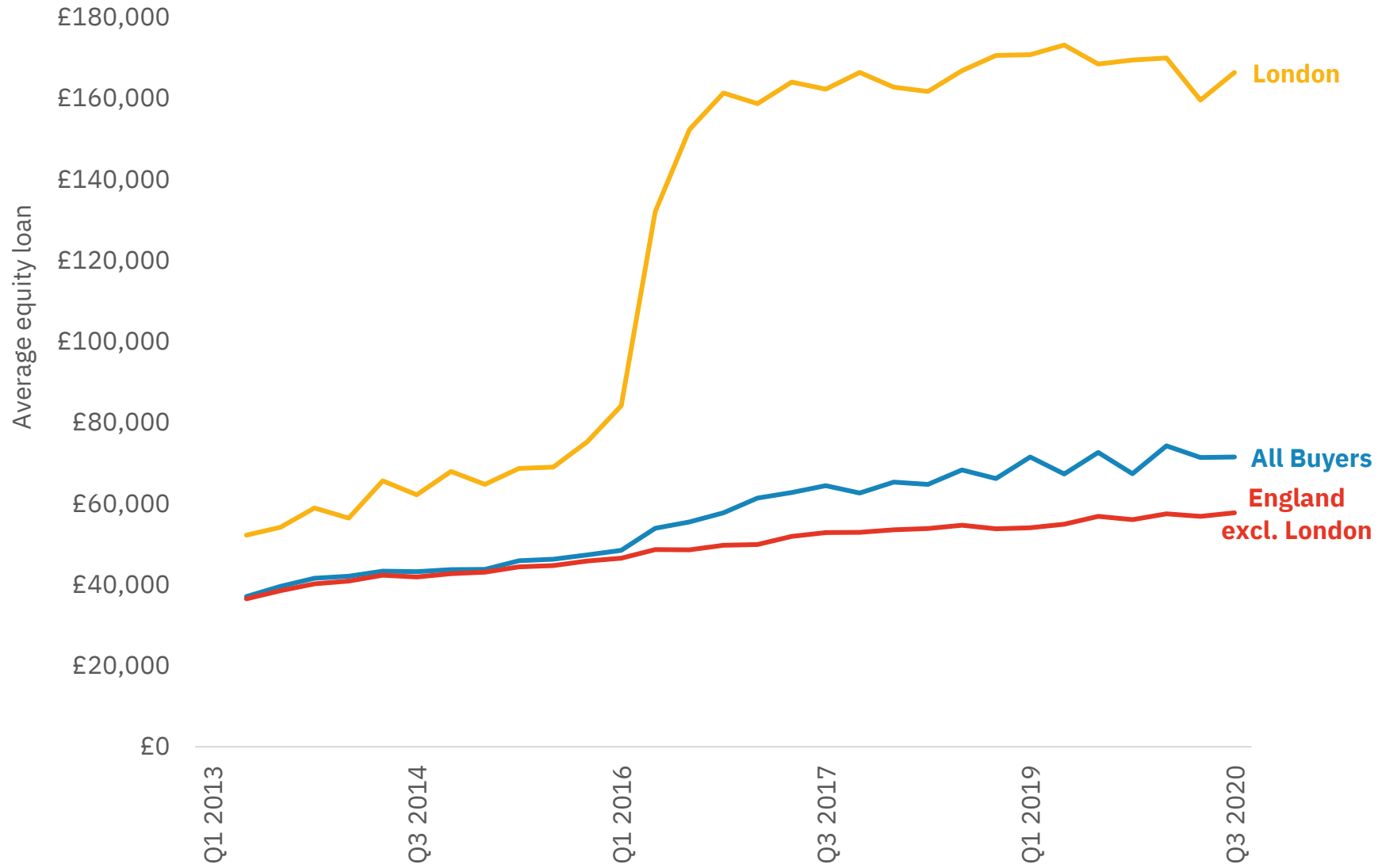
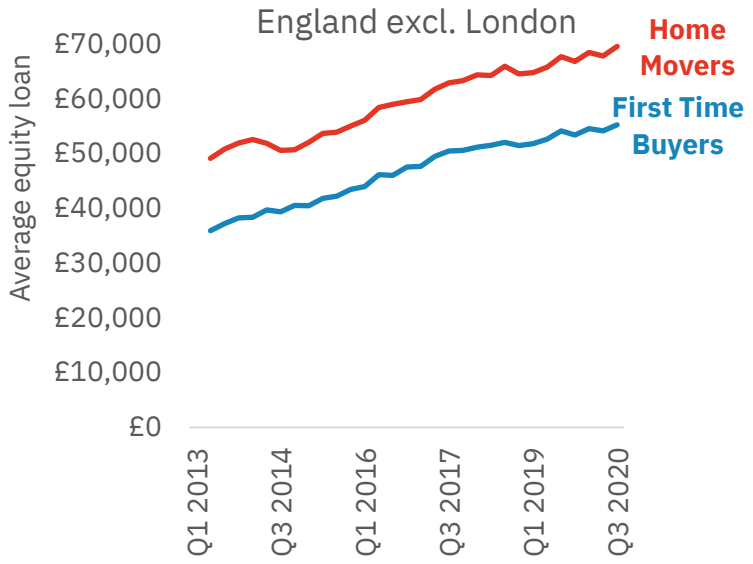
Average Equity Loan

Source: MHCLG



The chart opposite shows the mean equity loan per purchase with the introduction of Help to Buy London immediately apparent.

The chart below shows the average equity loan across England but excluding London.



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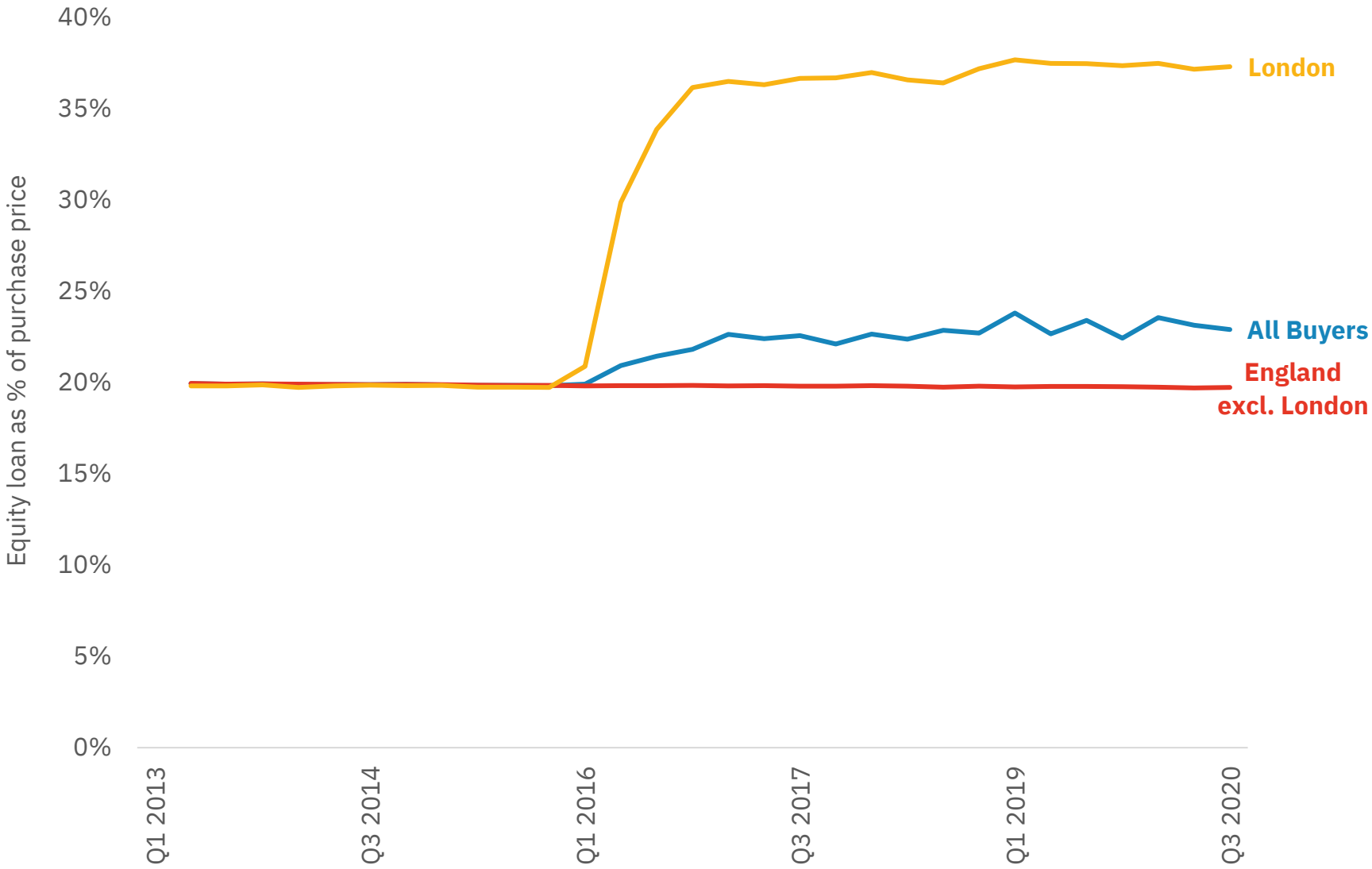
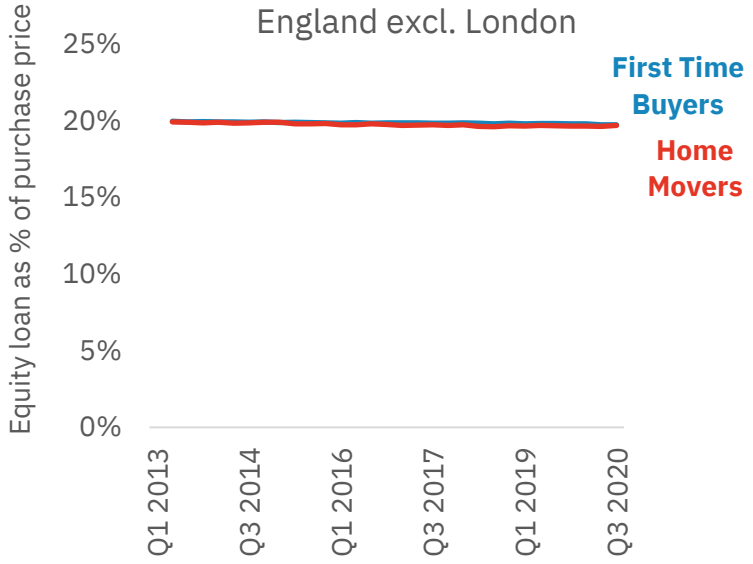
Equity Loan As % Of Purchase Price

Source: MHCLG



These charts are based on the same data as the charts on the previous slide but are express as a percentage of the purchase price.

As expected, the lines closely match but don't quite reach the maximum available equity loan percentage available.



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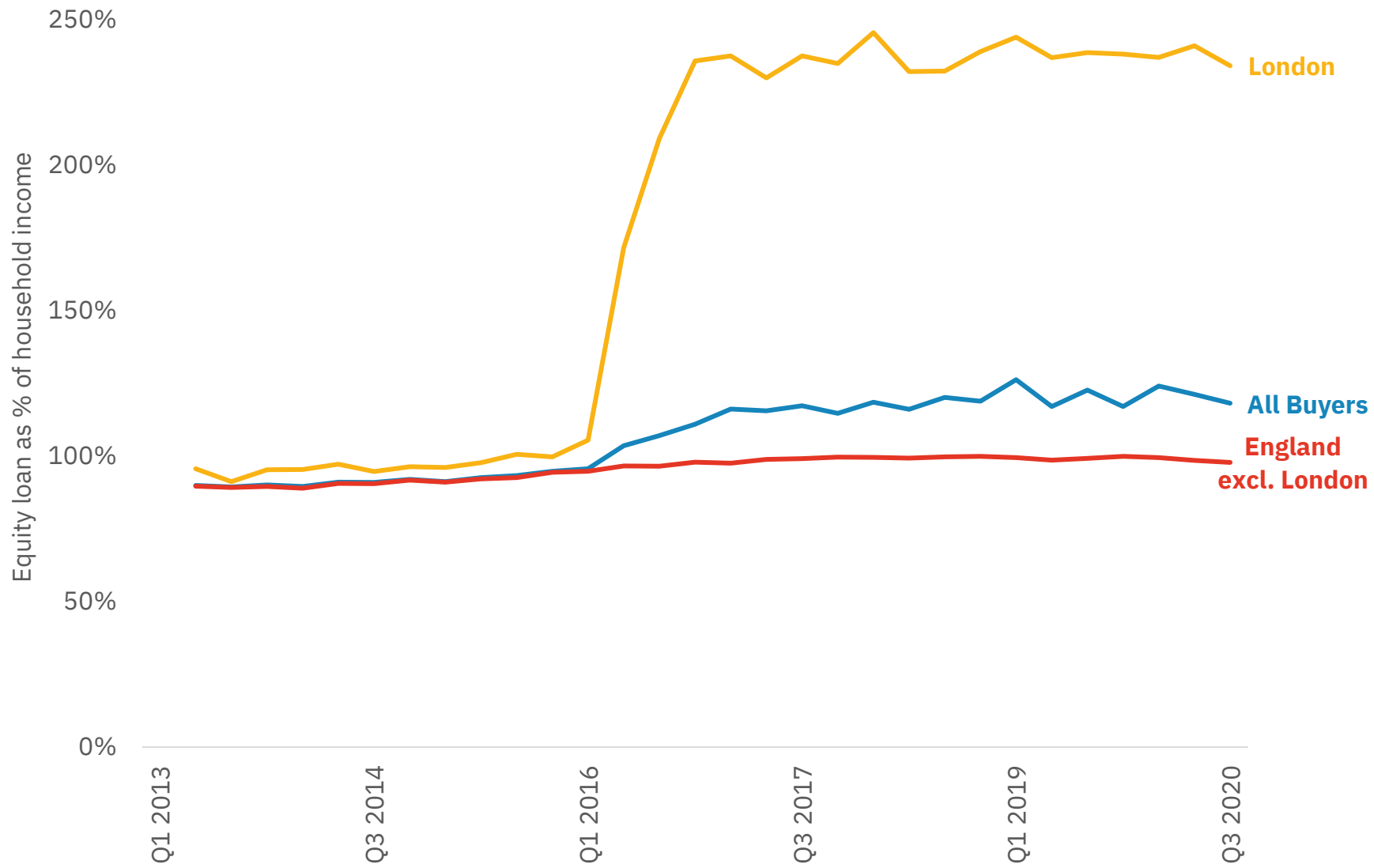
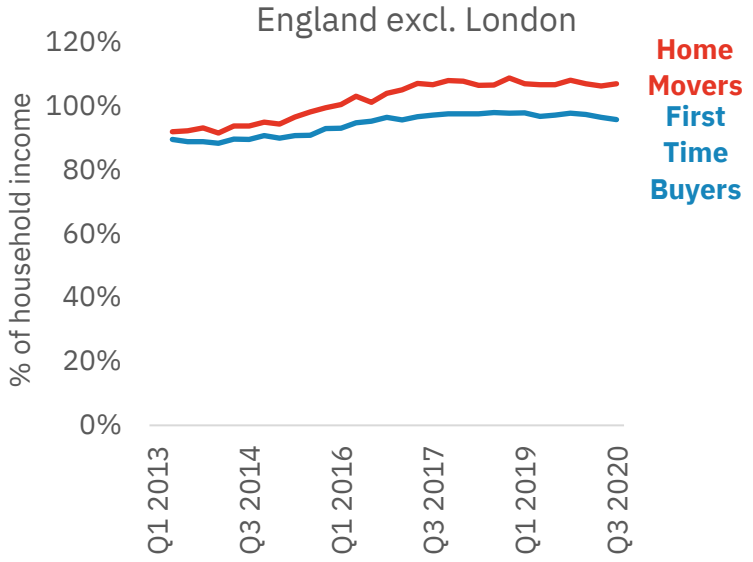
Equity Loan As % Of Household Income

Source: MHCLG



The final version of these charts shows the mean equity loan as a percentage of mean borrowers' income.

The typical Help to Buy London purchaser takes out an equity loan equivalent to around 230% of their income while across the rest of England it is around 120% of income.



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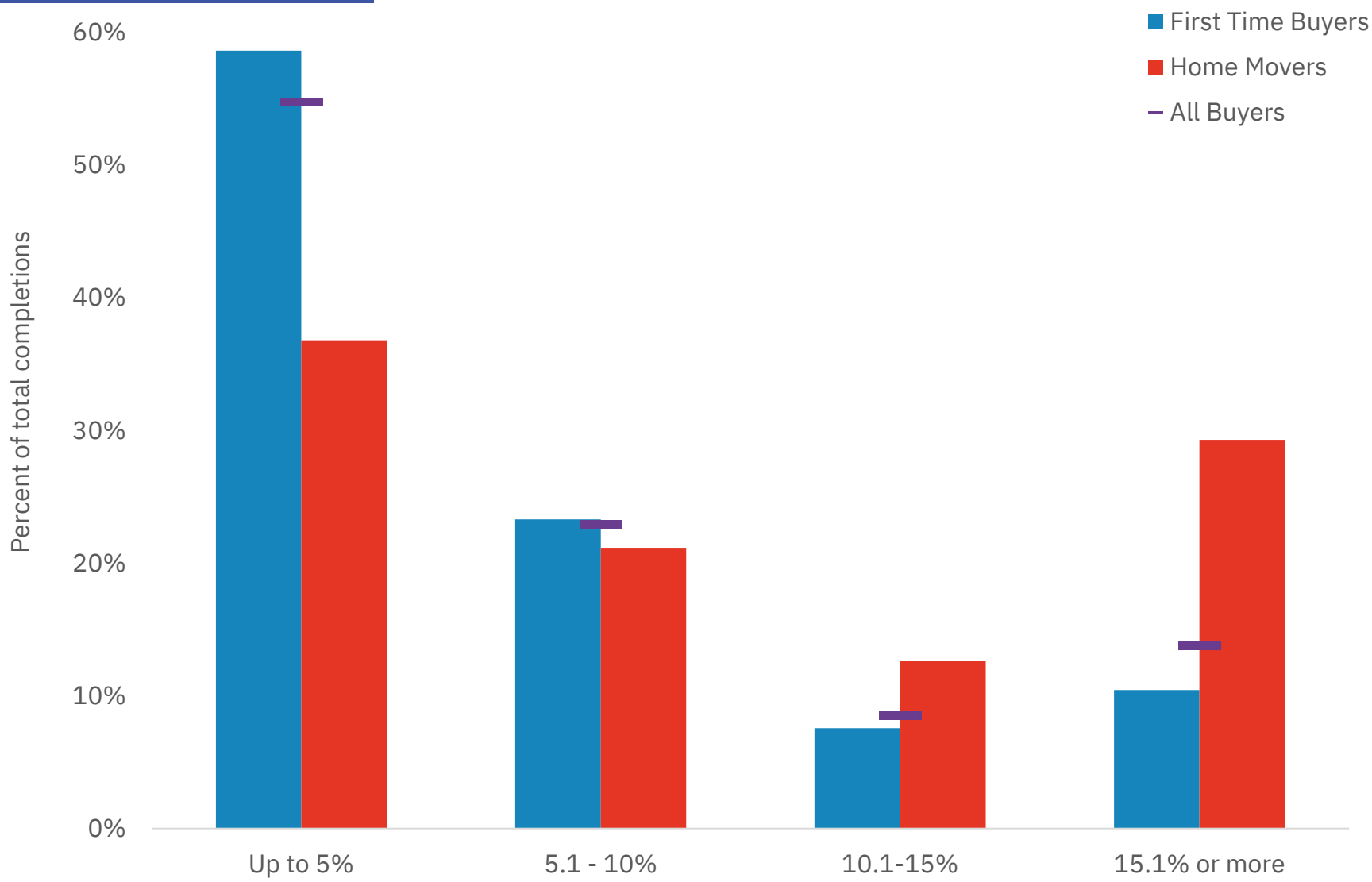
Deposit as % of Purchase Price Distribution

Source: MHCLG



The chart opposite shows the distribution of the deposit provided by the purchaser as a percentage of the purchase price.

Since the introduction of the scheme, most first time buyers have provided a deposit of up to 5% but 10% had a deposit of over 15% of the property price.

Home movers have typically provided a larger deposit with nearly 30% providing a deposit of over 15% since the beginning of the scheme.

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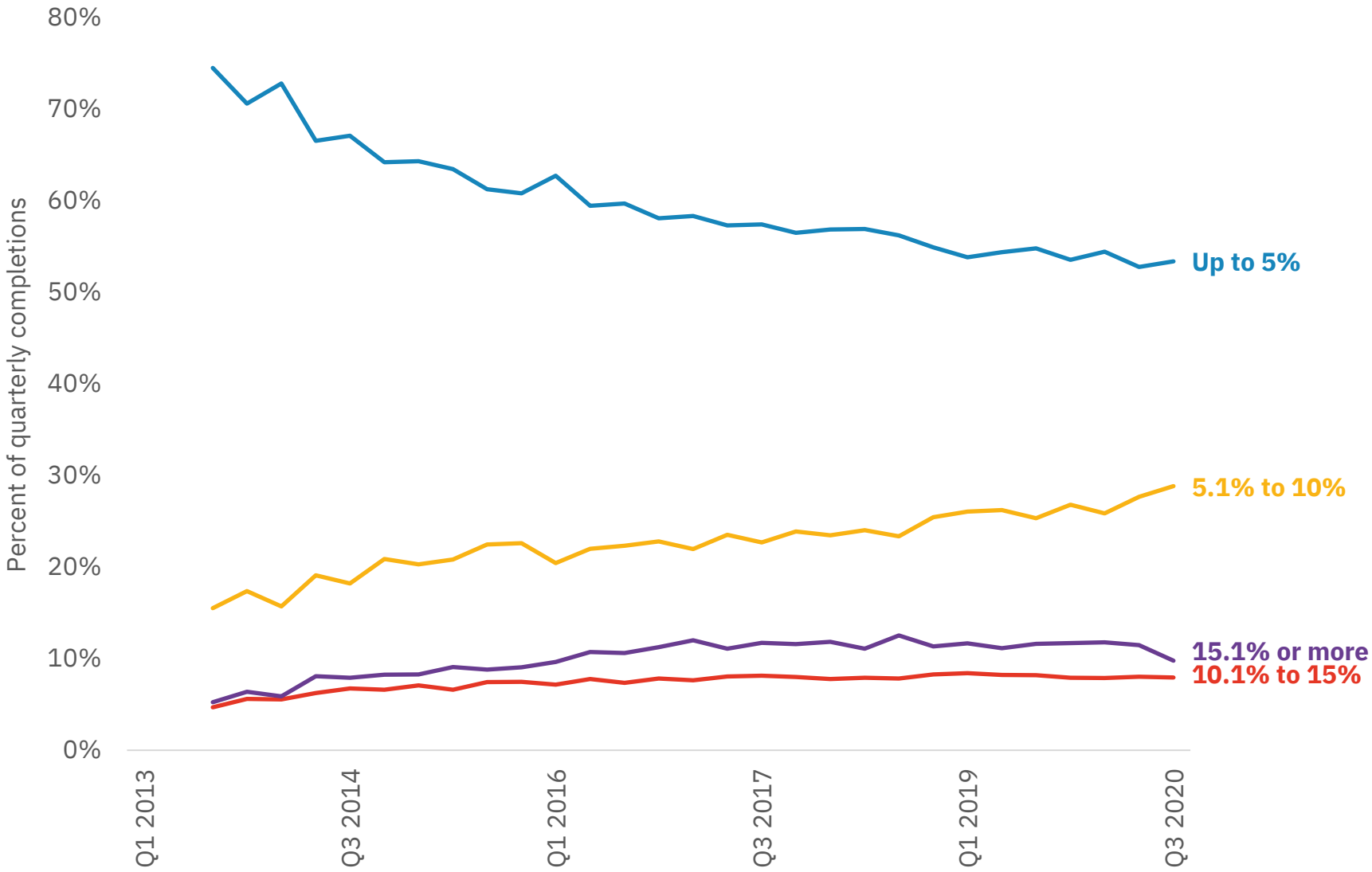
Deposit Distribution Over Time

Source: MHCLG



The chart opposite shows the change in the deposit distribution over time for all buyers.

This chart and the others like it in this analysis are based on cumulative data as published at that point in time. Therefore, there will be some small numbers of revisions to previous data that are included in a later quarter. This issue should not have a significant impact on the overall trends.

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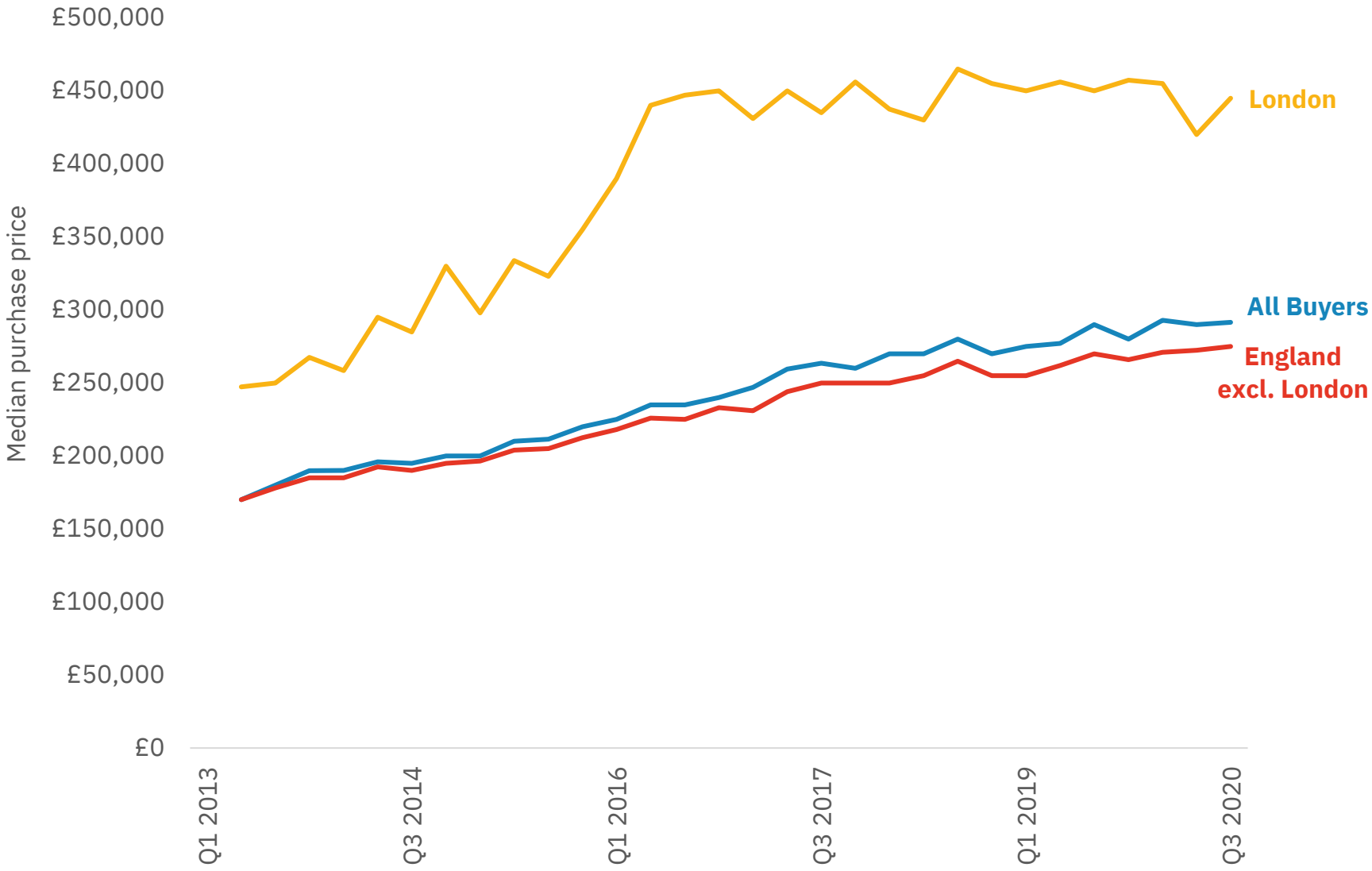
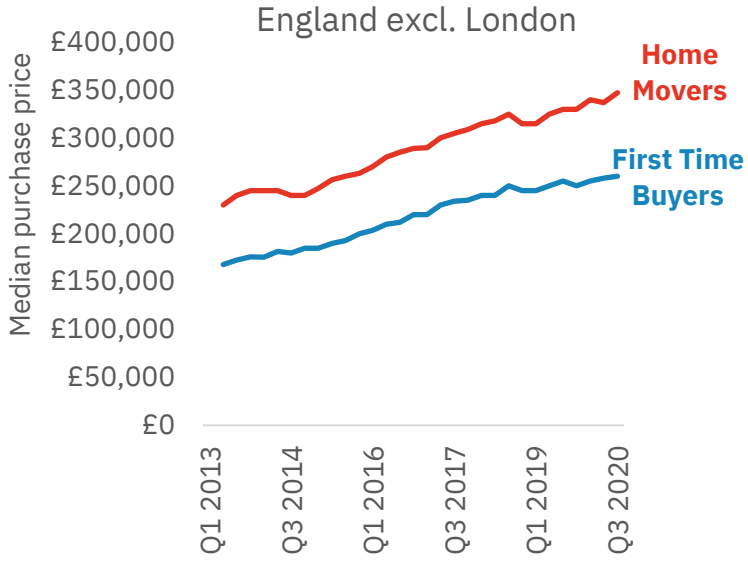
Median Purchase Price

Source: MHCLG



These charts show the median price of home bought in different locations (opposite) and by different buyers (below).

The introduction of Help to Buy London is again apparent in the London data opposite.



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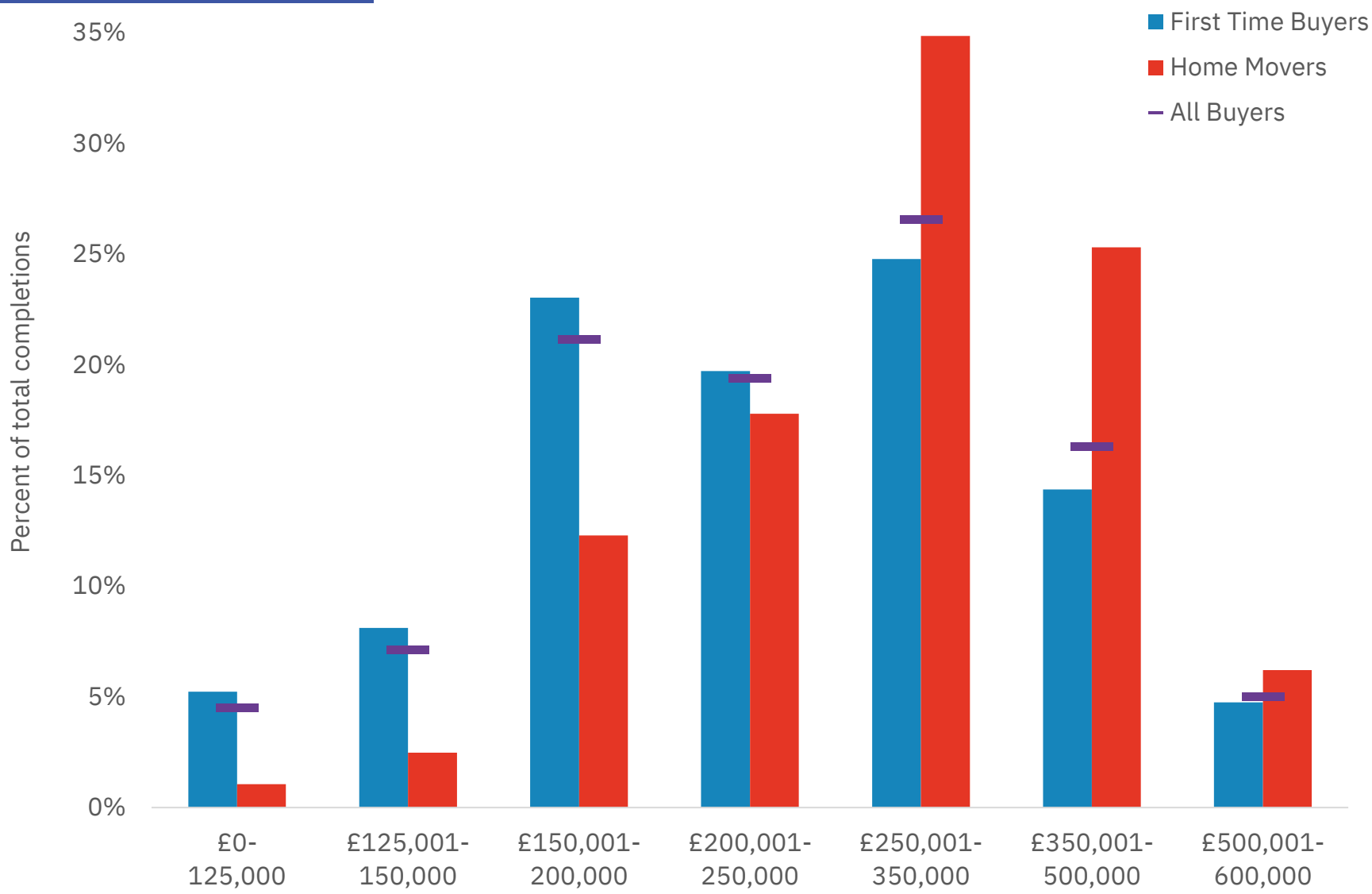
Purchase Price Distribution

Source: MHCLG



This chart shows the distribution of property prices bought using Help to Buy since the scheme was introduced in 2013.

Unsurprisingly, the chart shows the distribution of prices bought by home movers is higher than those bought by first time buyers.

Since the scheme started 81% of first time buyers have bought a home priced £350,000 or less while 68% of home movers bought a home for that price or less.

5% of all buyers since the scheme started have bought a home for over £500,000.

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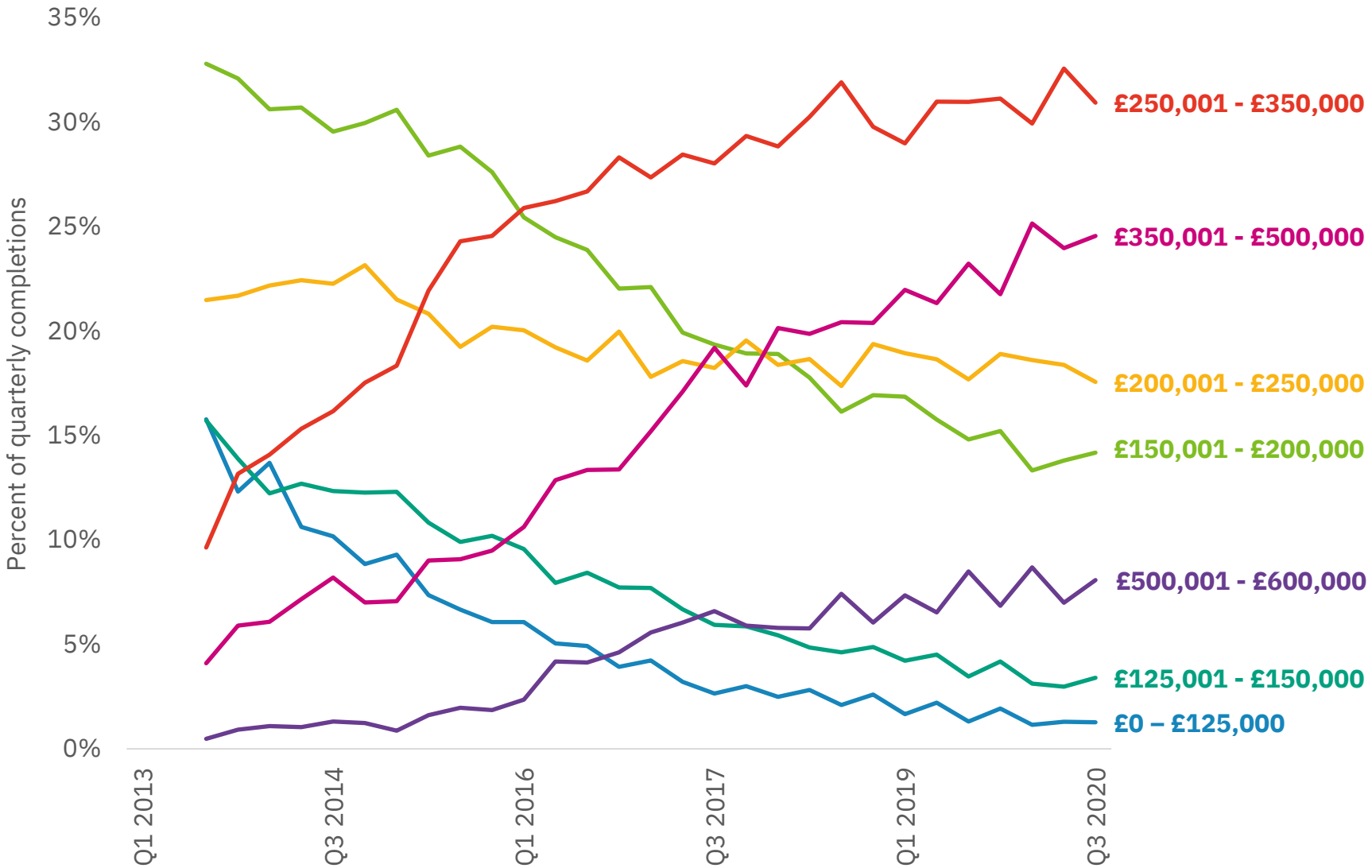
Purchase Price Distribution Over Time

Source: MHCLG



The chart opposite shows the distribution in purchase price over time. It does not account for inflation.

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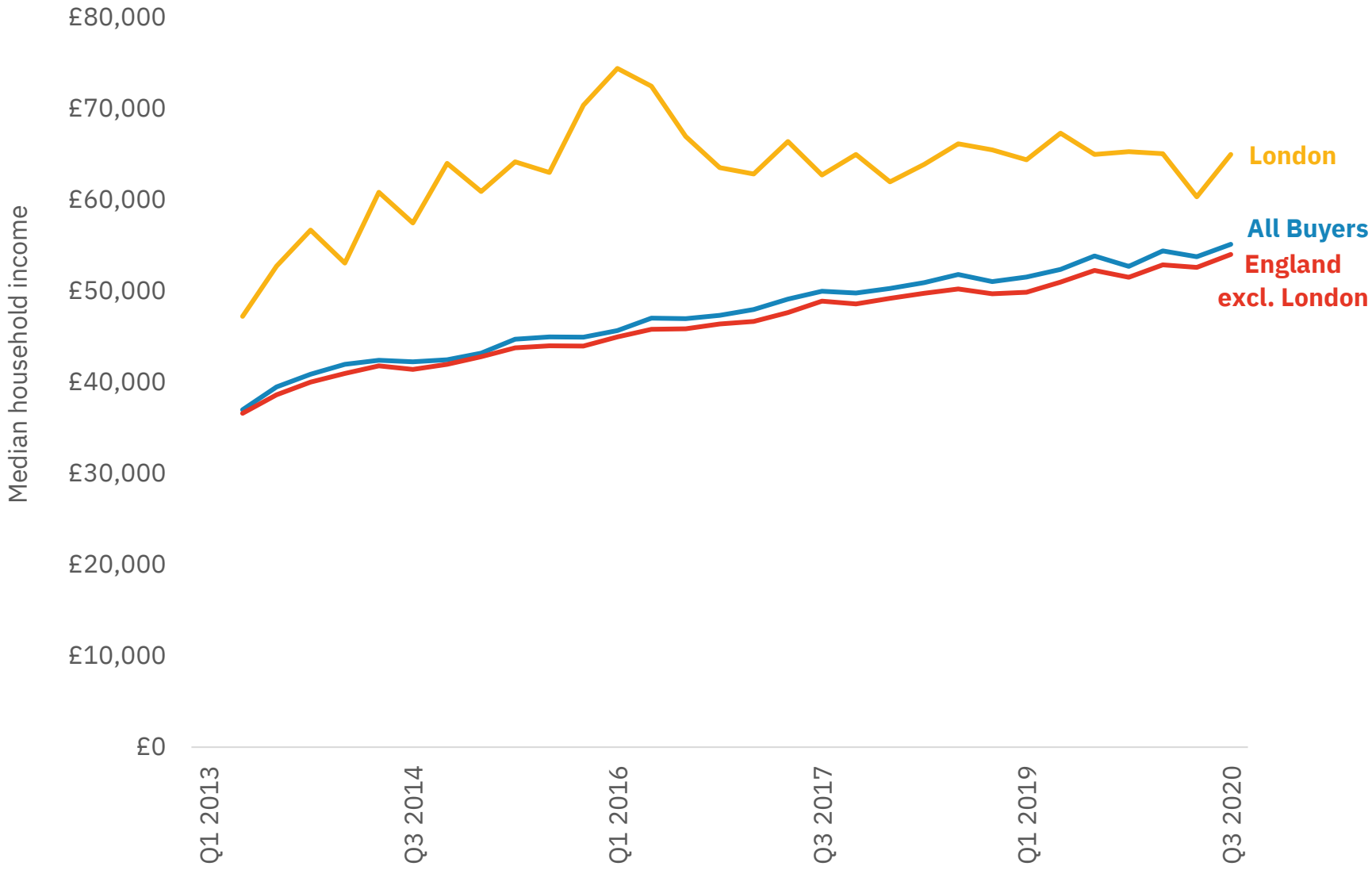
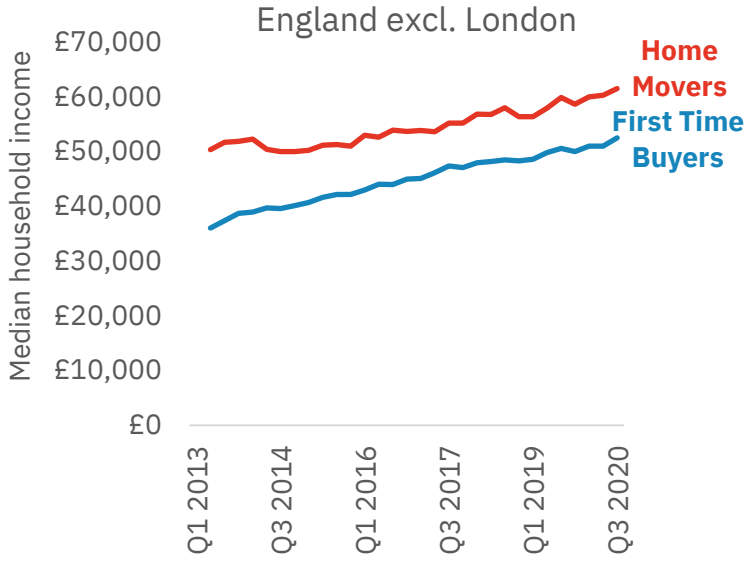
Median Household Income

Source: MHCLG



These charts show the median household income of Help to Buy purchasers by area (opposite) and buyer type (below).

The median household income of buyers during Q3 2020 in London was £65,000 while across the rest of England it was £54,000.



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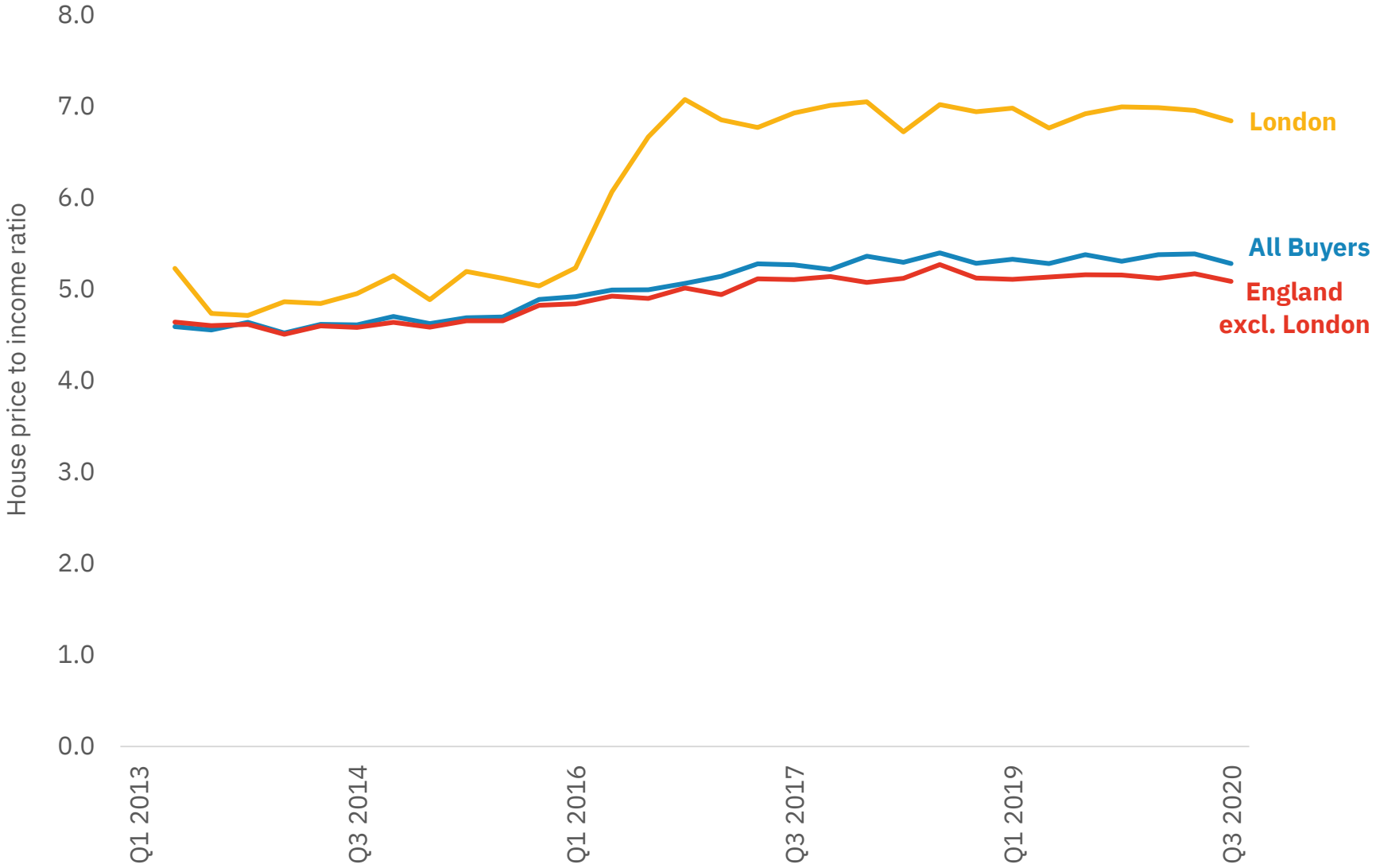
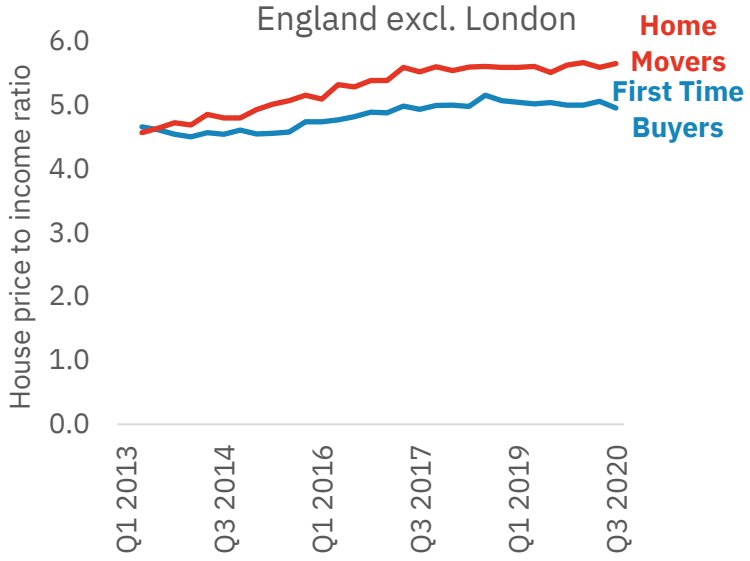
House Price to Income Ratio

Source: MHCLG



Combing the previous data on median property price and median household income, we can construct a house price to income ratio for both areas and buyer types.

Again, the introduction of Help to Buy London is clear with much higher ratios enabled by the larger equity loan. The implied ratio for recent buyers in London was 6.8 while across the rest of England it was 5.1.



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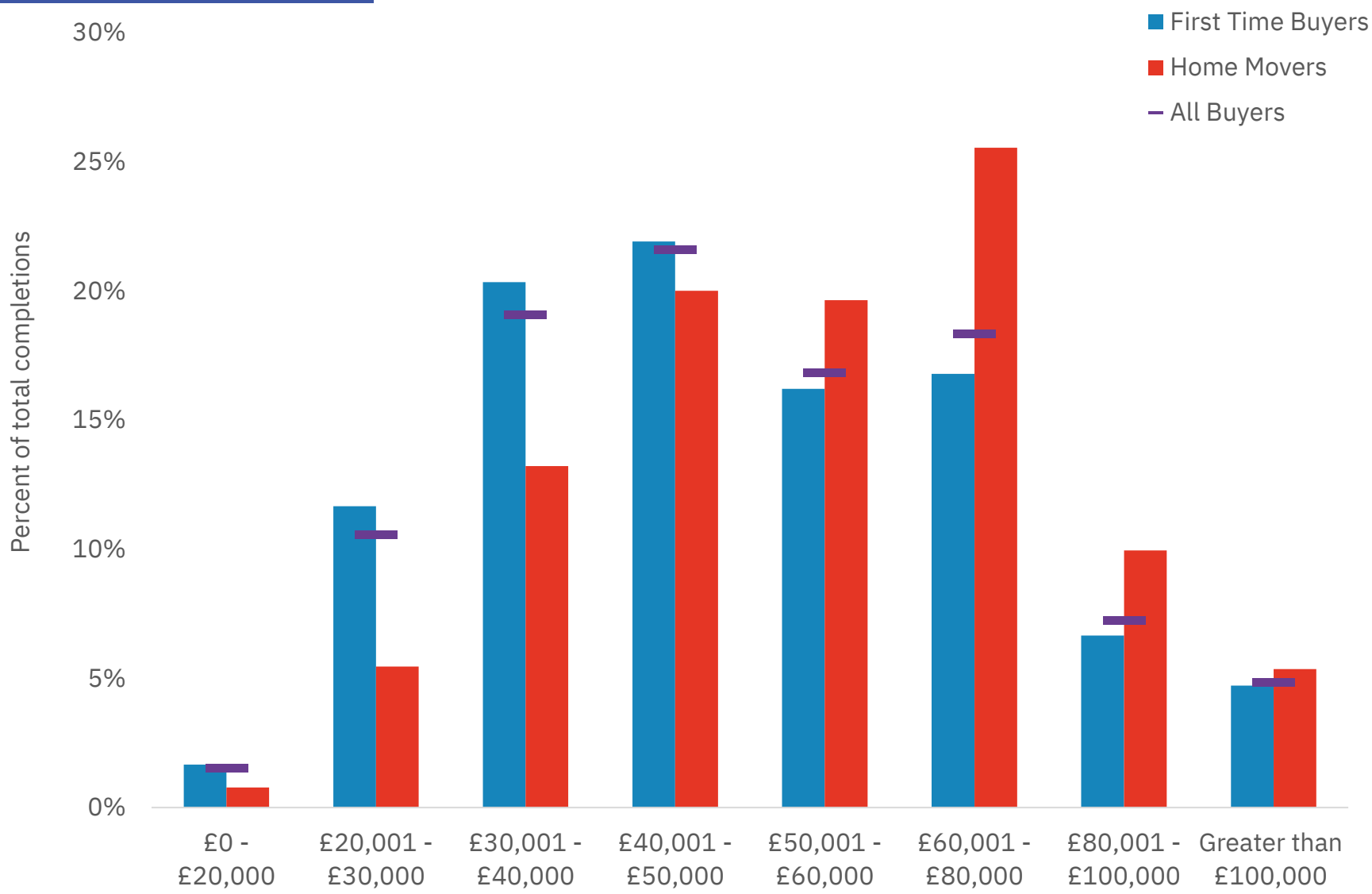
Income Distribution

Source: MHCLG



The chart opposite shows the distribution of household incomes by buyer type since the scheme began.

It shows that 28% of first time buyers and 41% of home movers had incomes of over £60,000.

Since the scheme began, 4.8% of all buyers have had a household income of over £100,000.

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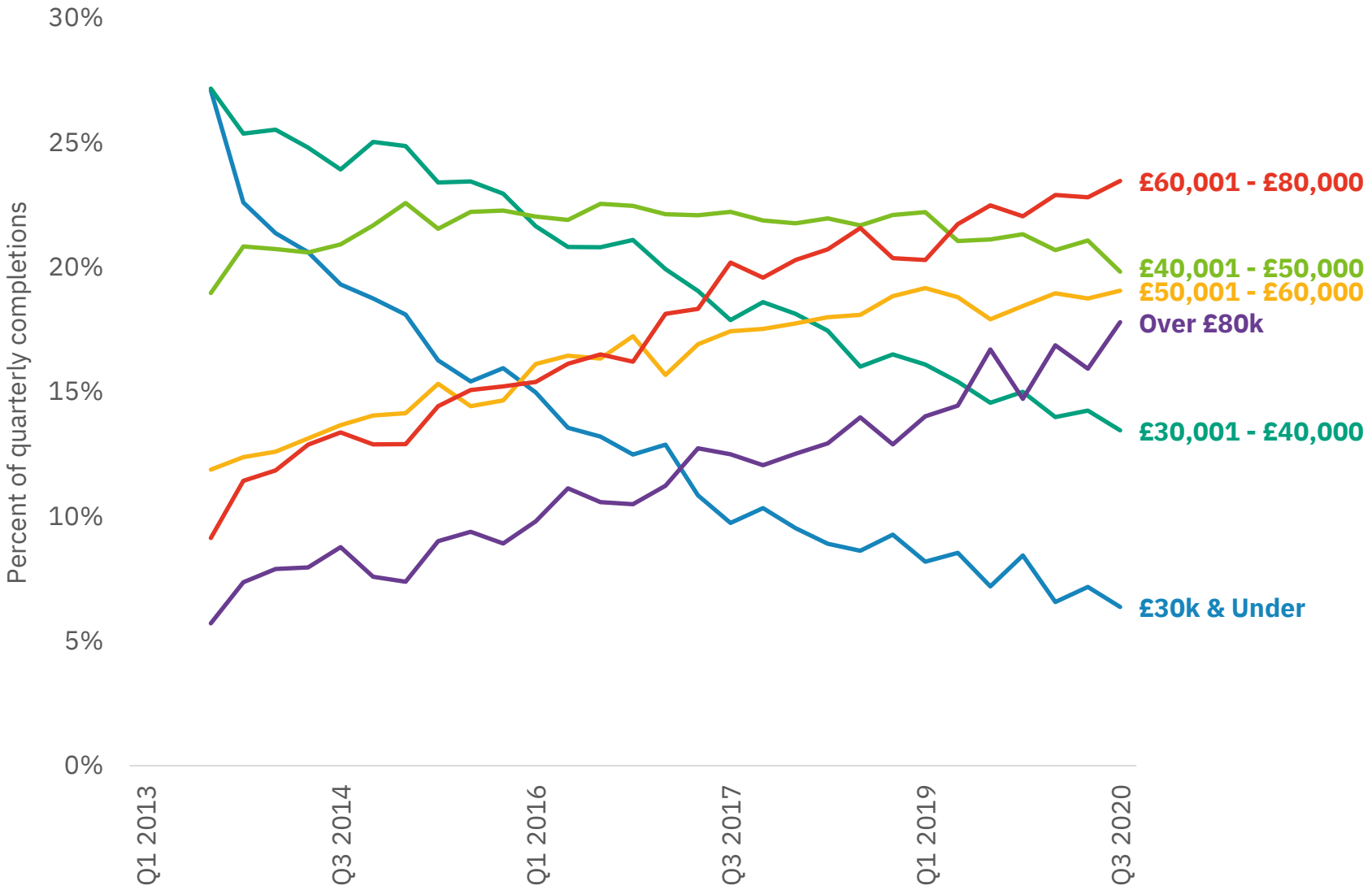
Income Distribution Over Time

Source: MHCLG



This chart shows the distribution in household income over time. It is not inflation adjusted.

It highlights the rise in proportion of buyers with higher incomes over time:

	Q3 2013	Q3 2020
£60k-£80k:	9.1%	23.5%
Over £80k:	5.7%	17.8%

Meanwhile, the proportion of buyers with incomes of £30,000 or less fell from 27.1% in Q3 2013 to 6.4% in Q3 2020.

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Buyers' Financial Position in Q3 2020

Source: MHCLG

This analysis provides a simple example of the financial position of different buyers in different locations as at Q3 2020.

It is based on actual mean house prices, mean household incomes and mean equity loans for Help to Buy purchasers in Q3 2020.

It assumes a 55% LTV mortgage in London and a 75% LTV mortgage in rest of England.

The deposit is the residual of average price minus the average equity loan and minus the mortgage.

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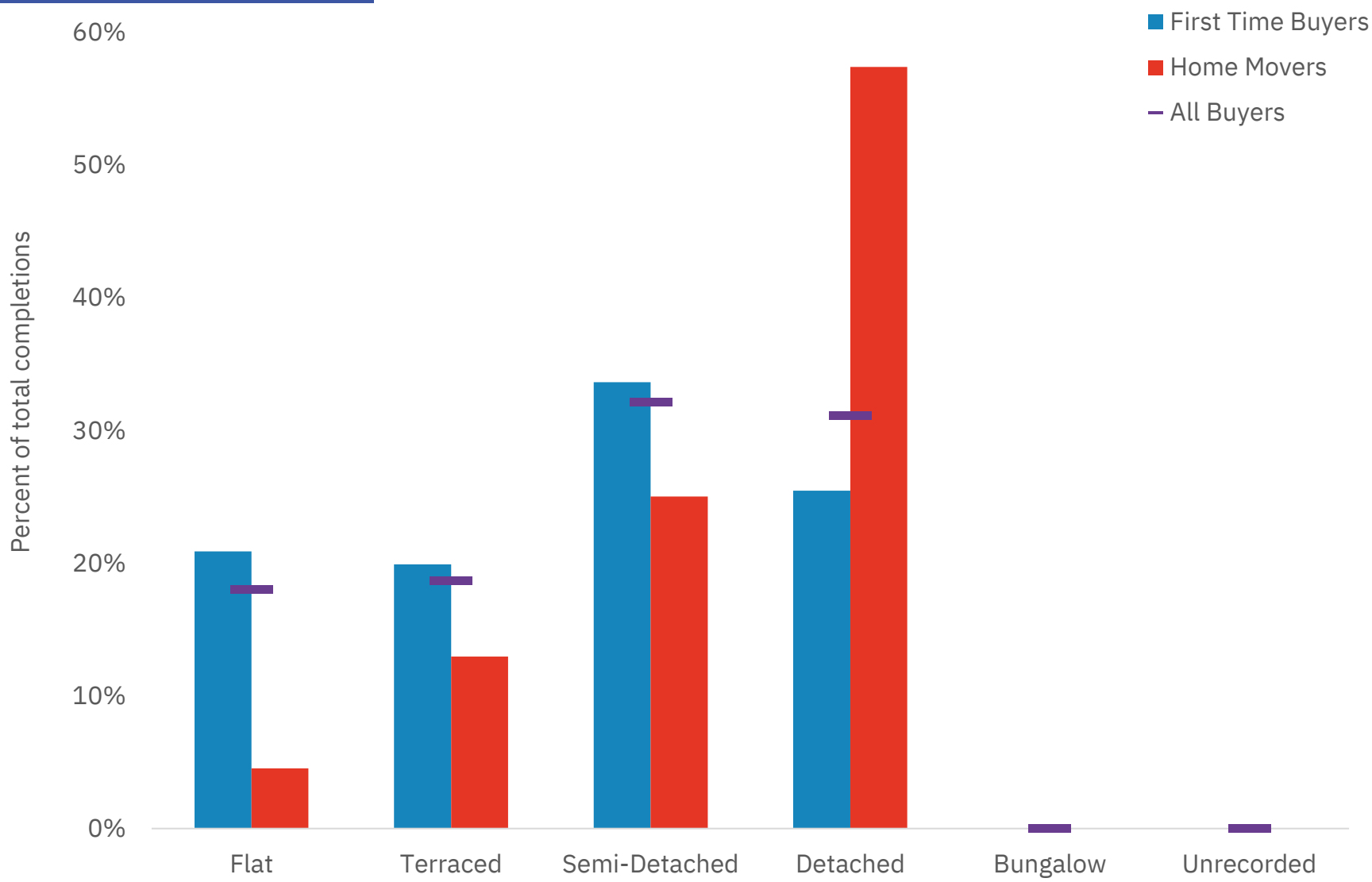
Property Type Distribution

Source: MHCLG



MHCLG statistics also provide data on the type of property bought using Help to Buy. The data for all completions since the start of the scheme is shown opposite with semi-detached properties the most popular amongst first time buyers and detached properties most popular with home movers.

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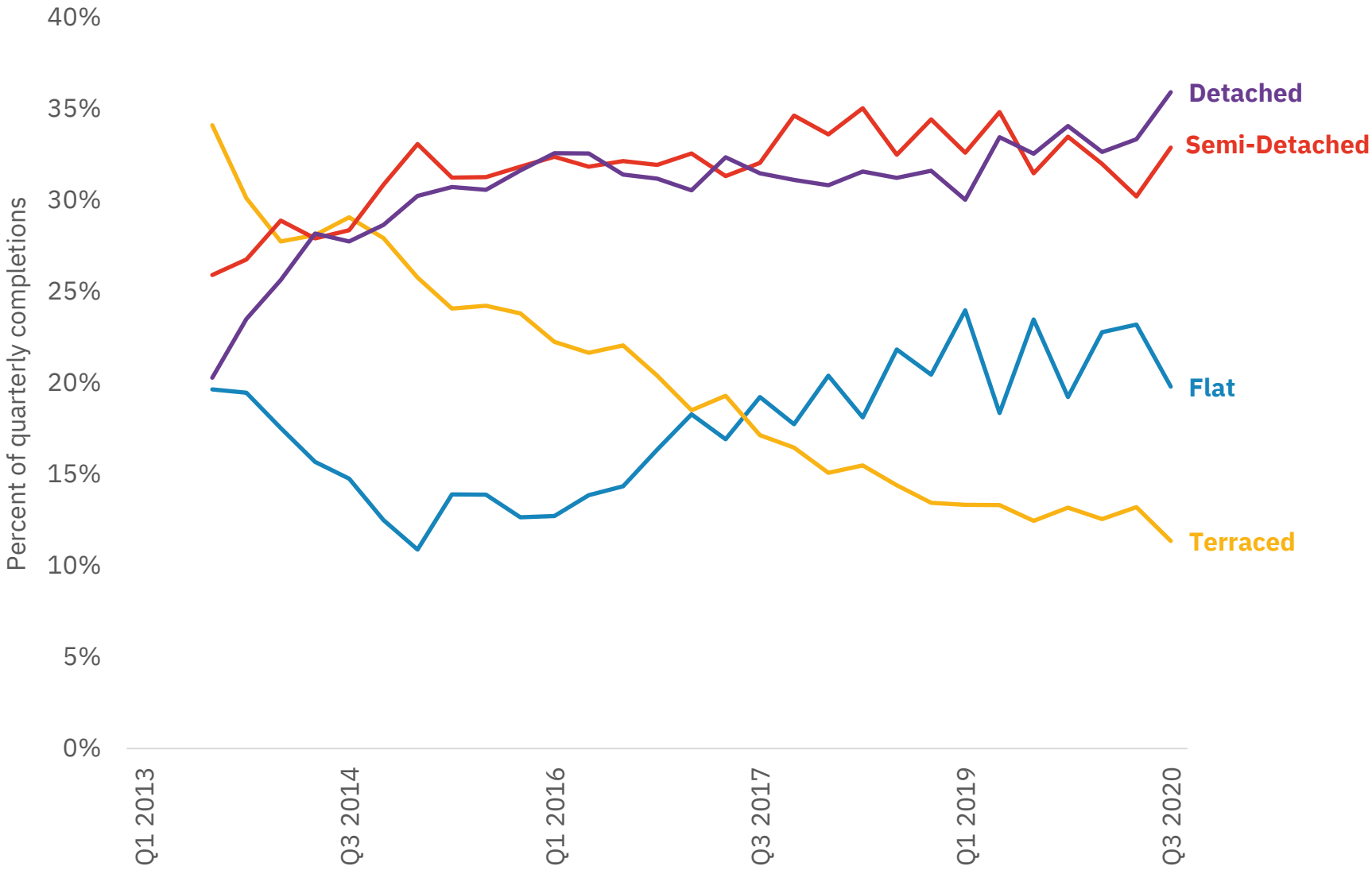
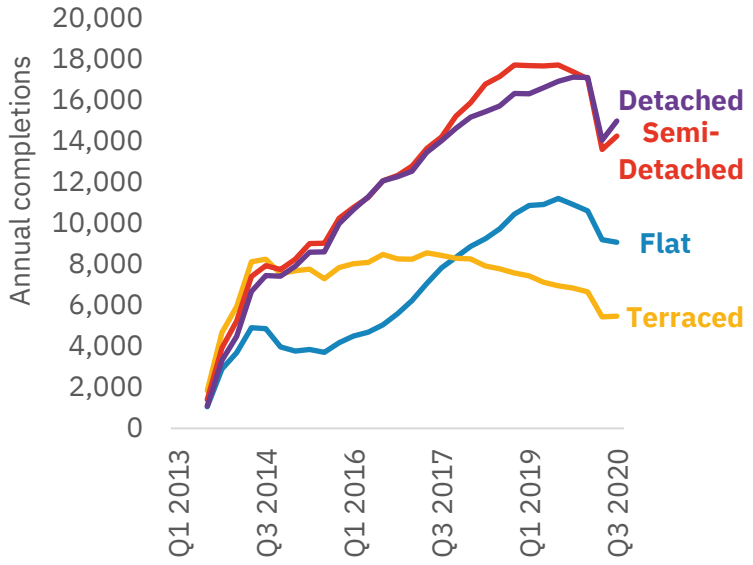
Property Type Distribution Over Time

Source: MHCLG



The change in the percentage share of property types bought over time is shown opposite and highlights the shift away from terraced houses, towards larger semi and detached house. The scheme has several nicknames including “Help to Buy Bigger”.

The number of annual completions by property type is shown below for comparison.



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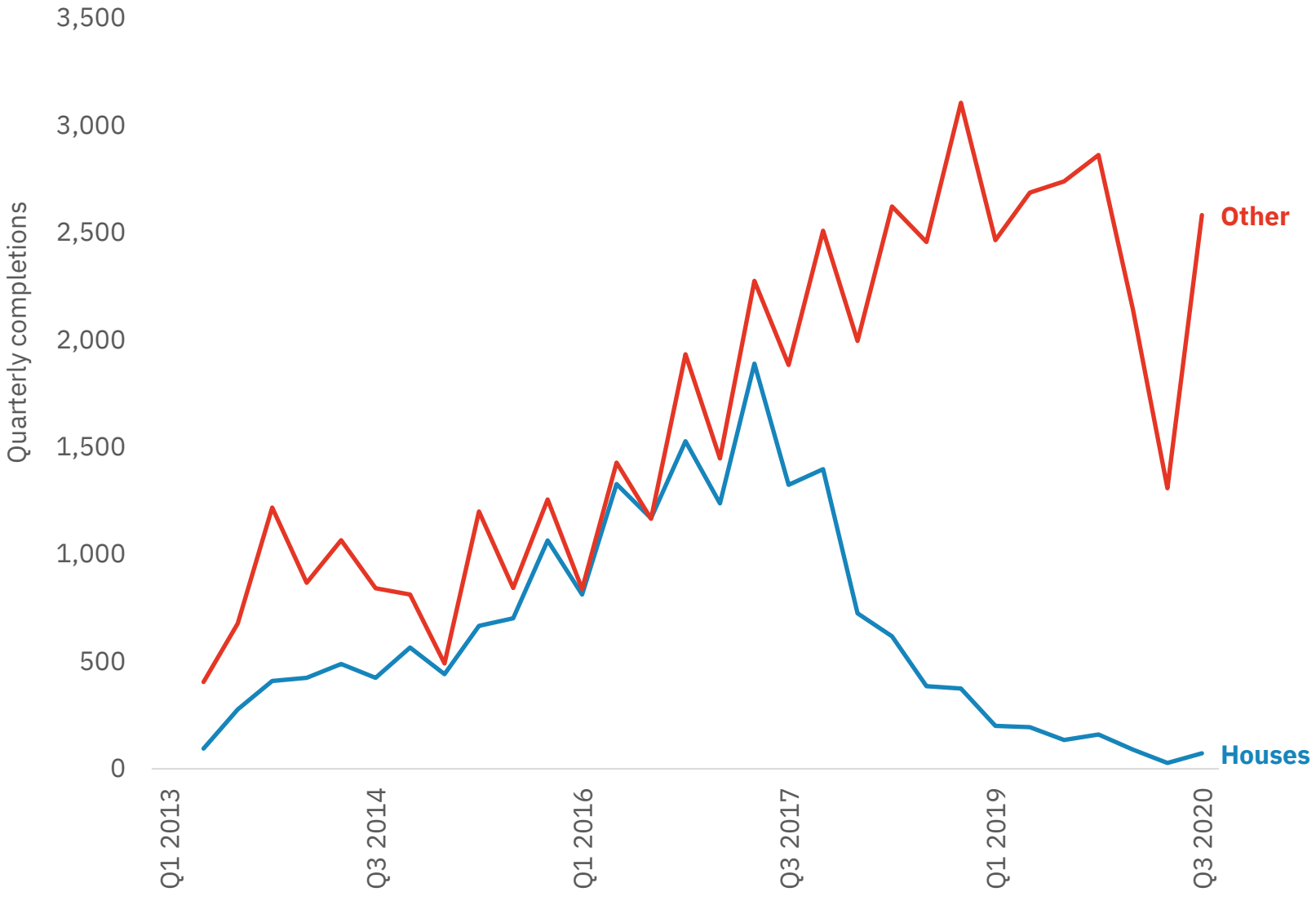
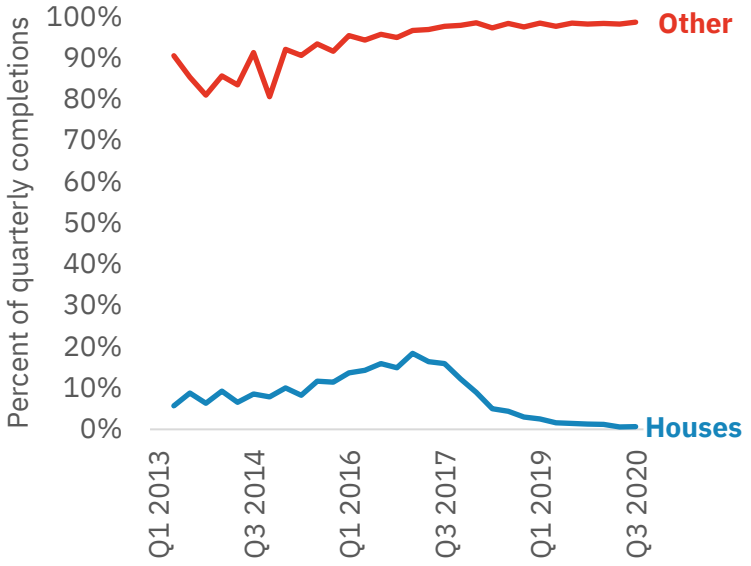
Leasehold Properties

Source: MHCLG



Mirroring the wider new build market, there was an increase in leasehold houses delivered via the scheme reaching a peak of 18% of house completions in Q1 2017.

This changed when the government's "Fixing our broken housing market" report was published in February 2017. The report recognised the issues faced by leaseholders and promised to do something about it. Completions of leasehold houses have collapsed but 99% of flats are still delivered via this tenure.



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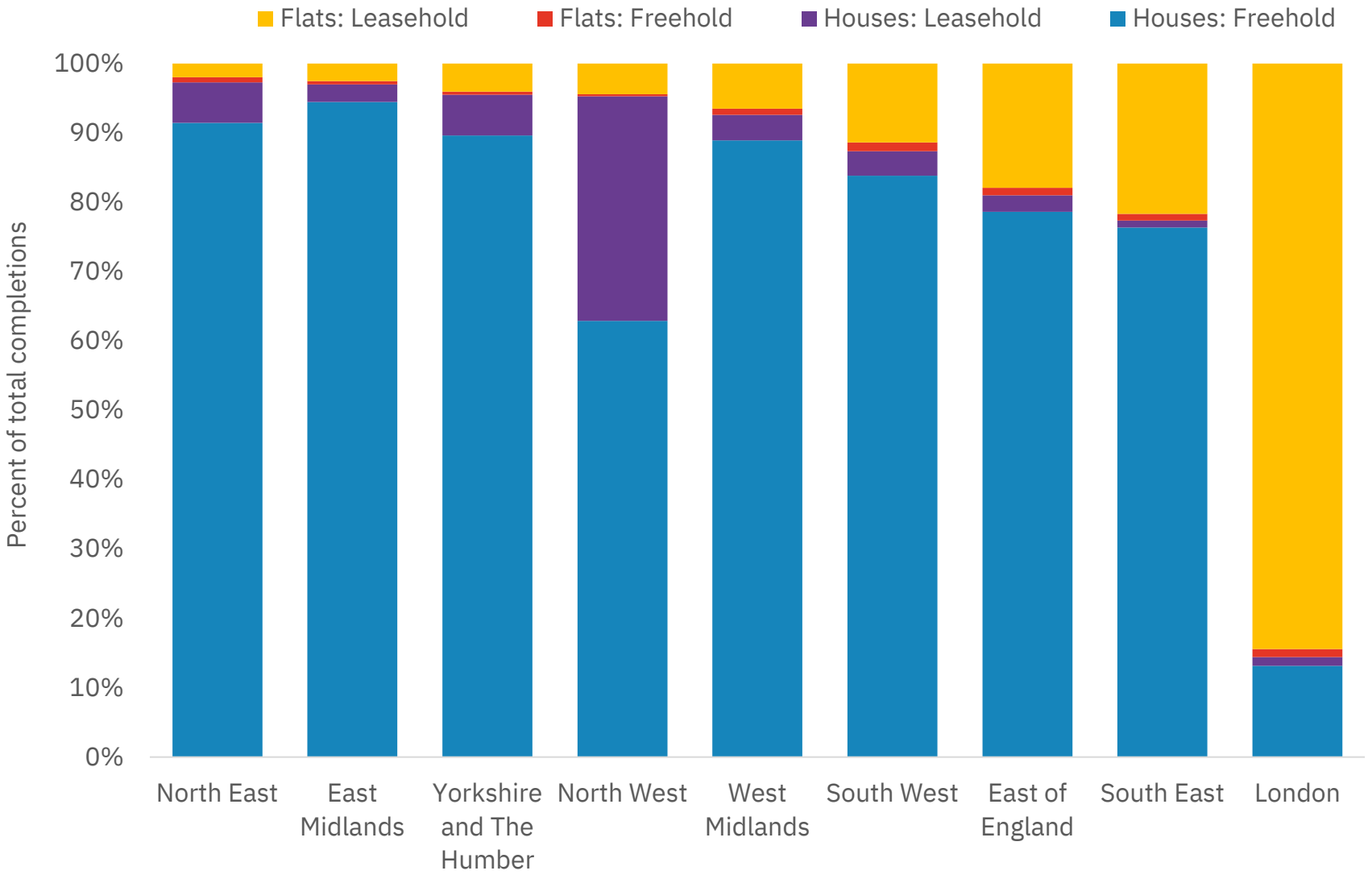
Property Type & Tenure

Source: MHCLG



The chart opposite shows the distribution of total completions in each region by flat/house and leasehold/freehold.

As with the wider new build market, leasehold houses are a much larger proportion of house completions in the North West than any other region.

The North East has seen the highest proportion of houses (97.3%) while London has the lowest (14.4%).

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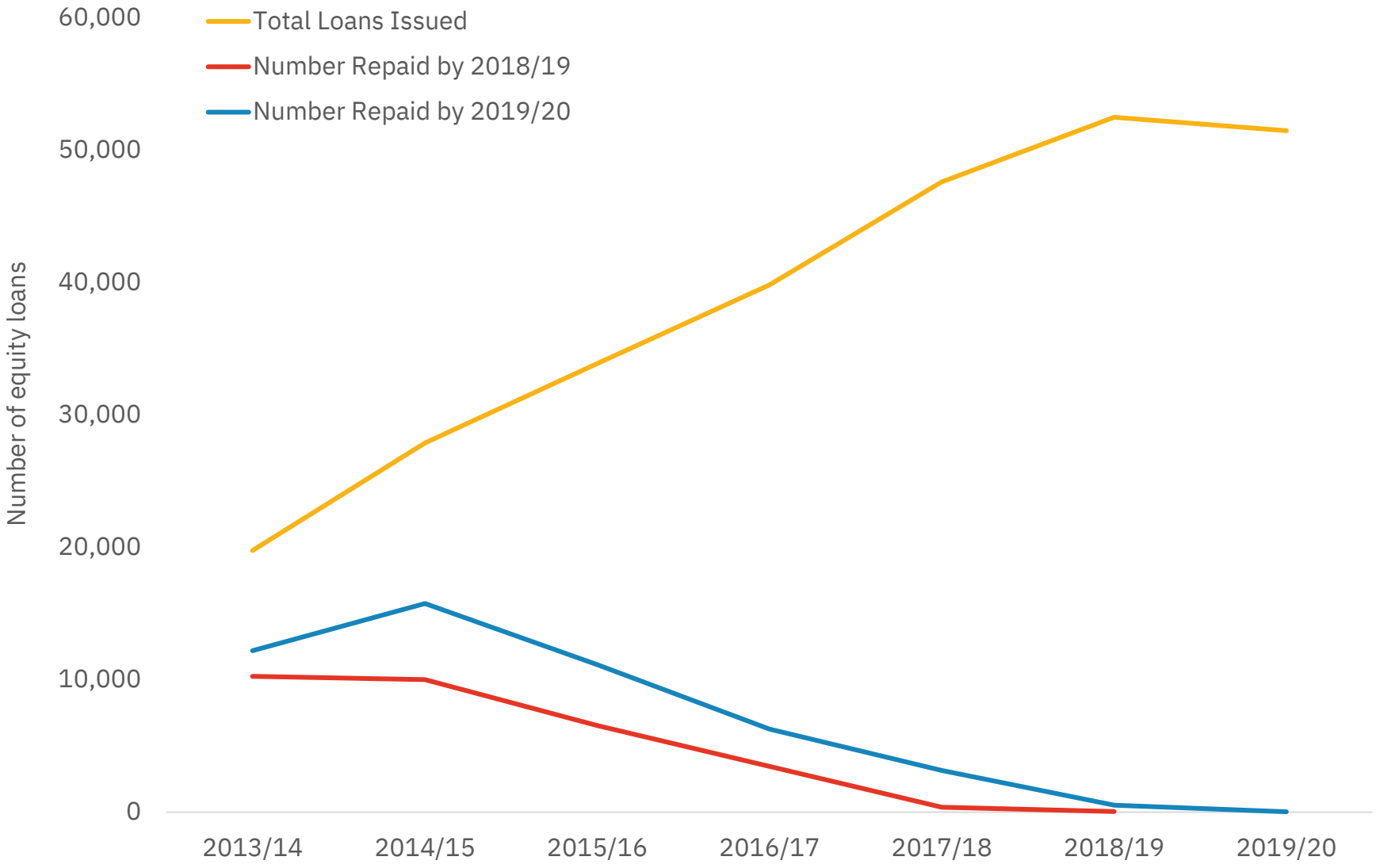
Number of Loans Repaid

Source: Homes England



This chart and following ones are based on data published on page 36 of the Homes England Annual Report & Financial Statements 2019/20.

The chart opposite shows the total number of equity loans issued in each financial year along with the total number repaid by the end of the 2018/19 and 2019/20 financial years.

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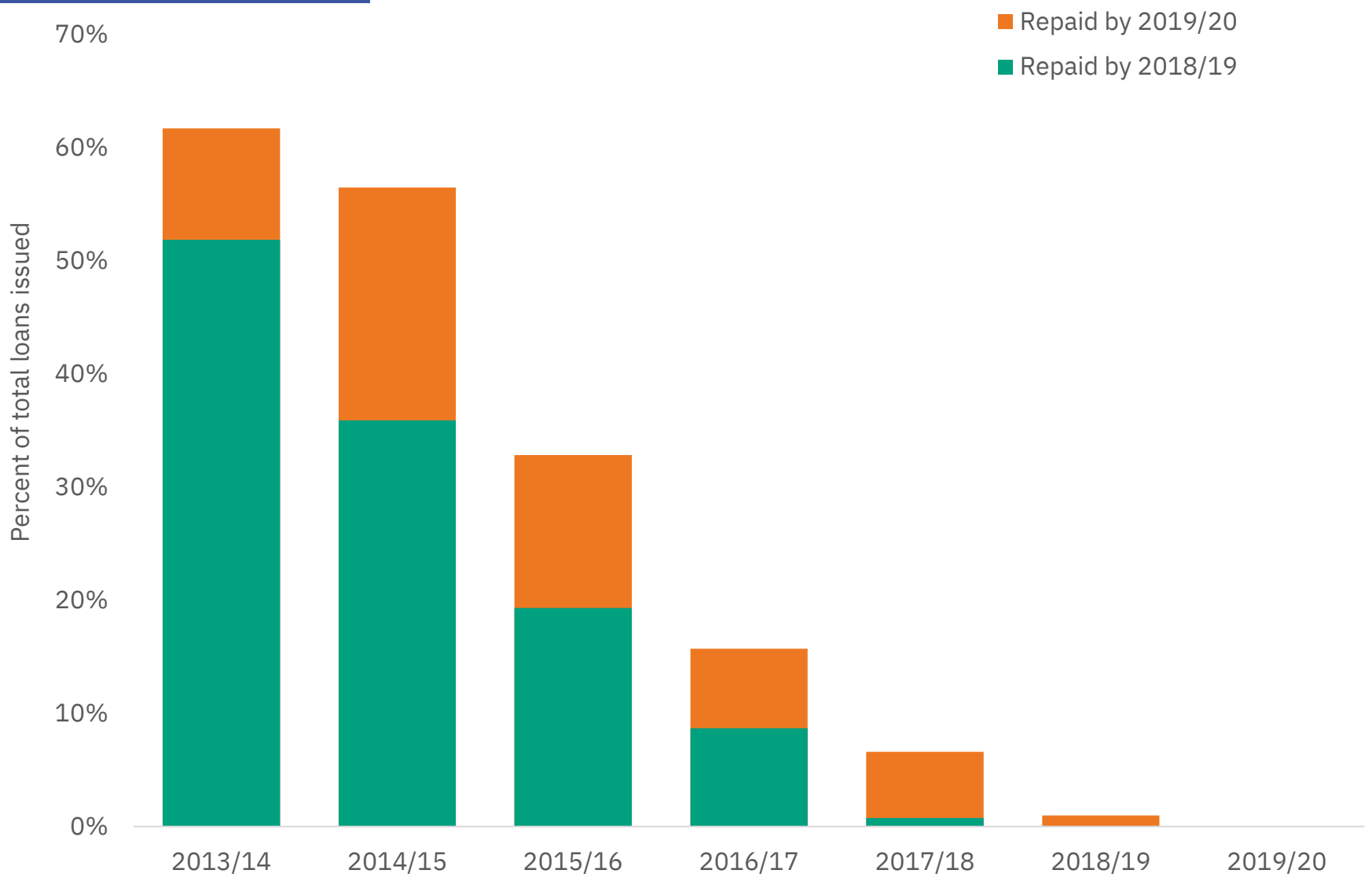
Percent of Loans Repaid

Source: Homes England



This chart repeats the data from the previous slide but shows the repaid loans as a percent of all loans issued in the specific year.

It shows that, by the end of the 2018/19 financial year, 36% of loans issued in 2014/15 had been repaid. This had increased to 56% by the end of the 2019/20 financial year.

Unfortunately there is no data that allows us to understand the location or buyer types that have repaid loans.

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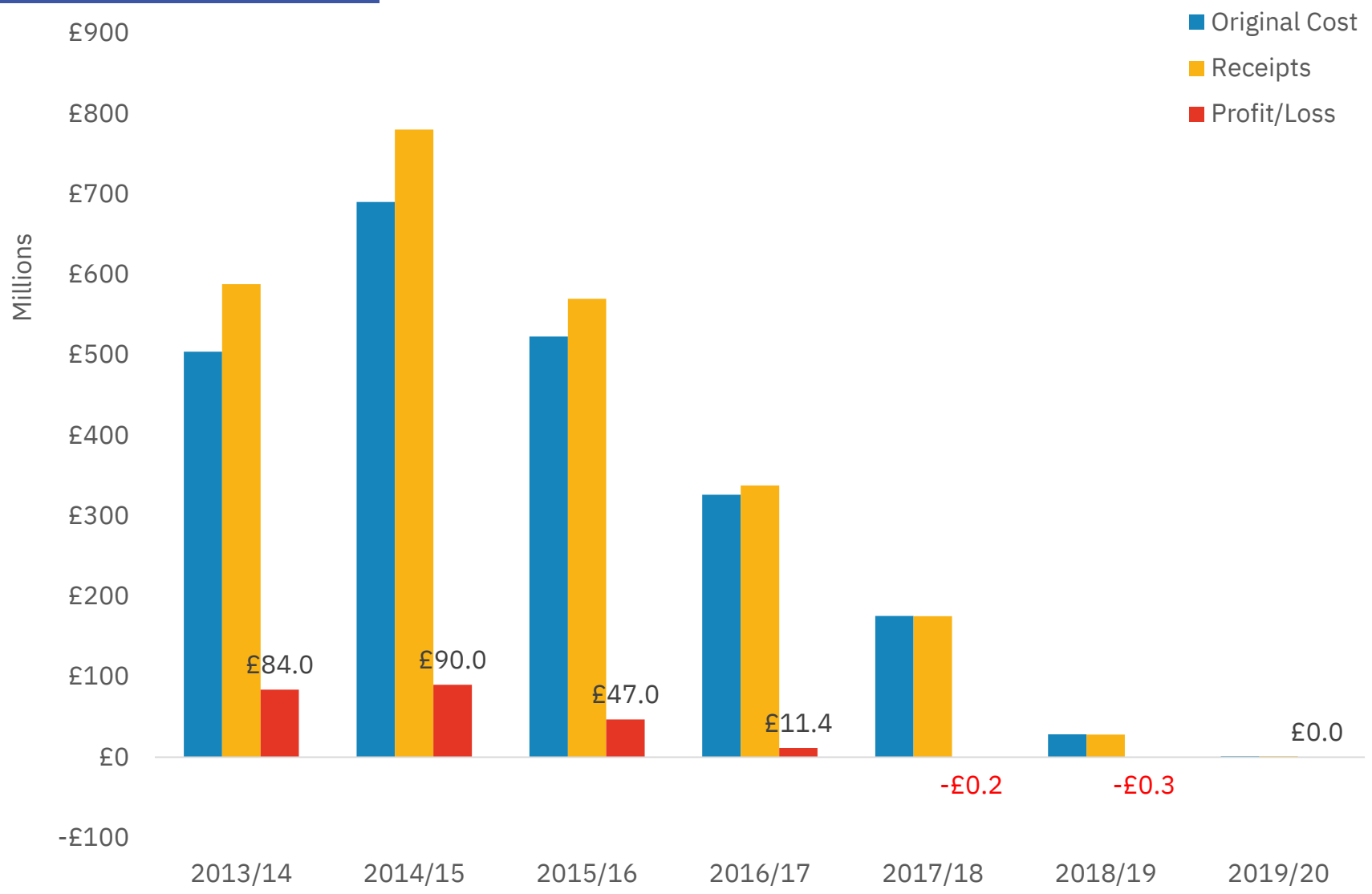
Total Costs & Receipts of Repayments

Source: Homes England – 2019/20



The Homes England annual report also contains data on the total cost of the equity loans since repaid, the receipts from these repaid loans, and we can therefore work out the gross profit or loss.

The chart opposite shows the total cost of equity loans repaid by the end of the 2019/20 financial year, the receipts from those repayments and the profit/loss.

As expected, given underlying house price inflation and the larger number of loans repaid, the loans originally issued during the early years of the scheme have delivered a gross profit. However, loans repaid in recent years have seen a loss.

Without more detailed information, it is difficult to identify why this has occurred and the distribution of returns. However, given these completions only recently took place, these could be repayments that the home owner was forced into.

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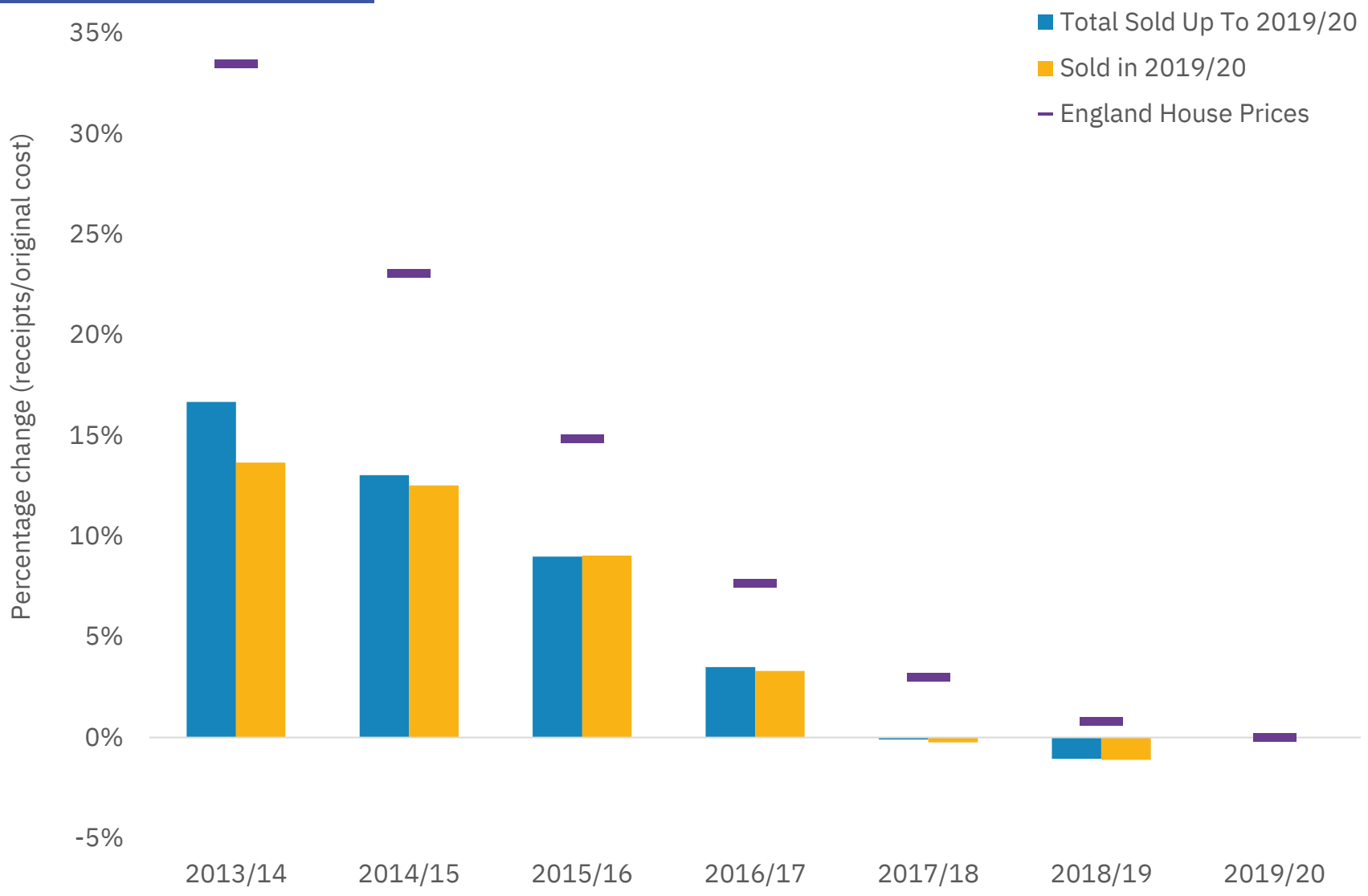
Percentage Return (Receipts/Original Costs)

Source: Homes England – 2019/20



This chart compares the percentage return of all homes sold up to the end of 2019/20 by year of issue and just those sold during 2019/20.

We have also compared the average house price growth from the year in question to the current period. It is interesting to note that the return from the equity loan is much lower than that suggested by national house prices. However, the loan data is not mix or location adjusted so the comparison may be meaningless.

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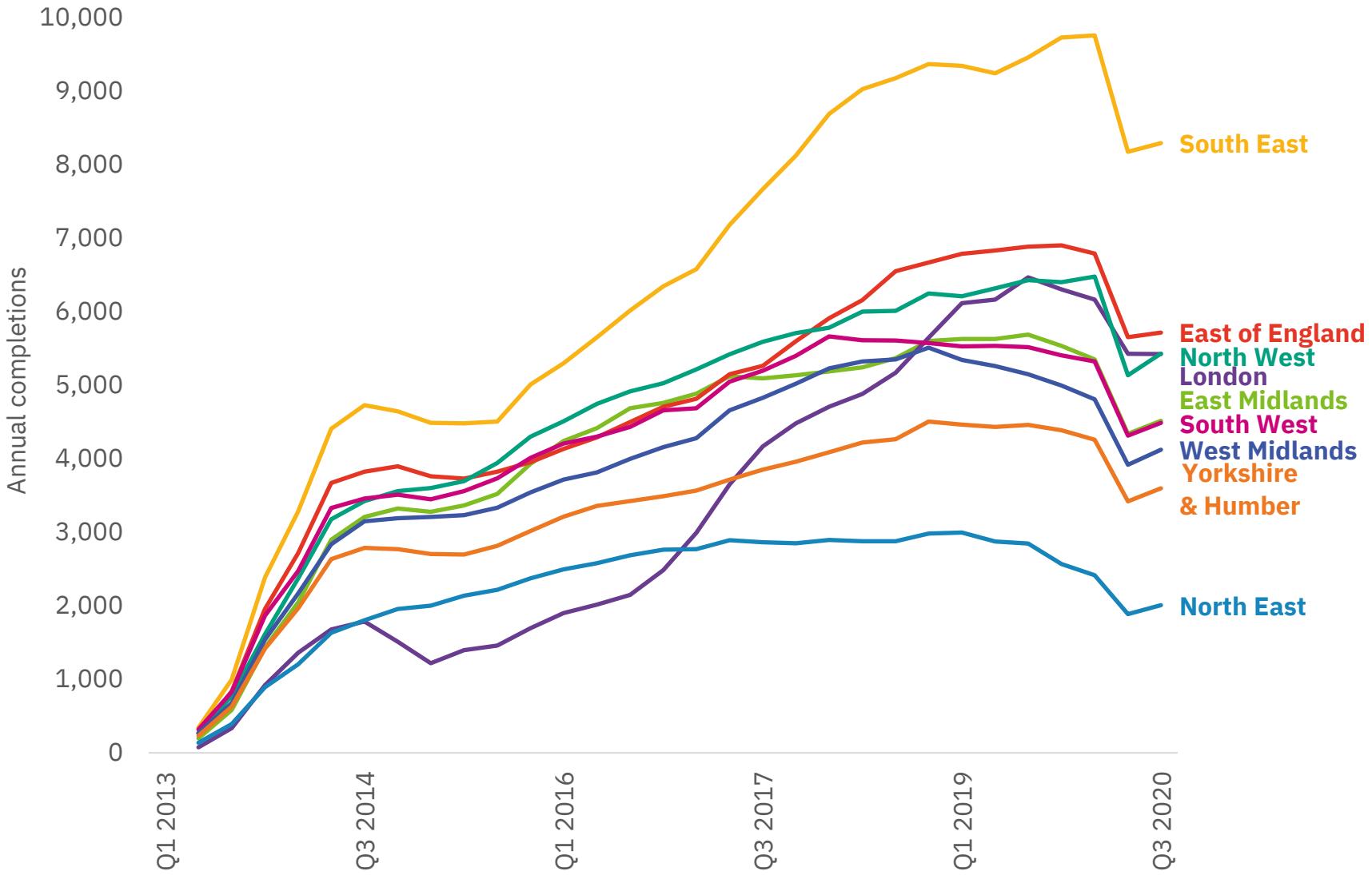
Regional Completions

Source: MHCLG



The chart opposite shows the annual number of completions by region. The table below shows the latest annual total and the total since the start of the scheme.

The two charts on the following slide show annual completions for first time buyers and home movers.

	Last 12m	Total
South East	8,298	50,866
East of England	5,719	37,416
North West	5,432	36,533
London	5,427	26,973
East Midlands	4,519	32,679
South West	4,490	33,274
West Midlands	4,125	30,622
Yorkshire & Humber	3,599	25,839
North East	2,008	17,701

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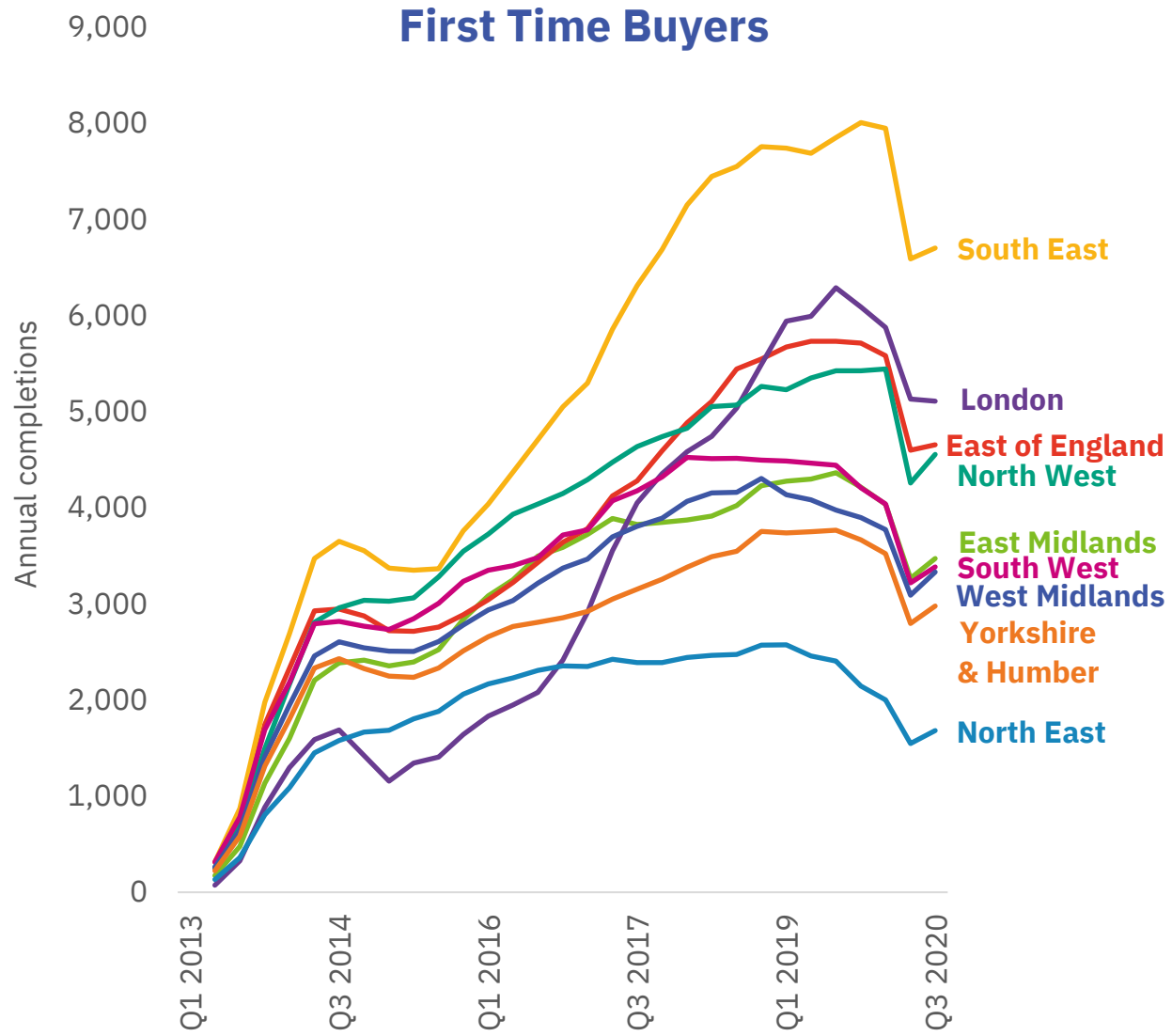
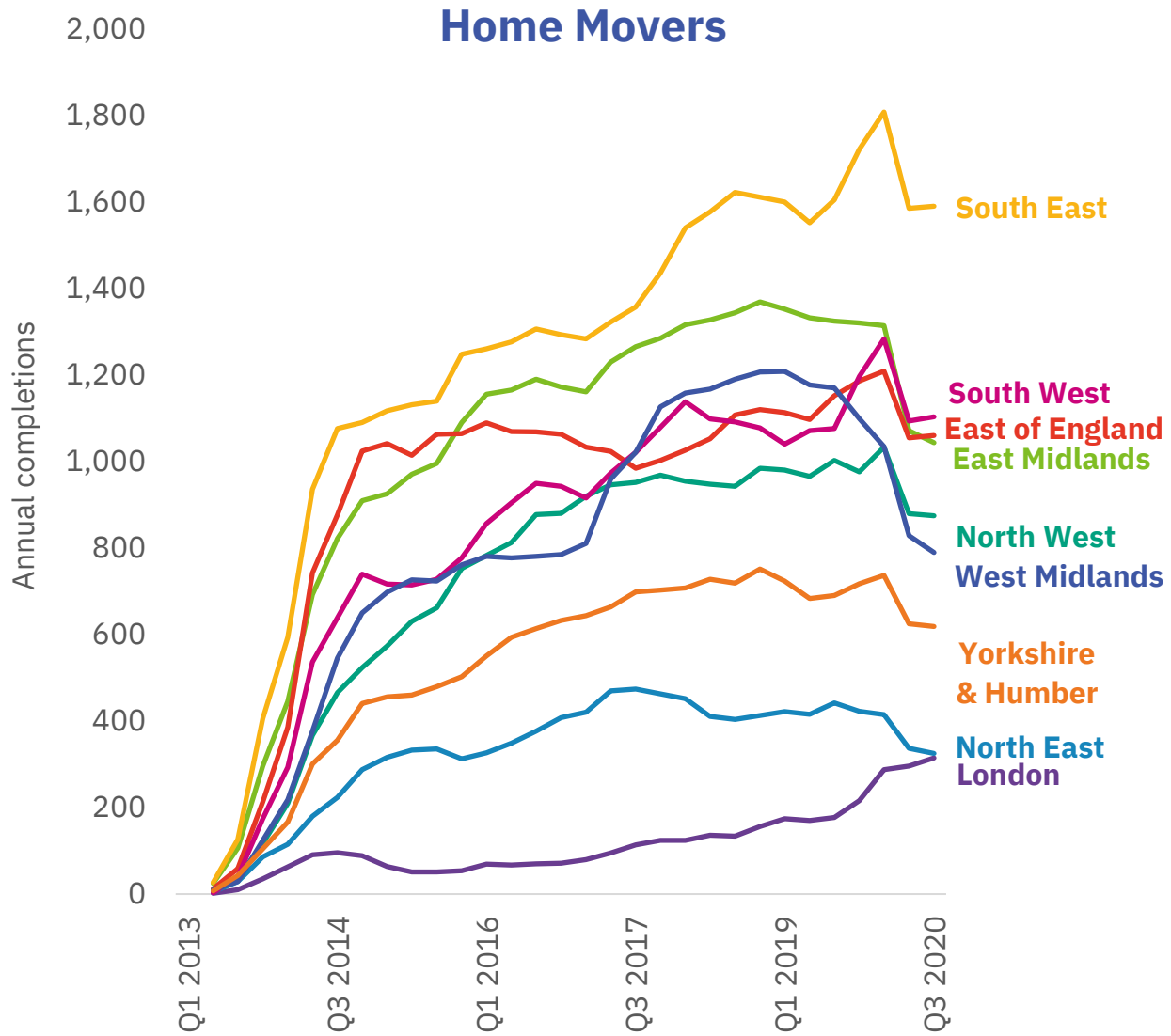
Regional Completions by Buyer Type

Source: MHCLG





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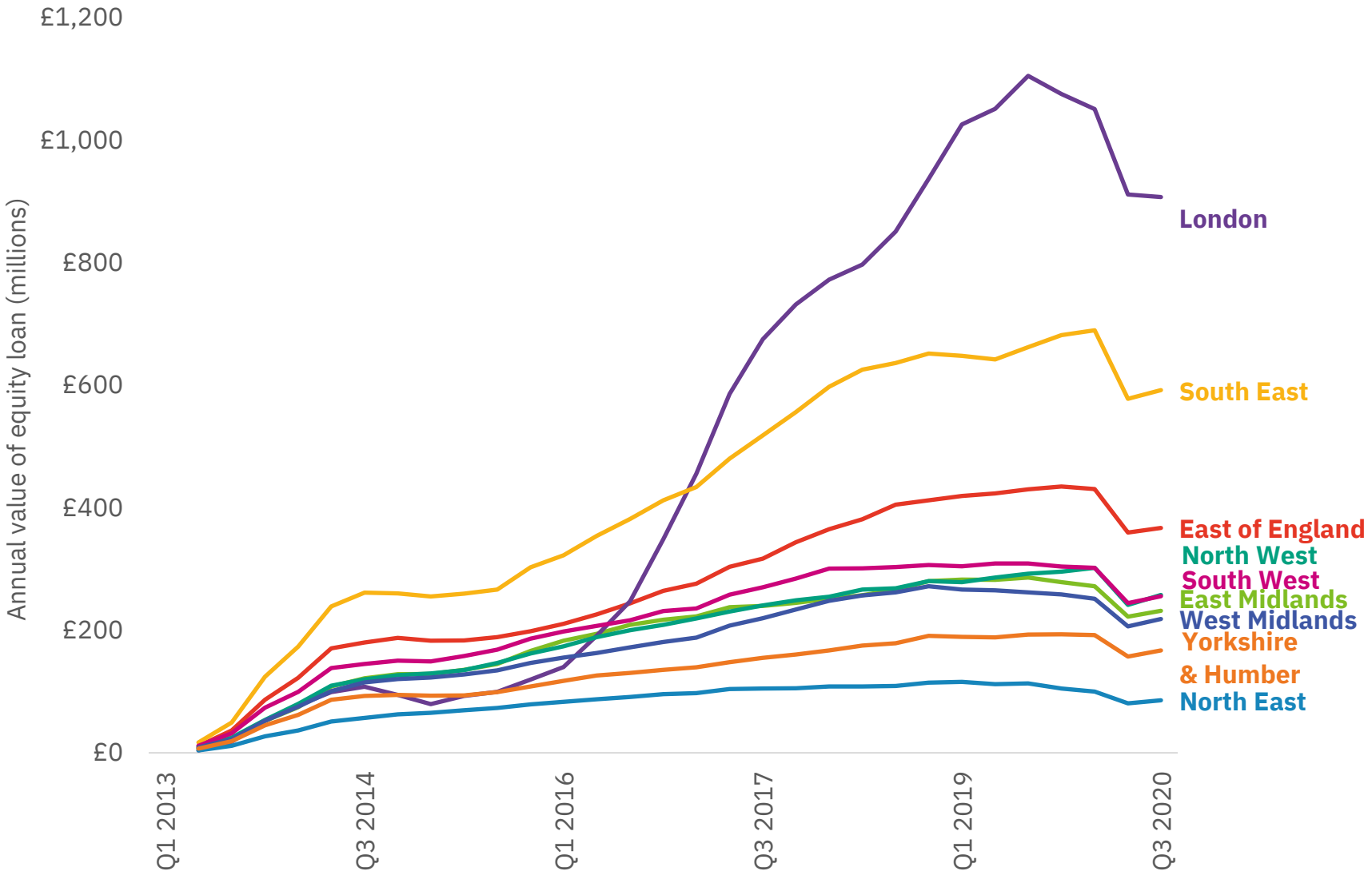
Regional Total Equity Loan

Source: MHCLG



The chart opposite shows the annual total value of equity loans. The table below shows the latest annual total of new equity loans and the total issued since the start of the scheme.

	Last 12m	Total
London	£908m	£4,013
South East	£592m	£3,369m
East of England	£367m	£2,169m
North West	£258m	£1,551m
South West	£256m	£1,701m
East Midlands	£232m	£1,520m
West Midlands	£219m	£1,407m
Yorkshire & Humber	£167m	£1,036m
North East	£86m	£647m

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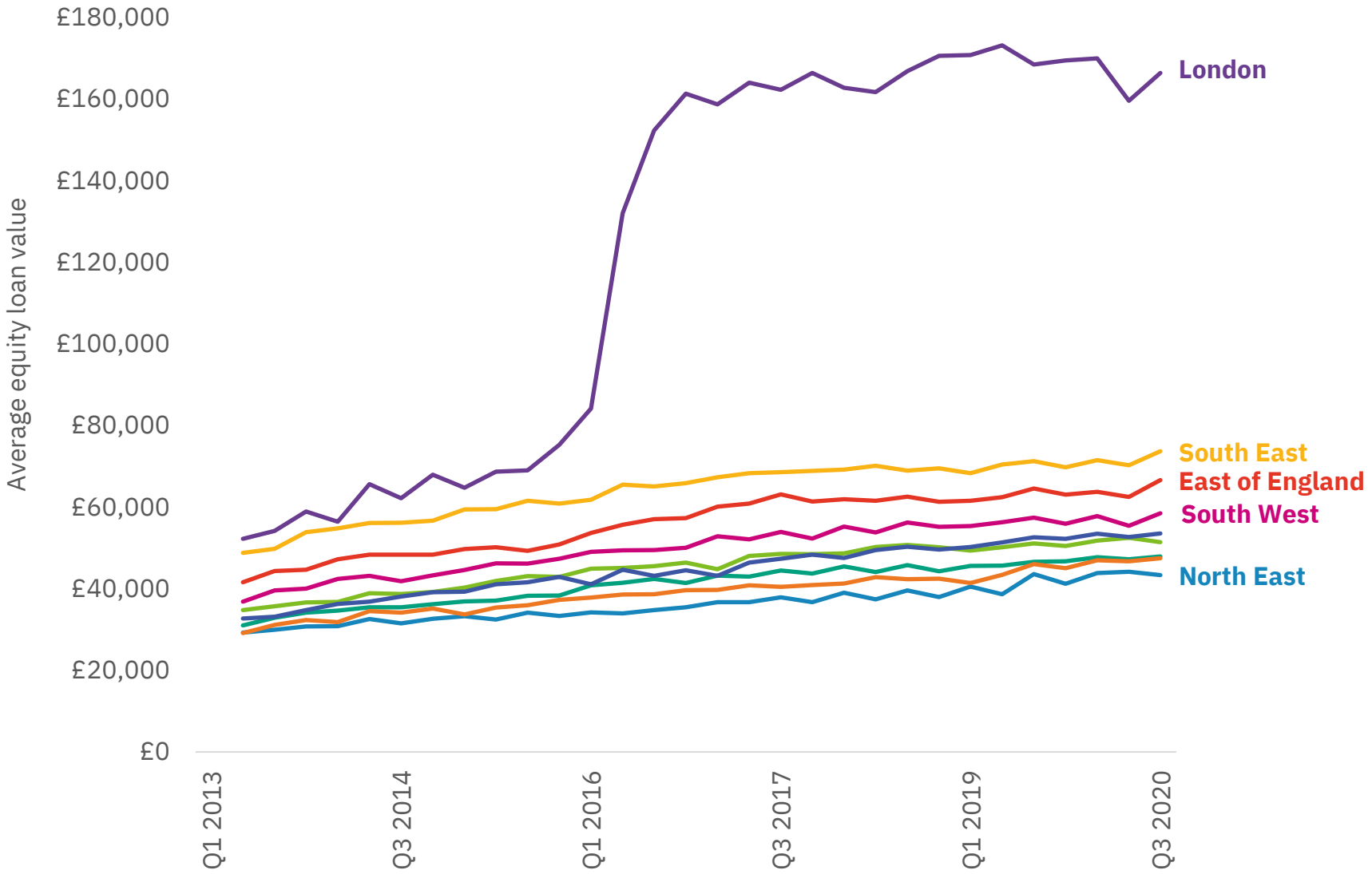
Regional Average Equity Loan

Source: MHCLG



The chart opposite shows the mean equity loan per completion by region and the table below shows the average for each region in Q3 2020.

	Latest
London	£166,485
South East	£73,739
East of England	£66,660
South West	£58,526
West Midlands	£53,584
East Midlands	£51,441
North West	£47,933
Yorkshire & Humber	£47,490
North East	£43,344

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Help to Buy: 2021 & Beyond

Help to Buy: Equity Loan will continue through to March 2023 but will be limited to first time buyers only and there will be regional price caps.

The price caps are as follows:

	Latest
London	£600,000
South East	£437,600
East of England	£407,400
South West	£349,000
East Midlands	£261,900
West Midlands	£255,600
North West	£224,400
Yorkshire & Humber	£228,100
North East	£186,100

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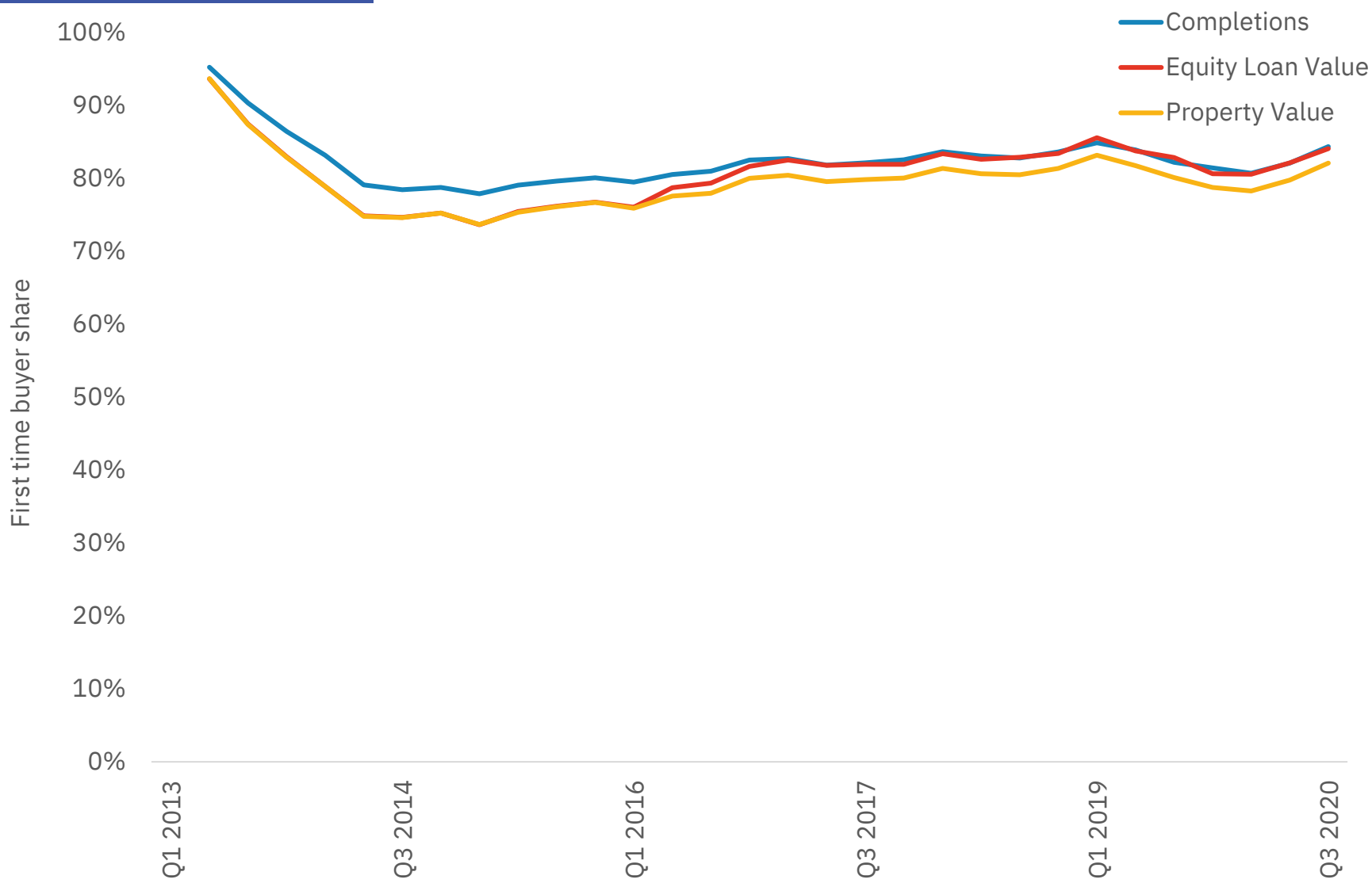
First Time Buyers

Source: MHCLG



As we've already seen in previous slides, the majority of Help to Buy purchasers are first time buyers (84% in Q3 2020).

This suggests Help to Buy being limited to just first time buyers could have a relatively small effect on demand for the scheme. However, if the availability of higher loan-to-value mortgages remains constrained then we could see even more demand from prospective first time buyers that counter-balances the fall in demand from home movers.

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Regional Price Caps

Source: HM Land Registry Price Paid 2019

The bigger issue in the new scheme is the regional price caps. Help to Buy has enabled many households to afford larger homes than they would otherwise have done so. That has led to an increase in the number of larger houses being built.

The regional price caps will constrain demand for larger homes and/or homes in more expensive parts of the region.

The chart opposite shows the proportion of total new build transactions (not just Help to Buy) that were above the relevant regional price cap in 2019.

It shows that, although the North East is the region with the lowest average house price, it could see the biggest impact from the regional price caps with over 50% of new build sales priced above the cap. This reflects the high proportion of larger homes being built in the region. This suggests we will see a shift in new build activity towards smaller houses.

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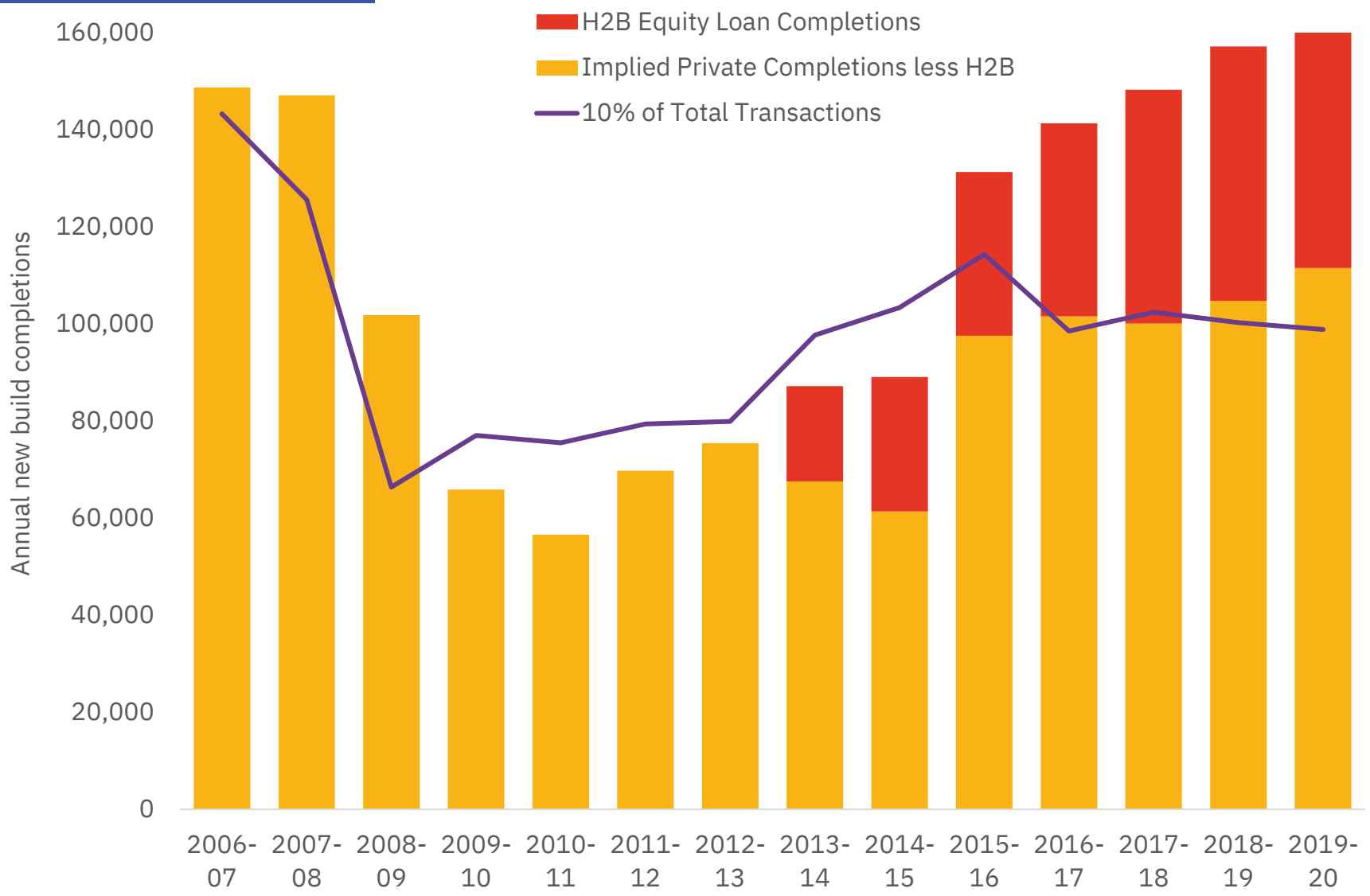
Private Housing Delivery - England

Source: MHCLG, HMRC



The debate about how many additional new homes Help to Buy has helped to deliver is best left to academics (along with whether it has increased house prices). Therefore, we will just point out the relationship in the chart opposite.

For some reason, the number of private new build completions (total new build less affordable tenures) has historically tended to track at around 10% of total market transactions.

This ten to one relationship has broken down since the introduction of Help to Buy but the underlying number of new build private completions excluding Help to Buy has continued to track the 10% of transactions line.

This result raises the prospect that all new homes delivered via Help to Buy are additional and the end of the scheme in 2023 could lead to a large collapse in new housing delivery in the absence of an appropriate replacement.

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References & Further Reading

- MHCLG - Help to Buy Statistics
- NAO - Help to Buy: Equity Loan scheme – progress review June 2019
- Homes England – Annual Report & Financial Statements 2019/20
- MHCLG - Evaluation of the Help to Buy Equity Loan Scheme 2017
- DCLG - Evaluation of the Help to Buy Equity Loan Scheme 2016
- House of Commons Committee of Public Accounts - Help to Buy: Equity loan scheme

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