UK and Irish housing markets: a first-time buyer perspective

UK FINANCE

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Banking & Payments Federation Ireland

Acknowledgements and contacts

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Prior to this, he worked for HM Treasury as a civil servant, on topics relating to the housing market and the household sector.

Why this research?

Our main reason for carrying out this research was to find out more about the other's country. Even though Ireland and the UK are close neighbours, there is surprisingly little in the public domain about how the two housing and mortgage markets stack up against one another.

There have been major changes in housing and mortgage markets of many countries in the lead up to and after the financial crisis. In many respects, the changes that have taken place are comparable across countries.

While drawing these comparisons between neighbouring countries is easy on an aggregate level, it requires much more effort to understand how other markets operate. We wanted to provide information on how the housing and mortgage markets of Ireland and the UK operate, and how they have performed over the last decade.

We began by focussing on first-time buyers, but as is often the case, it's not possible to look at a specific section of the housing market in isolation. To this end, we expanded our view and looked at the wider housing and mortgage market, as well as government housing schemes and housing market regulation. The aim was to show how different parts of the market interact with each other, and to give a more well-rounded view of our two markets.

Executive Summary

Housing demand

- A number of factors drive housing demand. These are changes in population, migration, an ageing population and family formation.
- The UK and Ireland have experienced very different changes in population. While the number of young people (18-29 year olds) has grown in the UK over the past decade, it has fallen in Ireland. Migration is the main reason for both of these changes, as there was net outward migration from Ireland, and net inward migration into the UK. This means housing demand in Ireland is likely to be lower than in the UK as this age cohort are the key household formation group.
- The share of the older population has been growing and is expected to continue growing in both countries. This means the pattern of homeownership will move towards older age groups, and there will be an increase in homes owned outright, without a mortgage.
- Ireland and the UK have experienced similar large falls in the rate of homeownership since the mid-2000s.

Housing supply

- In the 1990s and early 2000s the Irish housing stock grew rapidly while the UK housing stock grew more slowly. As a result, the ratio of people per home fell in Ireland from 3 and converged to the UK level of 2.3 by 2006.
- The financial crisis led to a collapse in housebuilding in both countries, with current levels of housebuilding operating at or close to historic lows since 2009-10.
- The rate at which households are forming is outpacing housebuilding, as supply fails to keep up with demand.
- Housing transactions per thousand people were similar in 2006-08, but UK activity exceeded Irish transactions from 2009 onwards. This suggests that there was much less liquidity in the Irish market after 2008.

FTBs and the wider market

- Compared to the early 2000s, first-time buyers (FTBs) account for a larger share of mortgaged transactions since the financial crisis. But looking at total activity, including cash transactions, FTBs have accounted for a stable share of housing transactions over the last decade.
- The age distribution of FTBs in the UK has been broadly unchanged between 2004 and 2016, while in Ireland there has been a large fall in young FTBs.
- FTBs in the UK have stretched mortgage terms since the financial crisis, but in Ireland the opposite has occurred.
- High loan-to-value borrowing (95% LTV and above) continues to be largely absent in both markets.
- Both countries now have limits on mortgage lending activity that can be advanced above certain thresholds (90% LTV and 3.5 loan-to-income in Ireland and 4.5 loan to income in the UK).
- There is evidence of loans bunching just under these macro-prudential limits as lending above these limits has fallen in both Ireland and the UK.
- Higher loan-to-income borrowing tends to be focussed in the capital cities of London and Dublin, while higher loan-to-value borrowing is focussed away from the capital cities.

Government schemes and regulation

- Irish government housing schemes have had little impact on boosting activity, with the exception of mortgage interest relief, which is no longer available for new borrowers. In the UK, the picture is more mixed, with policies seeing varying levels of take up across the country.

- In both countries, numerous government schemes have been introduced to cater for a range of different households, highlighting the extent and multi-faceted nature of issues in both housing markets.
- Government schemes aim to promote activity in the housing market while regulation aims to keep the market sustainable. Given that housing supply has been sluggish since 2009 and demand has remained high, there is potential for tension between regulation and government housing schemes. This is likely to continue for the foreseeable future unless housing supply grows more quickly.

Introduction

Ireland and the UK were significantly affected by the financial crisis in 2007-2008. The two countries experienced different boom and bust cycles though. The Irish market experienced stronger price growth in the lead up to the financial crisis but also had a larger house price correction in the aftermath. By comparison, the UK housing market experienced smaller house price growth and correction relative to Ireland.

This report looks at the housing markets in Ireland and the UK, from the perspective of a first-time buyer. Chapter 1 looks at housing demand, including how changes in population have impacted the demand for different housing tenures. Chapter 2 focusses on housing supply, with a focus on lack of supply over the last decade.

Chapter 3 turns the focus to first-time buyers with a view on how they fit into the wider housing market and explores in detail how characteristics of first-time buyers have changed since 2004. Chapter 4 covers government housing schemes and regulation, and the potential for tension between the two given that government schemes aim to promote activity, while the aim of regulation is to keep the market sustainable.

Chapter 1: Housing demand

This chapter looks at the societal changes that have taken place in Ireland and the UK and how they have affected demand for housing and tenure choice.

Some of the themes discussed in this chapter are looked at in more detail later in this report. While our focus is on first-time buyers, we must consider them in a wider housing market setting, as they are subject to external pressures from other parts of the housing and mortgage market.

What drives household formation?

At its simplest, the housing market matches households with housing. To achieve that, we need to look at segments, understand what accommodation households in each segment need or aspire to, and where they are or will be located.

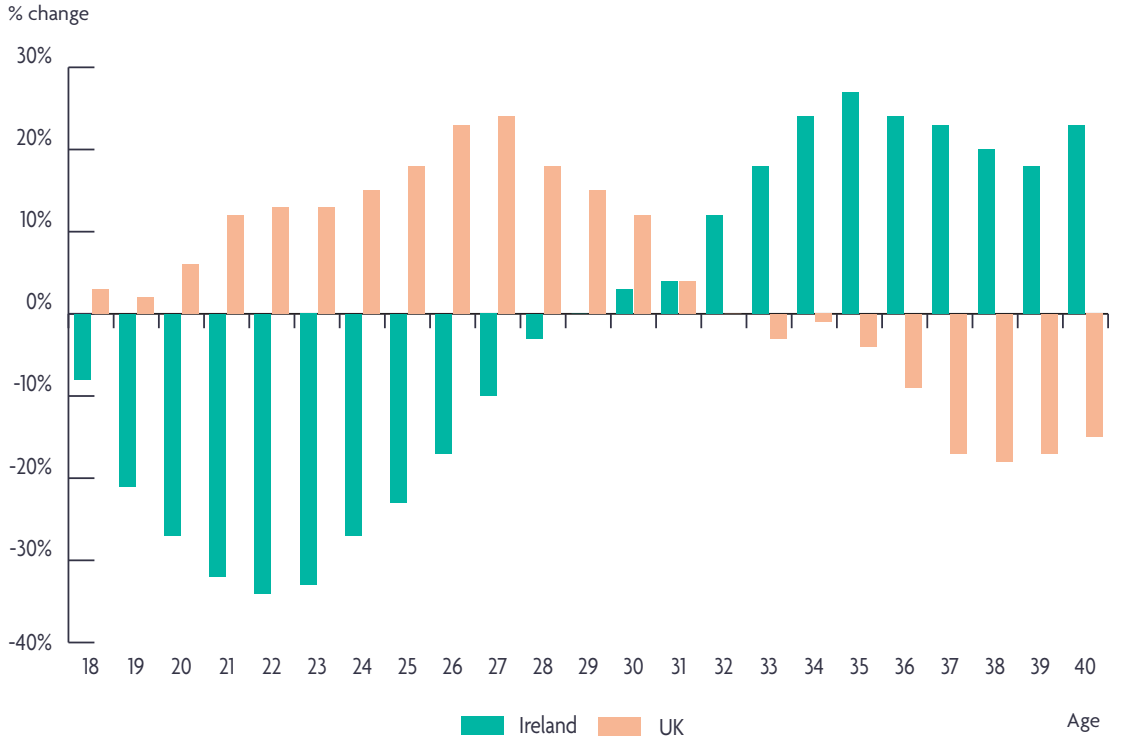
A number of factors help determine household formation rates. These include population growth, migration, an ageing population, family formation and the proportion of young people embarking on further education.

Population growth and migration

While the general population has grown modestly in Ireland and the UK since the 1990s, trends in the key household formation age groups (18-29 year olds and 30-40 year olds) have been very different.

The number of 18-29 year olds in the UK rose by 15% between 2004 and 2015, while the number of 30-40 year olds fell by 8%. In contrast, the Irish 18-29 year old segment shrank by 20% over the

Figure 1: Population change by age over period from 2004 to 2015



Source: Central Statistics Office (CSO), Office for National Statistics (ONS)

same period, while the number of 30-40 year olds grew by 15%. The Central Statistics Office (CSO) attributes the drop in the 25-29 year old cohort mainly to high net outward migration in the group[1].

Taken overall, these figures imply rising housing demand in the UK, as there is growth in the key household formation age groups. Due to outward migration between 2011 and 2015, demand in Ireland may be artificially low. However, net immigration returned in 2016 and it is expected to grow in coming years, adding to demand.

The UK has experienced strong inward migration since the late 1990s. By contrast, Ireland's strong inward migration up to 2008 reversed in the following years. In both countries, the prevailing trend is driven by 15-44 year olds, with inward migration in the UK and outward migration in Ireland especially strong among 15-24 year olds: +998,000 in the UK and -108,000 in Ireland between 2009 and 2015[2].

This has had a significant impact on the age group that would traditionally be considering forming an independent household for the first time.

Ageing population

Housing demand is driven largely by household formation. Traditionally, this was driven by younger people, especially when they marry and/or have children. Evidence from the US suggests that household formation and a rising headship rate – the ratio of the number of household heads to the size of the adult population - can also be driven by older age groups, and that this has been happening for decades[3]. As the older population grows, their share of households will also grow, not by forming households but by surviving as households[4].

Europe's population is ageing and though Ireland and the UK have two of the youngest populations in Europe, the median age is expected to rise by 6.3 years and 5.2 years in Ireland and the UK, respectively, by 2080. The share of the population aged 65 years or more will grow significantly: almost doubling to 27% in Ireland and jumping to 28% in the UK.

The headship rate among older people is also higher as older people are more likely to live alone. Eurostat indicates that 29% of the population aged 65 or more lived alone in 2011 and "while a higher proportion of the elderly population lived in rural regions, those who were in urban regions were more likely to be living alone"[5]. Relatively few older households move residence each year (3-4%), with most of those moving to other private housing. This implies higher headship rates in urban areas where residential property is most scarce.

Family formation

Couples are marrying much later compared to previous generations. The average age of grooms in Ireland rose from a low of 26.2 years in 1977 to a high of 35.3 years in 2015, according to the CSO, while the Office for National Statistics (ONS) reports that the average age in the UK rose from 28.8 years in 1974 to 37 years in 2014. Women marry, on average, about two years earlier than men.

The average age of new mothers has also increased since the 1970s. The increase in the average age has accelerated in Ireland in recent years. Underlying that change is a significant drop in the number of first-time mothers in younger age groups since 2009 and the increasing importance of older age groups: 30-44 year olds rose from 45% of new mothers in 2008 to 59% in 2015.

[1] Central Statistics Office, 2017. Census 2016 Summary Results - Part 1. [Online] Available at: http://www.cso.ie/en/media/csoie/newsevents/documents/census2016summaryresultspart1/Census2016SummaryPart1.pdf [Accessed 27 April 2017].

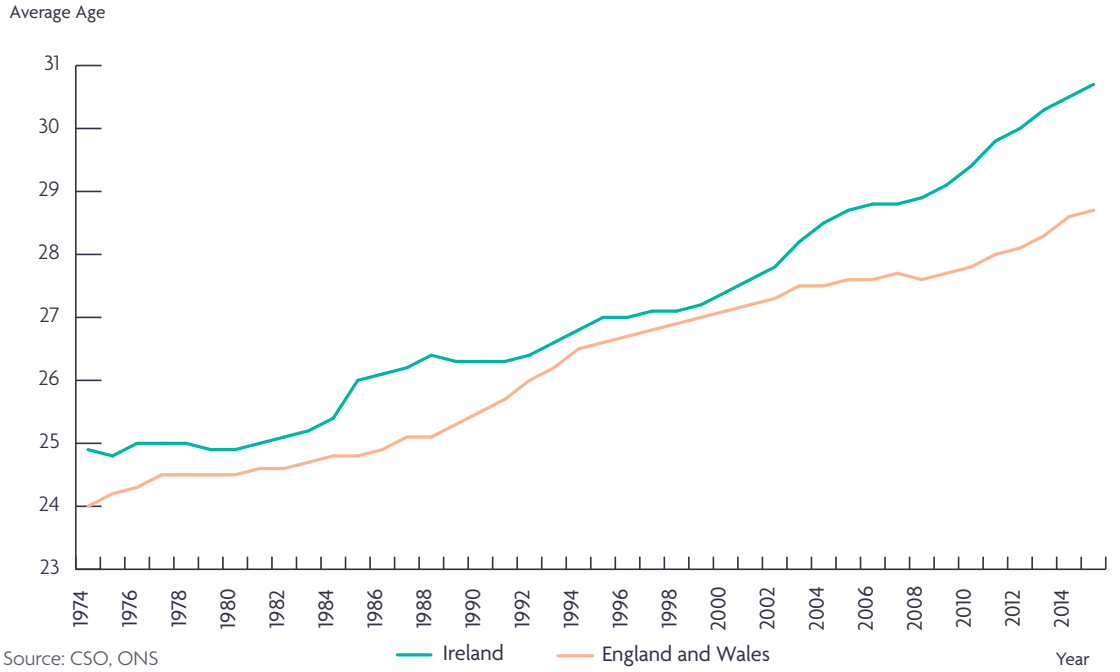
[2] The Irish data is based on the Central Statistics Office's April 2016 population estimate and may overstate outward migration and the population drop in this age group.

[3] Paciorek, A. D., 2013. The Long and the Short of Household Formation. Finance and Economics Discussion Series, Divisions of Research & Statistics and Monetary Affairs,, 1 April.

[4] Kolko, J., 2015. Who is actually forming new households?. [Online] Available at: https://ternercenter.berkeley.edu/blog/new-households [Accessed 28 March 2017].

[5] People in the EU - statistics on an ageing population, 2017. [Online] Available at: http://ec.europa.eu/eurostat/statistics-explained/index.php/People_in_the_EU_–_statistics_on_an_ageing_society [Accessed 17 April 2017].

Figure 2: Average age of first-time mothers



Source: CSO, ONS

Education

Higher educational attainment – which typically leads to higher levels of income – increases the likelihood of individuals forming households, but at an older age, as they remain in education for longer. On the other hand, individuals who leave the education system earlier typically enter the labour market and form a family at a younger age. As a result, household formation in the youngest-age groups are typically driven by individuals entering the labour market, while higher education drives formation rates as individuals get older.

Housing tenure

Tenure choice can be influenced by a wide range of policy and non-policy factors. This is particularly true of the decision to buy a home. Policy influences on home ownership or purchase include tax incentives for homebuyers, supports for, or levies imposed on builders and developers, property taxes, taxes on capital gains and inheritance and gift taxes.

There are also cultural factors, as in many Anglo-Saxon countries there is a desire and preference for homeownership, because of the perceived financial benefits but also because it is seen as a sign of achievement and a mark of social class[6]. This is true of Ireland and the UK.[7,8]

Some of the drivers for household formation also affect tenure choice. Byrne, et al. noted young people tend to form independent households as renters first before progressing to ownership. Income, education, household size or structure and the availability of suitable properties for rent or purchase all influence a household's housing tenure[9]. The relative cost of buying or renting is another important factor.

Mortgage market innovations and regulations also affect tenure choice as it can have a significant impact on the affordability of buying a home with a mortgage[10].

In this report we focus on aspiring home owners but government policies and market trends affect all housing tenures.

Housing tenures broadly fit into three categories: social housing (renting from local authorities or housing associations), private rental and homeownership. A number of factors may influence housing tenure. We consider these in the context of each tenure.

[6] Social Mobility Commission, 2016. State of the nation 2016: social mobility in Great Britain, London: Social Mobility Commission.

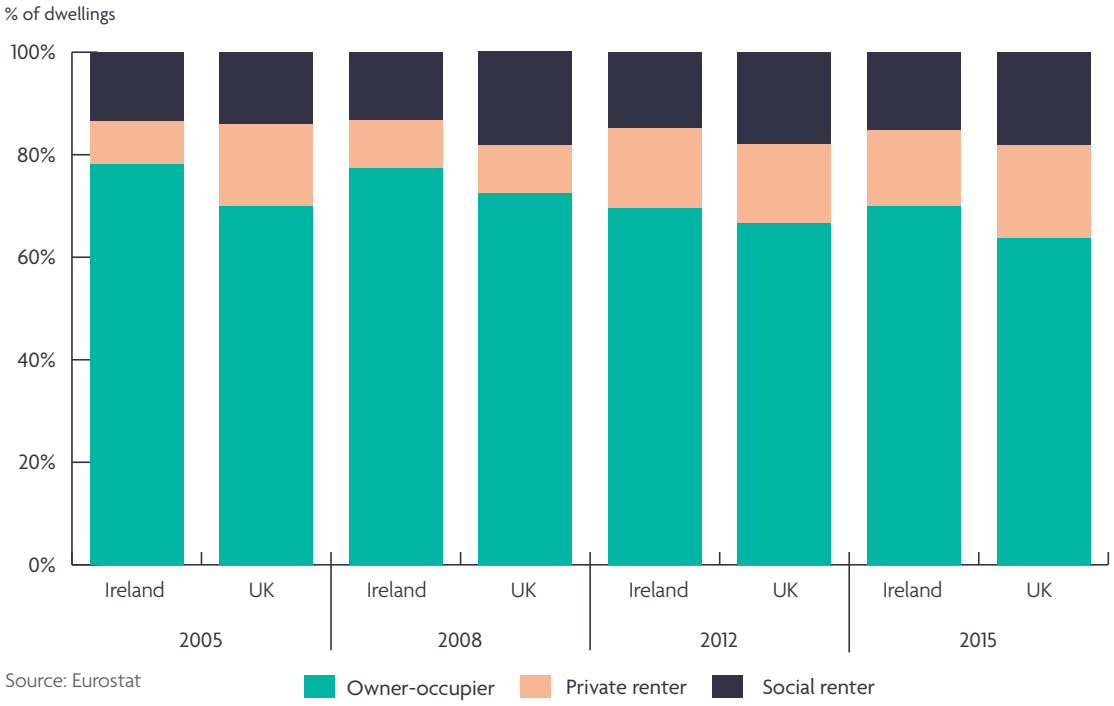
[7] UK research carried out by the Council of Mortgage Lenders shows that 80% of adults aspire to be homeowners in 10 years' time, in line with 30-year averages.

[8] Irish consumer survey by Aviva in October 2016 found that 90% of respondents would prefer to own their own home.

[9] Byrne, D., Duffy, D. & FitzGerald, J., 2014. Household Formation and Tenure Choice: Did the great Irish housing bust alter consumer behaviour?, Dublin: The Economic and Social Research Institute

[10] Andrews, D. a. A. C. S., 2011. The Evolution of Homeownership Rates in Selected OECD Countries: Demographic and Public Policy Influences. OECD Journal: Economic Studies, Volume 2011/1.

Figure 3: Housing tenure in Ireland and the UK



Source: Eurostat

Social housing

Some households rely on social or subsidised housing. The provision of social housing by local authorities has been steady in Ireland, accounting for 6-7% of housing stock in recent years, but it has fallen in the UK.

Local authority housing in the UK accounted for 11% of the housing stock in 2005, falling to just 8% by 2015. Housing associations have made up the shortfall as the stock of housing association properties exceeded local authority properties for the first time in 2008. By 2015, housing associations and local authorities combined accounted for 18% of the housing stock, up slightly from 14% in 2005.

As in the UK, housing associations have emerged as important providers of housing in Ireland with housing association completions exceeding local authority completions for the first time in 2011.

Private rental

Rental demand has been and is likely to remain strong. The factors underpinning this include demographic and social changes with population growth, especially through immigration, and with a growing number of people living alone; some opting to settle down later in life while others remain in education for longer.

Pressure from other tenures is another reason, as high house price growth relative to earnings means those wanting to buy need to save for longer and as a result remain in rented properties for longer too. It has also meant that, for some, buying a home may no longer be feasible, so living in rented accommodation can become permanent.

The decline in social housing in the UK has meant the private rented sector is now housing many people who would otherwise have been in social housing. This is illustrated by the fact that more than one in four private renters were in receipt of Housing Benefits in the UK in 2014-15. This proportion has grown over the past seven years, and looks set to continue increasing.

At the same time, there was an increase in the supply of rental properties, with a large portion funded by buy-to-let (BTL) borrowing. Over the past 20 years, BTL borrowing has grown significantly in the UK and Ireland, to reach 17% of total mortgage debt outstanding in the UK and 18% in Ireland.

High transaction costs and upfront fees for buying are also factors that mean people are staying in the rented sector for longer. This impacts would-be buyers most, as they have no equity to use and must finance the deposit and all transaction costs from their savings. As a result, they spend longer in the rented sector.

Homeownership falls

Most people in Ireland and the UK live in owner-occupied housing. However, both countries have experienced similar falls in homeownership since the mid-2000s. The percentage of people living in owner-occupied housing dropped from about 78% and 70% in Ireland and the UK, respectively, in 2005 to 70% and 63% by 2015, according to Eurostat.

Among home owners, the trends diverged. In Ireland, 51% of the population in owner-occupied housing lived in property secured by mortgages in 2014, up from 42% in 2006. By contrast, the UK share of UK owners that had mortgages fell from 64% to 57% over the same period. This may reflect the fact that a significant proportion of mortgages outstanding in Ireland were issued during the 2000s – BPFI estimates that about 60% of the value of mortgages outstanding at the end of 2016 was issued between 2004 and 2008, while the equivalent figure for the UK stands was just 26%.

Falling homeownership is often put down to fewer young people getting on the housing ladder. The reason for this is often argued as earnings not keeping up with house price growth. This is partly down to inelastic supply, as demography has pushed up demand, but supply of housing has not kept up, especially since the financial crisis. More recently, it is also the result of low interest rates, and credit availability, which have been capitalised into higher house prices.

The other main reason that FTBs are finding it difficult is that there are now much more stringent deposit constraints, especially when compared to the pre-financial crisis period, in the UK and in Ireland alike.

Where is Generation Y?[11]

If millennials are not forming independent households, they are likely to be staying in an existing household, i.e. living with their parents, or joining an existing household, sharing accommodation with friends or peers.

The average age at which British and Irish young people leave home has increased since the early 2000s. In Ireland, the average age is about 1.5 years later than in the UK.

The number of young people living in the parental home has increased by 69% in the UK since 2007, with 4.6 million 18-34 year olds living at home in 2016, according to the Office for National Statistics (ONS). The share of young people living at home grew from 22% to 25% over that period.

While the youth population in the UK has been growing since 2003, the Irish youth population has been shrinking since 2008, falling by 22% in the following eight years. By 2016, almost half a million Irish youths (49%) were living at home.

[11] Generation Y and millennials are overlapping categories for people born anywhere between the late 1970s and the early 2000s, depending on the focus of the analysis. In this report, we focus on 18-40 year olds but the exact analysis depends on the data available.

Chapter 2: Supply-side issues

This chapter looks at the supply of housing and how lack of supply has become a major issue in the housing markets in the UK and Ireland in recent years. There are strong concerns that the available stock is insufficient to meet demand and not aligned with household needs.

There are two sources of supply in the private housing market:

- Existing property – second hand properties come onto the market for a number of reasons including homeowners trading up/down or moving for work or other reasons, estate sales following the owner's death and investors selling up. Some of these may be vacant properties but some vacant properties may not be available for sale.
- New property – these include builds started in the current construction cycle or unfinished housing from a previous construction cycle that are completed.

As new households are formed, vacant units are usually absorbed but this is likely to be insufficient to meet demand from new households. Vacant units and second homes accounted for about 3% of English dwellings in 2015. Vacancy rates are elevated in Ireland with 13% of housing units vacant in 2016. Even in the capital, Dublin, the vacancy rate ranged between 4% and 9%. Unfortunately, many of the vacant properties are in areas of lower demand.

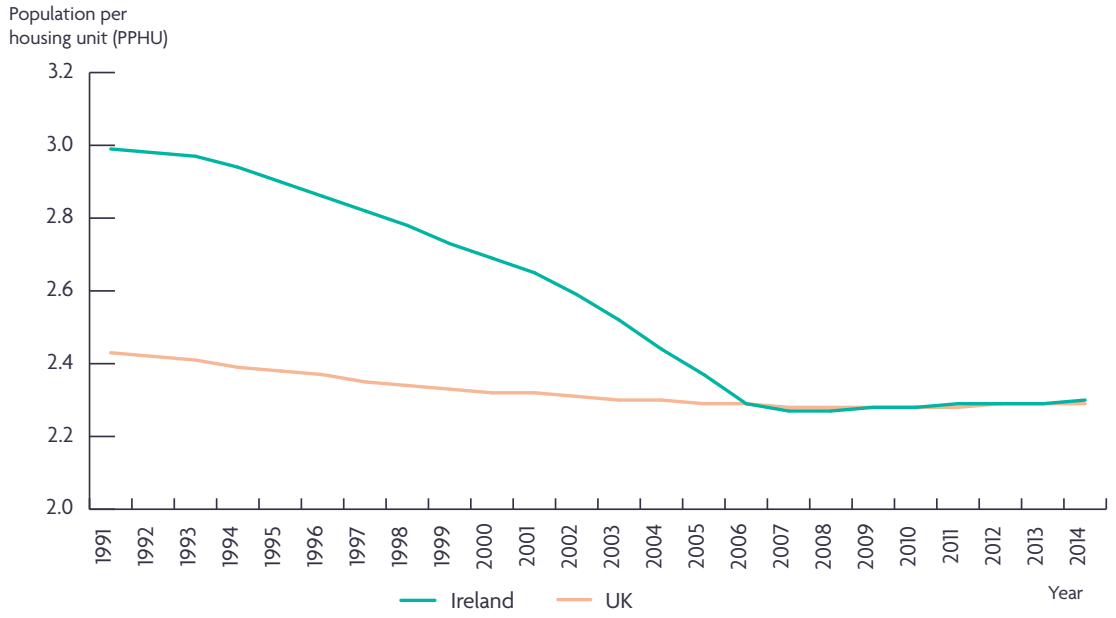
Existing property

The UK population was almost 14 times Ireland's in 2016 so it would not be meaningful to compare absolute figures. As the housing stock must accommodate all households we consider it relative to the total population.

Figure 4 shows that the Irish housing stock grew rapidly in the 1990s and early 2000s with the population per housing unit (PPHU) dropping from 2.99 in 1991 to about 2.29 by 2006. In the UK the housing stock grew more slowly and this ratio fell from 2.43 to 2.29 over the same period. Since then, PPHU in both markets has levelled off.

The downward trend in the Irish PPHU coincides with the significant expansion of the housing stock up to 2006.

Figure 4: Population per housing unit



Source: Eurostat, Department for Communities and Local Government (DCLG), Department of Housing, Planning, Community and Local Government (DHPCLG)

New property

A healthy housebuilding sector is crucial for the housing market to function properly.

New properties add to the existing stock and increase the capacity of the housing market to absorb new households.

New properties account for a relatively small share of property transactions. In both the UK and Ireland about one in ten property sales between 2010 and 2016 were for new properties according to CSO and Land Registry data.

Unfortunately, the housebuilding sector has been operating at or near historically low levels since 2009-10 in both countries.

Figure 5: Index of planning permission for dwellings (2010 = 100)

Source: Eurostat

While residential building planning permissions in the UK recovered to 2000 levels by 2016, in Ireland activity in the period 2011-2016 was four to five times lower than ten years earlier. For building starts and completions[12], similar patterns emerge[13].

In the UK, activity declined after 2007 but by 2016 it was slowly rising and above 2009 levels to about 10 commencements or completions per thousand 18-40 year olds.

Building activity in Ireland, however, fell sharply after 2006 with both commencements and completions running at about one-fifth the level in 2004. By 2016, Ireland also had about 10 commencements or completions per thousand 18-40 year olds (similar to the UK) but that compared with about 53 commencements and 52 completions per thousand in 2004.

[12] In the UK, "a dwelling is regarded as completed when it becomes ready for occupation or when a completion certificate is issued whether it is in fact occupied or not". The data is based on returns from local authorities. In Ireland, the data is derived on the number of new dwellings connected by ESB Networks to the electricity supply.

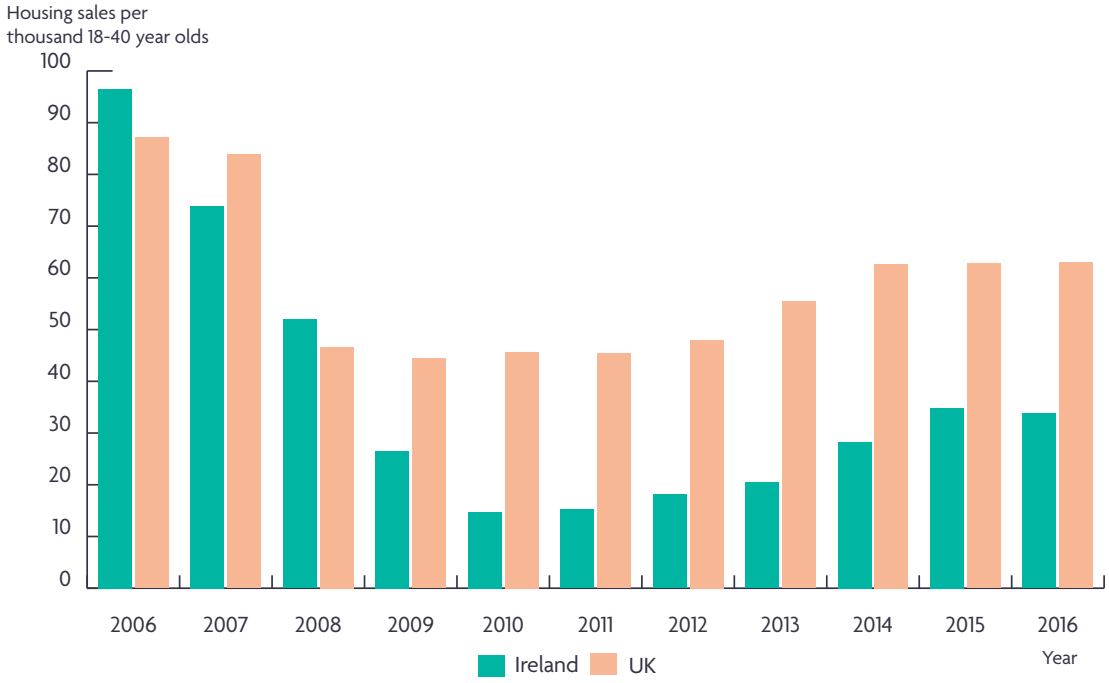
[13] Activity is measured with reference to the key household formation age cohort of 18-40 year olds.

Property transactions

The gap between Irish and UK building activity narrowed after 2008 but the opposite happened when it came to housing transactions. The two markets showed similar levels of transactions per thousand in 2006-08 but UK activity exceeded Irish transactions from 2009 onwards.

By 2014-16 UK transactions had plateaued at about 63 transactions per thousand 18-40 year olds. In the same period, Irish transactions seemed to settle at a much lower 34 transactions per thousand. This suggests that there was much less liquidity in the Irish housing market after 2008.

Figure 6: Housing sales per thousand 18-40 year olds



Source: Central Bank of Ireland (CBI), CSO, ONS, HM Revenue and Customs (HMRC)

Chapter 3: FTBs and the wider market

This chapter looks at where FTBs fit in the housing market, and how they interact with other parts of the housing market.

The latter part of this chapter looks at the different characteristics of FTBs and how they have evolved over the last 12 years.

Where do FTBs fit into the market?

The FTB represents the first step in homeownership, a major milestone in the life of the household and the link between homeownership and other housing tenures.

FTBs are an important part of the housing market, and vital for the wider health of the market in the UK and Ireland. They provide liquidity, allow people to trade up, and create housing chains.

FTBs may come from the parental home, social housing or private rented accommodation. This often determines if they are forming a new household. Those leaving the parental home are forming new independent households but those coming from social housing or private rented accommodation are not unless they lived in shared accommodation.

Existing homeowners in most cases need to sell their property to be able to move, so the rate at which FTBs enter the market has implications for the smooth running of the housing market as a whole. But FTB numbers in the UK and Ireland have been subdued since the financial crisis, and prospects for FTBs look subdued too.

This is moving the pattern of homeownership towards the older age groups, and increasing the number of people who own their home outright. This can be seen in the UK and Ireland as the number of people owning their homes outright recently exceeded those who have a mortgage.

A lack of FTBs coming into the market can cause issues in the short run which accumulate and show through longer term. These have implications for the overall health of the market and can impact transactions and labour mobility[14].

FTBs and their interaction with other groups

Following the boom and bottoming of the mortgage market in the 2000s, FTB activity has been growing since 2011 in the UK and 2013 in Ireland.

The UK market has recovered strongly with 19.4 FTB mortgage drawdowns per thousand 18-40 year olds in 2016, the highest level since 2007. In Ireland, there were 9.3 per thousand, the most since 2008. However, while UK volumes are close to the 2006 peak of 23.6, Irish volumes are well short of the peak of 26.4 in 2004.

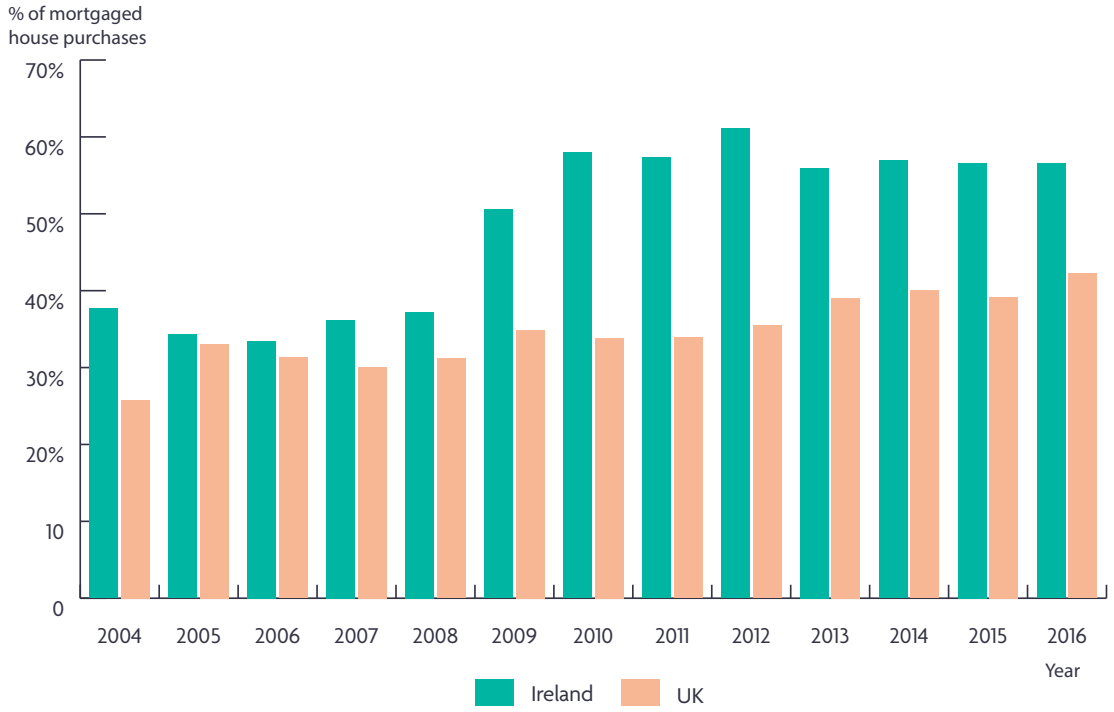
[14] Council of Mortgage Lenders, 2017. Missing Movers: A Long-Term Decline in Housing Transactions? [Online] Available at: https://www.cml.org.uk/news/cml-research/missing-movers-a-long-term-decline-in-housing-transactions/cml-missing-movers-research-report.pdf

Figure 7: FTB loans per thousand 18-40 year olds

Source: Banking & Payments Federation Ireland (BPFI), CSO, UK Finance, ONS

In volume terms, FTBs peaked in 2004 in Ireland and in 2006 in the UK. The FTB share of house purchases in Ireland fell below 35% in 2005 but jumped to more than half from 2009, partly due to the sharp fall in BTL activity. In the UK, FTBs accounted for less than 35% until 2012 but by 2016, they accounted for more than 40% of new mortgaged house purchases.

Figure 8: FTB share of mortgaged house purchases



Source: BPFI, UK Finance

We should not look at FTBs in isolation. In the mid-2000s, rising house prices led to FTBs making up a small smaller portion of the market, relative to home movers.

Between 2004 and 2012, movers accounted for more than half of property purchase mortgages in both Ireland and the UK. By 2016, movers' share of new purchase mortgages had fallen for six successive years in the UK and two in Ireland.

The relative decline of movers suggests reduced market liquidity. This limits supply of second hand properties for sale, possibly because they are in negative equity, they have an attractive mortgage rate that they do not want to lose, or because of relatively high transaction costs. This has a knock-on effect on sales where those willing or able to sell may struggle to find a suitable property to buy.

Movers traditionally pay higher prices and obtain larger loans than FTBs because they bring some housing equity to the transaction. They are also often older and have higher incomes. This pattern is relatively consistent over time and in the period considered in this report (2004-16) the size of the average FTB loan never exceeded the average mover loan in Ireland or the UK.

Amidst the boom in the Irish property market in the early to mid-2000s, BTL (comprising both investors in rental properties and holiday home buyers) emerged as a key segment.

The BTL share of purchase mortgage loans peaked in 2008-09 but it had recovered significantly by 2015-16. More than a quarter of Irish mortgage lending by value in the period 2005-08 went to BTLs.

Figure 9: Ratio of FTB average loan size to mover the BTL average loan size

Source: BPFI, UK Finance

The average Irish BTL loan was larger than the average Irish FTB loan until 2010, after which the relative value of the average BTL loan continued to fall until 2014. In the context of the wider housing market, research suggests that the high prices paid by BTL investors may have contributed to the boom in house prices in Ireland in the 2000s[15]. In the UK, the average BTL loan was always smaller than the average UK FTB loan, and the fall in the average relative size of the loans was less pronounced.

Looking more widely, FTBs hold a remarkably stable share of housing transactions.

The clear outlier in this pattern was 2010 in Ireland. Before 8 December 2010, FTBs in Ireland benefitted from an exemption from stamp duty on housing purchases. It appears that large numbers of FTBs rushed to close transactions before the deadline.

[15] Coates, D., Lydon, R. & McCarthy, Y., 2015. House price volatility: The role of different buyer types, Dublin: Central Bank of Ireland.

Figure 10: FTB mortgages as % of housing sales

Source: BPFI, CSO, UK Finance, HMRC

Characteristics of FTBs

This section looks at how the characteristics of FTBs have changed between 2004 and 2016 in Ireland and the UK. Capital cities typically have different traits compared to the rest of the country, so Dublin and London are also looked at in detail.

It is not always clear from looking at headline metrics how the characteristics of FTBs have changed over the past 12 years. Their median age remains at or around 30, the amount they borrow and their incomes have grown roughly at the same pace as the rest of the market. But digging deeper reveals some of the challenges facing them.

In some ways, similar trends have been observed in Ireland and the UK with respect to FTBs. But many of these are masked when looking at medians and means. We consider the following factors:

- Age;
- Loan term;
- Loan-to-values;
- Loan-to-incomes;
- Mortgage repayment type; and
- Property type.

Age

The median age of a FTB in the UK has been 30 years, give or take a year, for the past twelve years. While the median age has been stable, there have been changes beneath the surface.

In Ireland, the median age began to rise in 2012, reaching 33 years of age in both Dublin and the country as a whole by 2015.

In 2004, nearly half (49%) of FTBs in the UK and 60% of FTBs in Ireland were 30 years or younger. By 2016, this proportion had grown slightly in the UK to just over half (54%) of all loans, while in Ireland it was down to just over a quarter (29%).

There is an even stronger divergence when focussing on FTBs under 26 years of age. In both countries, they accounted for around one in five (22% in the UK, 19% in Ireland) FTBs in 2004. By 2016, one in five (21%) FTBs in the UK were still in that age bracket, but in Ireland, this had fallen to just one in 33 (3%).

The same trends that are observed in Ireland are also observed in the capital city, Dublin. Around one in five (18%) FTBs in 2004 were younger than

26, but by 2016 only 2% of FTBs were in this age group.

But for the UK different trends have been emerging from London compared to the rest of the UK, especially amongst younger FTBs.

Those aged under 26 accounted for 14% of all FTBs in 2004 in London. But unlike the rest of the UK, this proportion did not stay stable over time. In London, this group accounted for just 9% of all FTBs in 2016.

Loan term

Stretching mortgage terms is one of the ways that FTBs can borrow more while keeping monthly payments affordable, allowing them to transact as prices increase. It's no surprise then that the average length of an FTB mortgage is no longer 25 years and there's been a steady movement towards longer term mortgages.

One in three (33%) mortgages taken out by FTBs in the UK were over 30 years in length by 2016.

A similar story can be seen in London, where most loans in London fell into the 21 to 25 year category in 2008. By 2016, the picture was markedly different, as the proportion of loans over 30 years long had more than tripled to 31%, from 9%.

Ireland also experienced a lengthening of mortgage terms. In 2004, nearly one in four (23%) mortgages were over 30 years long. By 2016, this figure was 39%. Dublin followed a similar profile to the rest of Ireland.

Loan terms lengthened significantly up to 2008 in Ireland as house prices peaked and affordability was most stretched. For example, the median term had reached 33 years in Dublin before easing back and levelling off at 30 years.

Apart from this blip; there has been a trend of the longer loan term buckets accounting for a larger portion of FTB loans.

Loan-to-value

The most visible trend when looking at loan-to-values is that higher LTVs (above 90%) are much less prevalent than in the pre-crisis period.

In Ireland, while there has been some recovery in higher LTV lending in 2016, it is still on a much smaller scale than it was back in 2008, or even 2004. By 2016, higher LTV lending in Ireland accounted for a historically low proportion of the FTB market.

In the UK, higher LTV lending accounted for 38% of loans to FTBs in 2004. This proportion fell away in 2008 and continued to fall until 2012. Given house prices were falling over much of that period, supply of higher LTV loans fell sharply as lender's risk appetites reduced and the gap between borrowers' financial resources and property prices narrowed. By 2012, just 3% of lending was at these higher LTV bands. Since 2012, the picture has improved somewhat, partly as a result of government schemes, and when 13% of loans were above 90% LTV.

Higher LTV lending in Ireland accounted for more than half of all FTB loans (53%) in 2004, rising to 62% in 2008, before contracting sharply in 2012 and 2016, to 31% and 6% of all loans, respectively. Loans in the band just below (81-90%) accounted for most of the lending in 2016. Although regulatory limits on LTVs were introduced in 2015, the prevalence of higher LTVs had already declined.

The capital cities broadly followed the national trends but by 2016 there was a larger portion of loans in the lower LTV bands in the capital cities than in the rest of the country.

The majority of loans (64%) to FTBs were under £100,000 in 2004. Over time, there has been a steady shift up towards larger loans. In 2016, three in ten (29%) loans made to FTBs were below £100,000, but the vast majority (59%) still remained below £150,000.

This means the higher value bands have seen growth, as the proportion of loans above £200,000 increased from one in 20 (5%) in 2004, to nearly one in four (23%) in 2016.

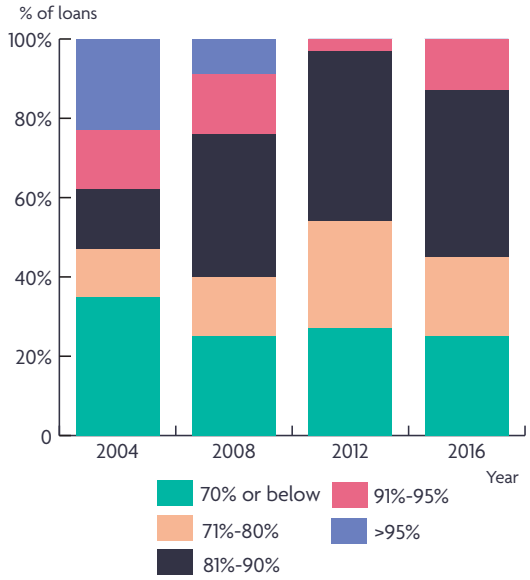
Prices in London are higher, so Londoners typically take out larger loans, but the trend has been similar to the rest of the country. In 2004, 60% of FTBs took out loans of less than £150,000. By 2016, this had fallen to just 20%. In contrast, loans above £300,000 have increased from 4% in 2004 to 36% in 2016.

Again, Ireland follows a different pattern, as most loans taken out by FTBs (58%) in 2004 were between €100,000 and €200,000. By 2008, there had been a marked shift upwards, towards the next two loan buckets (€200,001 to €250,000 and €250,001 to €300,000). While this shift in the distribution had reversed by 2012 and the distribution in 2016 was similar to 2004.

Dublin followed a similar pattern as the rest of Ireland, but the changes were more pronounced.

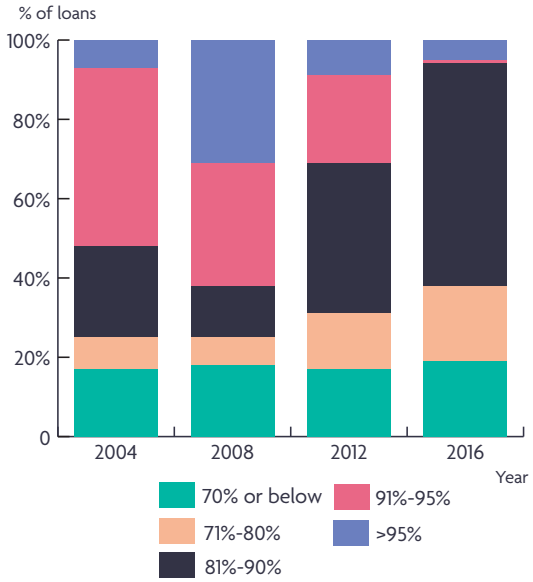
The next section on loan-to-incomes explains why this might be and how the loan-to-value and loan-to-income measures sit with one another.

Figure 11: FTB loan-to-value distribution in the UK



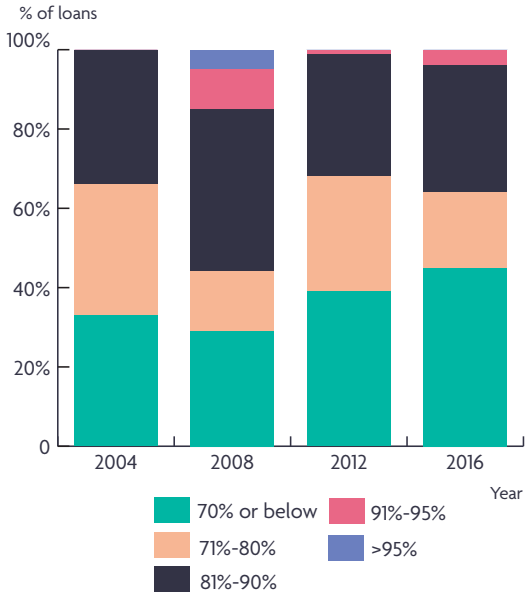
Sources: UK Finance

Figure 12: FTB loan-to-value distribution in Ireland



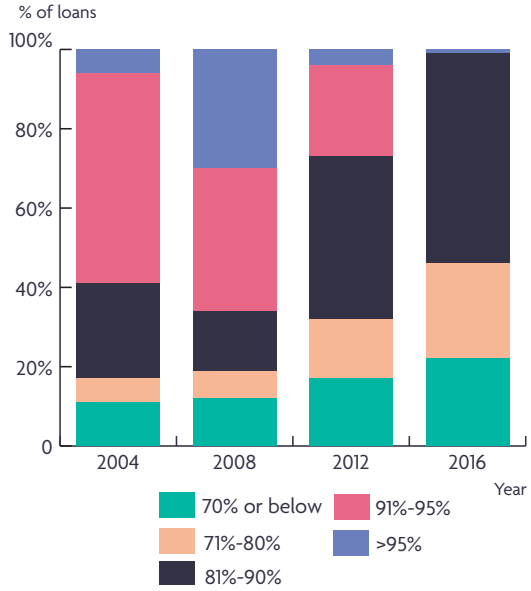
Sources: DHPCLG, BPFI

Figure 13: FTB loan-to-value distribution in London



Sources: UK Finance

Figure 14: FTB loan-to-value distribution in Dublin



Sources: DHPCLG, BPFI

Loan-to-income

In both the UK and Ireland, macro-prudential regulation has been put in place over the last few years which will have affected the distribution of loan-to-income ratios (LTIs), which is explored in much more detail in the next chapter.

In short, the Financial Policy Committee (FPC) in the UK imposed a soft cap on LTIs at 4.5, with 15% of new loans allowed to be at or above that limit. This came into effect in October 2014. From February 2015, the Central Bank of Ireland has required that only 20% of new lending to home buyers is allowed to exceed a lower LTI limit of 3.5.

LTIs in the UK have been increasing over time. Lending below an income multiple of 3 made up more than half (53%) of all lending in 2004 in the UK. This has steadily fallen over time and by 2016 it only accounted for a third (32%) of lending to FTBs, driven by a shift to the higher LTI bands. So while lending above 3.5 LTI was only a third (31%) of all lending in 2004, it accounted for just over half (51%) in 2016.

Growth in higher LTI lending has been stronger in London. Lending above 3.5 LTI accounted for 43% of all lending to FTBs in 2004. By 2016 this had grown to 68%. While average LTVs are typically lower in London than the rest of the country, average LTIs have been higher. This is likely to reflect risk appetite for lenders as they either allow borrowing at a high LTI or LTV, but not both. This means Londoners on average need to provide a larger deposit, but can borrow a higher multiple of their income.

Ireland had a similar distribution in LTIs relative to the UK in 2012. However, after the CBI's LTI rules were implemented lending in the 3 to 3.5 LTI band grew as a proportion of the total to reach a third (31%) from just 17% in 2012. This bunching is also evident in Dublin, as the proportion in the 3 to 3.5 LTI band grew from 18% to 40%. Lending above this band has fallen across Ireland and in Dublin between 2012 and 2016.

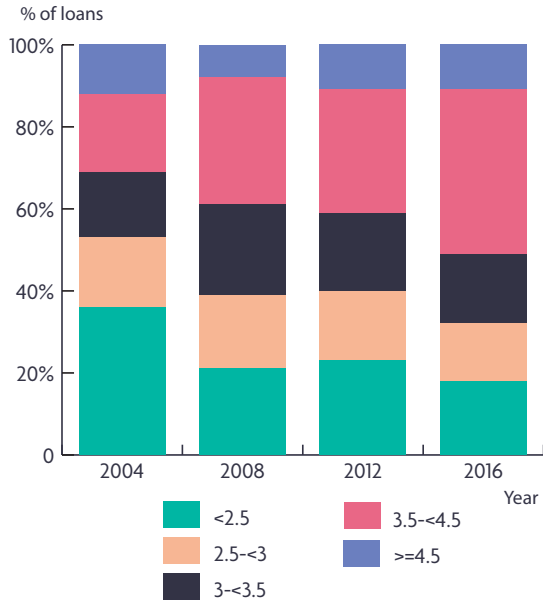
In absolute income terms, most UK FTBs were assessed on an income of less than £40,000. But the share of borrowers with higher incomes has risen, as rising house prices mean increasingly FTBs need higher incomes to afford to buy. The proportion of FTBs with a reported income of £60,000 or more has nearly tripled from just 7% in 2004 to 20% in 2016.

In 2004, two-thirds (65%) of Irish FTBs reported incomes between €40,000 and €70,000 but by 2016, this had fallen to less than half (47%). The trends correlate with broader residential property price trends with the market dominated by higher-income buyers in 2008 and 2016 – one in four FTBs had incomes over €80,000.

Both capital cities showed a distribution towards higher incomes. In London, for example, 58% of FTBs in London reported an income less than £40,000 in 2004, but this had fallen to 17% in 2016, which largely reflects how expensive housing has become in the capital city. Similarly, the proportion of FTBs with an income of over £80,000 has increased from 8% in 2004 to 32% by 2016.

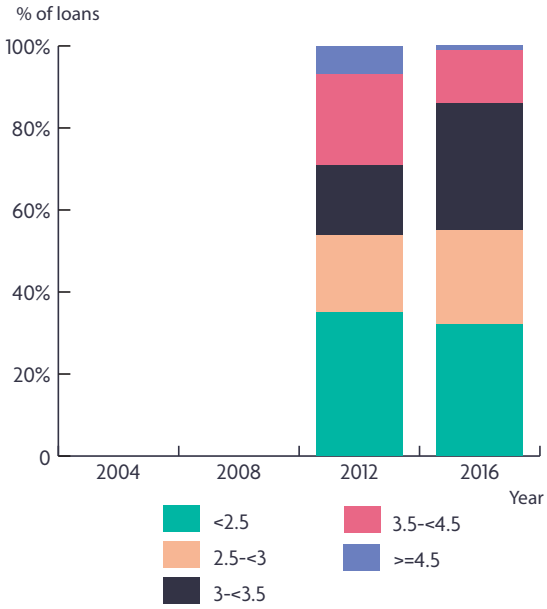
These trends also partly reflect a shift towards joint borrowers, as they have higher combined incomes. The proportion of FTB loans taken out by joint borrowers has increased from just over 45% in 2004, to 55% in 2016 in the UK and from 53% in 2012 to 68% in 2016 in Ireland.

Figure 15: FTB loan-to-income distribution in the UK



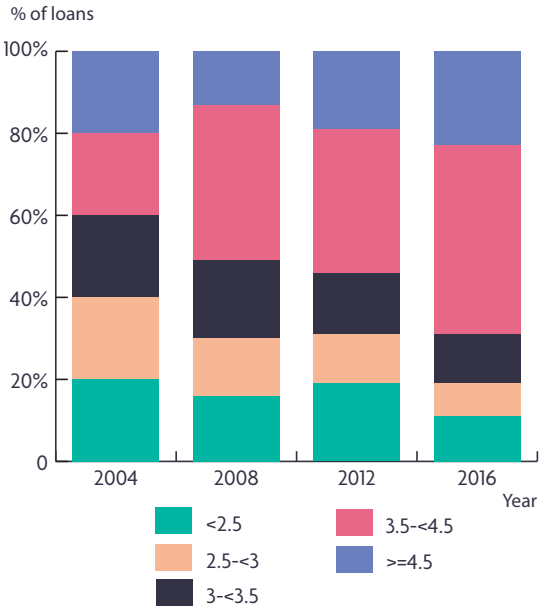
Sources: UK Finance

Figure 16: FTB loan-to-income distribution in Ireland



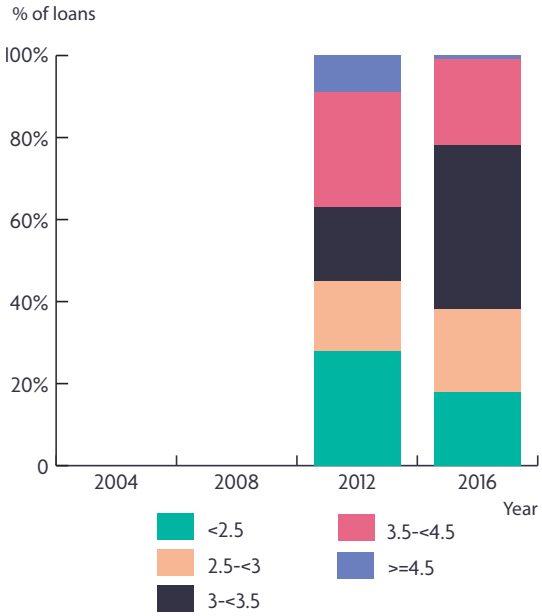
Sources: BPFI

Figure 17: FTB loan-to-income distribution in London



Sources: UK Finance

Figure 18: FTB loan-to-income distribution in Dublin



Sources: BPFI

Repayment type

A relatively small number of FTB mortgages have been advanced on an interest-only basis in Ireland. One in 25 (4%) mortgages advanced to FTBs in 2004 were interest only, rising to one in 20 (5%) in 2008 then rising slightly again (6%) in 2012 before effectively disappearing from the market. We only have data for 2012 and 2016 for Dublin, and in both of those periods almost all loans to FTBs were on a capital and interest basis.

This is a very different picture to the UK. In 2008, about one in four (26%) mortgages were interest only. This was even higher in London, as nearly half of all FTB loans (45%) were interest only. By 2012 however, this proportion had fallen to one in 50 (2%) in the UK and one in 20 (5%) in London. As with Ireland, interest-only loans were virtually non-existent by 2016.

After the financial crisis, interest-only mortgages became less popular in the UK for lenders and borrowers. In 2014, new regulation was implemented which meant interest-only loans could only be made in certain situations and where there was a credible repayment strategy.

The effective disappearance of interest-only mortgages in Ireland seems to reflect a change in lender appetite rather than regulatory intervention. Between 2009 and 2011, interest-only mortgages accounted for only about 2% of new FTB loans. That preceded the Consumer Protection Code 2012 which specified that lenders "must carry out an assessment to ascertain the personal consumer's likely ability to repay the principal at the end of the mortgage term".[16]

Property type

The type of properties bought by FTBs is primarily a function of two factors. The first is the stock of properties available in an area, and the second is the relative price of different types of properties.

Flats, terraced and semi-detached housing tend to be relatively cheaper than bungalows and detached properties, which is in part why many FTBs buy these properties.

In the UK, the proportion of FTBs buying flats or terraced housing has been fairly stable. Terraced housing accounts for around a third of properties bought over time, while flats account for around a quarter. Semi-detached housing makes up most of the remainder.

The picture in London is very different though. As London is much denser, flats make up a much larger portion of the housing stock, and account for the majority of purchases by new buyers. The next most popular property type for FTBs in London is terraced housing. Taken together, they have accounted for an average of 80% of purchases over time, with this proportion reaching 89% in 2016.

The most popular type of housing bought by FTBs in Ireland is semi-detached, and the second most popular is detached housing. In Dublin, it is semi-detached and terraced housing that makes up the majority of purchases.

This in part reflects the age and origin of the housing stock. While terraced housing was consistently built throughout the 20th century, especially in urban areas, large numbers of semi-detached properties were built in the 1970s, 1990s and 2000s in Ireland.

[16] Central Bank of Ireland, 2012. Consumer Protection Code 2012. [Online] Available at: https://www.centralbank.ie/docs/default-source/Regulation/consumer-protection/other-codes-of-conduct/6-gns-4-2-7-consumer-protection-code.pdf?sfvrsn=6 [Accessed 1 June 2017].

Chapter 4: Government housing schemes, regulation and interactions with the housing market

This section explores the role of government schemes and regulation and their interaction with the housing market. Government schemes in the housing and mortgage market are typically introduced with specific aims such as to address market failures, or to encourage activity of a certain nature.

Regulatory bodies often aim to strengthen markets with regulation. In the case of the housing market, regulation implemented after the financial crisis was aimed at constraining risky lending and borrowing, providing a mortgage market that is sustainable, and treating customers fairly.

We look at government housing schemes in both countries, then take a look at regulation, and finally consider the impact the two have had on the housing and mortgage markets.

Government housing schemes

There have been a number of government schemes over the recent past in Ireland and the UK. The focus of many of these schemes has been FTBs, either directly, as only FTBs were eligible, or indirectly, as take up had been predominantly by FTBs.

In the UK alone, there are now at least eight government housing schemes aimed predominantly at FTBs. This highlights the amount of help they require to be able to transact in the UK housing market and the extent of government intervention. By contrast, the only broad Irish government schemes for FTBs are the Help to Buy scheme in late 2016 and a deposit interest tax rebate introduced in 2014. Most other FTB schemes have aimed to move households out of social housing into the private housing sector.

Table 1: Government Housing Schemes in the UK and Ireland

	UK	Ireland
Tax-related measures	Stamp duty concessions and reforms (2008-16)	Stamp duty relief (2000-2010) Mortgage interest relief (ended 2012)
Loan schemes	Help to Buy: Equity Loan (2013)	Local authority mortgages Home Choice Loan (2009)
Mortgage guarantee/insurance	Help to Buy: Mortgage Guarantee (2013 - 2016)	
Shared ownership	Help to Buy: Shared Ownership (2015)	Incremental purchase schemes (various)
Deposit assistance schemes	Help to Buy: ISA (2015) Lifetime ISA (2017)	Help to Buy (2014 & 2016)
Other schemes		Affordable housing (1999-2011) Low-cost housing sites Mortgage allowance scheme

Tax-related measures

UK: Stamp Duty concessions and reforms (2008–2016)

There have been two stamp duty concessions since 2004 in the UK. The first affected all home buyers and the second applied to just FTBs.

In September 2008, the government implemented a stamp duty holiday that raised the lowest tax threshold from £125,000 to £175,000. This concession applied to both FTBs and home movers. The relief ended in December 2009, and led to a jump in activity in the lead up as buyers brought activity forward to take advantage of the concession. There was also a corresponding drop in activity in the early months of 2010.

The second stamp duty holiday was put in place in March 2010, but only applied to FTBs. The relief raised the lowest tax threshold from £125,000 to £250,000. As with the first stamp duty holiday, there was a peak and trough in March and April 2012, respectively, as the concession ended.

The rationale for the stamp duty holidays was to encourage activity in the market.

In December 2014, stamp duty was reformed from a slab system to a marginal system. So instead of paying tax at the highest rate on the whole property price, the buyer only pays the higher rate on the portion of the price above the threshold. This reduced stamp duty costs for lower priced properties, benefitting FTBs. In April 2016, a higher rate of stamp duty was introduced on second homes, which has since dampened activity in sectors such as buy-to-let. This also helps FTBs as BTL purchasers and FTBs typically buy similar priced properties.

Ireland: Stamp duty exemptions and reduced rates (2000 – 2010)

In Ireland FTBs benefitted from reduced rates of stamp duty between 2000 and 2008. The stamp duty regime for residential property was reformed and simplified in 2008, with exemptions provided to first-time purchasers of all residential property and other owner-occupying purchasers of new residential property up to certain size limits. All FTB stamp duty reliefs expired on 7 December 2010. There was a sharp increase in FTB mortgage activity in Q4 2010 as prospective buyers brought their transactions forward to avail of the stamp duty exemption.

Ireland: Mortgage interest relief

Mortgage interest relief had long been available in Ireland to indirectly subsidise homeownership but it was finally abolished for properties purchased or built after 31 December 2012. Some existing recipients will continue to receive mortgage interest relief until the end of 2017, which may be extended further.

Since 2002, mortgage interest relief has been granted at source by the mortgage lender on behalf of the Revenue Commissioners. The benefit is provided either as a reduced monthly mortgage payment or a credit to the funding account.

The ceilings or upper thresholds on the amount of interest paid and the rate of relief that qualifies for tax relief were higher for FTBs.

Mortgage interest relief has been one of the largest tax relief schemes in Ireland, with more than 780,000 people benefitting at its peak in 2009. Almost €4.4 billion in tax relief was provided between 2004 and 2014.

Loan schemes

UK: Help to Buy: Equity Loan

The Help to Buy: Equity Loan scheme for England and Wales was launched in April 2013 (a London variant launched in February 2016) aimed at trying to boost new housebuilding. A similar scheme exists in Scotland, but not in Northern Ireland.

The scheme provides an equity loan for a new build home bought through a Help to Buy builder taking part in the scheme. The buyer provides at least a 5% deposit, the government adds the up to 20% of the purchase price through an equity loan, and the buyer takes out a 75% LTV mortgage to cover the rest of the purchase.

This scheme has been open to anyone buying a new build property to live in, but the take up was primarily by FTBs, as they typically have smaller deposits. A variant of the scheme was introduced in London (London Help to Buy) which allowed buyers to take out a 40% equity loan, meaning they would only need a 55% LTV mortgage for the purchase, alongside their 5% deposit.

The equity loan is interest free for the first five years, 1.75% in the sixth year, with the interest rate 1% above the Retail Price Index from the seventh year onwards. The scheme has a cap of £600,000 on the property price.

By the end of 2016, more than 112,000 properties had been bought under the scheme in England, almost 91,000 of which went to FTBs. However, less than 6% of the properties were located in London.

The equity loan scheme in England and Wales is set to run until 2021, while the Scottish scheme closes earlier, in 2019.

Ireland: Local authority mortgages/Home Choice Loans

Local authority mortgages are primarily aimed at lower-income FTBs that are unable to get mortgages from building societies or banks. They have been available in different forms since the Small Dwellings Acquisition Act of 1899.

Each of Ireland's local authorities provide mortgages to eligible borrowers to buy a new or existing home - borrower shall use the house as his or her normal place of residence - or to build a home.

FTBs apply to their local authority, which makes the lending decision based on the credit policy issued by the Minister for Housing, Planning, Community and Local Government. The Housing Agency, a government agency, provides a central shared underwriting service. The FTB must provide evidence that he or she cannot get a mortgage loan from a bank or building society.

The mortgage can be up to 97% of the value of the property but no more than €200,000, which is greater than the average FTB mortgage since Q2 2010. Local authorities only issue annuity loans and offer variable rates.

The Home Choice Loan scheme is a similar but separate scheme launched in 2009 to address government concern about access to mortgage finance.

A Home Choice Loan provides up to 92% of the market value of a property up to a maximum of €285,000.

To qualify for a Home Choice Loan, applicants should be low-income FTBs and have proof of being unsuccessful in securing a sufficient mortgage from two banks or building societies to buy a home.

Neither scheme has had a major impact in terms of activity with consumer uptake for both limited. Local authority mortgage drawdowns have averaged 150 per year. By July 2016, it was reported that only 11 loans had been issued under the Home Choice Loan scheme and none since 2014. The Department of Housing, Planning, Community and Local Government (DHPCLG) indicated in early 2017 that it would review both schemes.

Mortgage Guarantee/ Insurance

UK: Help to Buy: Mortgage Guarantee

The Help to Buy: Mortgage Guarantee scheme was introduced in October 2013, as a temporary measure across the whole of the UK, to address a specific cyclical problem - the lack of availability of high LTV loans.

Before the financial crisis, FTBs had enjoyed the ability to borrow at high LTV for nearly a quarter of a century. Then, during the crisis there was a large drop, and the average LTV for new loans declined in 2009.

The scheme offers lenders insurance in the event that a property covered by the scheme is taken into possession and results in a loss. The insurance covers down to 80% of the property's value, with the lender taking a 5% share of any losses. The value of any property under the scheme is capped at £600,000.

The aim was to help would-be – and creditworthy – homeowners with a small deposit to transact or get on the housing ladder or remortgage. These people might otherwise be locked out of the market. Similar to the equity loan scheme, the mortgage guarantee scheme was designed to particularly help FTBs who have little equity to drawn on.

In this respect, the scheme had the desired effect

as around four in five (80%) of borrowers were FTBs.

The scheme closed in December 2016, just over three years after it was launched. It closed with fairly little disruption to activity, as lenders had been offering high LTV loans outside of the scheme and continue to do so.

Shared ownership

UK: Help to Buy: Shared Ownership

The Help to Buy: Shared Ownership scheme is a cross between buying and renting, aimed at people who do not earn enough to buy a home outright. In its current form, the scheme has existed since November 2015, but variations of the scheme have been around since the 1970s.

The scheme gives borrowers the option to purchase between 25% and 75% of a property, and pay rent for the remaining part. Over time there is the option to 'staircase' up, buying more equity in the property over time, until the borrower owns 100% of the property.

In England, the eligibility criteria are that the buyer is an FTB, or someone who used to own, but cannot afford to now. Household incomes also need to be below £80,000 (£90,000 in London).

The scheme has been most used in areas where prices to income ratios are highest (for example, London) as a substantive number of buyers are not able to buy a property outright.

Ireland: Incremental purchase/shared ownership schemes

The Irish government launched the Tenant (Incremental) Purchase Scheme in January 2016 to enable local authority tenants to buy their homes with a discount depending on their income.

The scheme effectively replaced the Shared Ownership Scheme which was active between 1991 and 2011 and enabled low income households to part buy/part rent homes as well as the 1995 Tenant Purchase Scheme which was closed to applications in 2012.

Local authority tenants apply to their local authority to buy their house. The scheme does not apply to apartments/flats or existing local authority houses.

A separate Incremental Purchase Scheme was launched in June 2010 to enable low income households, in receipt of, or eligible for, social housing support, to buy a newly built local authority home with a discount depending on their income.

In both schemes, purchasers must continue to live in the house as long as they own it. The local authority places an incremental purchase charge, which reduces over time and which is equal to the discount on the purchase price. The discount ranges from 40% to 60% depending on the household's income.

Shared ownership scheme activity peaked in 2002 with almost 1,700 transactions but between 2004 and 2012 a little over 2,500 transactions were completed. A review of the tenant purchase scheme was conducted in early 2017. The findings have not yet been published.

Deposit Assistance Schemes

UK: Help to Buy: ISA

The Help to Buy: ISA was launched in the UK in December 2015 with the aim of helping younger people build up a deposit faster, to purchase their first home. The Help to Buy: ISA provides a 25% government top up when savers purchase their first home under the scheme. This support is capped at £3,000 per individual, and the property price must be less than or equal to £250,000 (£450,000 in London).

Since its launch, just over 63,000 bonuses have been paid out, with an average value of £579, on about 45,000 properties. The scheme has been most popular in the north of England, and the Midlands. The scheme essentially helps bring forward some home buying activity, allowing would-be FTBs to buy their first home earlier than they would have been able to otherwise.

UK: Lifetime ISA

The Lifetime ISA was launched in April 2017, with the aim of encouraging young people to save. Money saved using the scheme can either be put towards a deposit for a house, if the saver has not owned before, or to save up for retirement. The scheme allows savers to save up to £4,000 a year, and the government provides a 25% top up.

Only people between the ages of 18 and 40 can use the scheme, and if they are using it as a deposit for a property, the home must not be worth more than £450,000.

The scheme design is very similar to the Help to Buy: ISA, except that there is a maximum cap of £88,000, if the recipient pays in the maximum amount each year, until they are 40.

The aim of this scheme was to give would-be FTBs a boost as they struggled to save enough to put down a deposit for a house, given house price growth had outpaced income growth. This continues to be a big hurdle for FTBs post-crisis especially as high LTV loans are still not widely available.

Ireland: Deposit Interest Rate Tax (DIRT) First-Time Buyers Relief & Help to Buy Incentive

In 2014, the government introduced a relief from Deposit Interest Rate Tax (DIRT) – a tax deducted from interest earned on deposits – where those deposits or savings were used for the purchase of a property or a self-build. This was bundled up with the Help to Buy incentive in 2016 which aims to assist FTBs finance the deposit required to purchase a home or build their own home. The incentive also targets home building as the reliefs only apply to self-builds or purchases of new builds. The relief was intended to provide support for borrowers affected by the CBI's loan-to-value mortgage regulations.

The Help to Buy incentive allows FTBs buying or building a newly built residential property up to 31 December 2019 to claim a refund of income tax or DIRT paid over the previous four years.

To be eligible, the purchase must be financed by a mortgage with a loan-to-value of 70% or above on, a new build property built after 15 July 2016, or, in the case of a self-build home, the FTB must have drawn down the first tranche of the relevant mortgage on or after that date.

For transactions from 1 January 2017, tax refunds on purchases of new builds will be paid to the qualifying contractor as a deposit for the purchase of the home, while refunds on self-builds will be paid to the qualifying loan bank account.

The tax relief depends on the property price/value and the income tax and DIRT paid by the FTB in the four years prior to the purchase of self-build. In either case, the relief cannot exceed €20,000.

The FTB must live in the home for a period of five years, otherwise clawback provisions apply and the purchase value of the property cannot exceed €500,000 for properties bought after 1 January 2017.

By early August 2017, there had been almost 8,900 applications, of which 6,000 were approved. About 3,100 claims had been made, where the applicant has agreed to buy or build a specific property, and about 2,500 had been approved. Some 14% of claims made had been for self-builds.

Other schemes

Ireland

The focus of Irish government housing schemes has traditionally been to move households out of social housing and into private ownership but they have made little impact.

The low-cost housing sites scheme was established in 1991 to increase home building and to facilitate private home ownership, especially for people on a waiting list for or occupying social housing. In some cases, other lower-income FTBs may also be eligible.

Under the scheme, local authorities provide housing sites at low cost to help people in need of housing, to provide their own housing. If the property is sold within ten years, a clawback provision applies.

In 2016, the availability of sites was limited with a small number of local authorities offering them. Only 519 sites were provided between 2004 and 2015, with only 21 in the last six years.

The mortgage allowance scheme was also launched in Ireland in 1991 and aimed to ease the transition from social housing to private home ownership and paying a mortgage. This provides for an allowance of up to €11,450, payable directly to the mortgage provider, over a five-year period. Fewer than 2,300 social housing units were surrendered between 2004 and 2015, with no more than 230 in the last four years.

Under the 1999 Affordable Housing Scheme local authorities provided land on which new houses were built and sold. Mortgages were available from local authorities and some mortgage lenders also provided mortgages for affordable homes. Applicants for private sector affordable mortgages had to be pre-approved by their local authorities for a suitable property. Fewer than 4,900 affordable homes were provided between 2004 and 2015.

UK

The Funding for Lending Scheme (FLS) was launched in July 2012 by the Bank of England and HM Treasury and was designed to help boost lending to the real economy. The scheme provided funding to banks and building societies for an extended period, at a below market rate, which was linked to the performance of lending to households and businesses. This helped reduce funding costs for banks, and in turn increased their lending capacity. There were several extensions of the scheme, but it was closed to households from November 2015.

The Term Funding Scheme (TFS) was introduced in August 2016, alongside a Bank Rate cut to 0.25%. The scheme was similar to the FLS, and introduced to reinforce the transmission of the Bank Rate cut to households and businesses, as it provides a cost effective source of funding for lenders.

Regulation in the housing market

UK regulation

The Financial Services Authority introduced the Mortgage Code of Business (MCOB) in late 2004, assuming statutory responsibility for regulating mortgages. In 2014, the Financial Conduct Authority[17] introduced a new regulatory framework called the Mortgage Market Review (MMR). This regulatory framework introduced a more rigorous approach towards income verification and the assessment of affordability. This meant that some existing homeowners would no longer pass new affordability tests if they tried to get a new mortgage and also meant it was harder for FTBs to pass the affordability tests.

Shortly after the introduction of the MMR, the Chancellor of the Exchequer announced that HM Treasury, the UK's economic and finance ministry, would grant the Bank of England's Financial Policy Committee (FPC) additional macro-prudential powers in the housing market. The FPC is a committee formed in 2013 with a primary objective of identifying, monitoring and taking action to remove or reduce systematic risk in the financial sector.

In June 2014, the FPC made two recommendations:

- mortgage lenders do not lend more than 15% of new loans at or above 4.5 loan-to-income ratio;
- mortgage lenders assess whether borrowers can afford a 3 percentage point increase in the Bank Rate over the first five years of the loan.

These recommendations took effect in October 2014, but lenders began implementing the rule changes soon after they were announced, to avoid disruptions when the deadline came about.

The FPC's reason for these rules was to insure against a marked loosening in underwriting standards and a further significant increase in the number of very highly indebted households.

This led to a fall in higher LTI lending in the first year after the rules were implemented, as lenders were wary of falling foul of the rules. Since then, higher LTI lending has recovered, but still remains comfortably below the 15% thresholds.

As FTBs tend to borrow at higher LTIs, this rule was expected to impact FTBs disproportionately. Though UK Finance data shows that there has been a fall in lending at higher LTIs to home movers in the UK, in what appears to be a move to using the capacity for FTBs instead. But it could also be the case that movers are typically older and cannot borrow at high LTIs as they cannot stretch their mortgage term as much as FTBs.

[17] The Financial Services Authority became two separate regulatory authorities in 2013. The Financial Conduct Authority took over responsibility of the banking system.

The FPC has since been given directive powers which include in the BTL market and has carried out a review of all its powers[18] and its strategy for setting policy in the mortgage market in 2017.

Irish regulation

The CBI introduced a package of macro-prudential mortgage measures in February 2015, limiting loan-to-income ratios for private dwelling house (PDH) mortgages and loan-to-value ratios for PDH and BTL mortgages.

The CBI's stated objectives for the measures were to dampen the pro-cyclical dynamics between property lending and housing prices and increase the resilience of banking and household sectors to financial shocks.

The regulations combine an income stretch instrument (LTI) with a collateral stretch instrument (LTV). This restricts the ability of FTBs to borrow in two ways:

- The LTI caps the loan that a FTB can get relative to his/her income so if house prices grow faster than incomes, then the gap between the LTI-capped loan and the price will grow over time. This increases the deposit that the borrower must contribute;
- The LTV caps the loan that an FTB can get relative to the price of the residential property being bought so the loan available rises in line with the house price and the borrower's income is less relevant. As prices rise, the deposit that the borrower must contribute also increases.

The CBI said its decision to differentiate between FTBs and second and subsequent buyers (SSBs) was informed by empirical research that showed FTBs had a lower risk of default relative to SSBs. As a result, it concluded that a higher LTV 90% was appropriate for FTBs. Its decision to eliminate the price threshold was taken to address concerns raised about fairness and access to mortgage finance and homeownership for FTBs.

The separate LTI and LTV buffers for FTBs and movers partly reflects how lenders were using the buffers.

CBI data shows that 72% of LTI allowances by value were used by FTBs in the first half of 2016. By contrast, only 37% of LTV allowances were used by FTBs. In other words, FTBs benefitted more than LTI allowances (lending above the limit) while movers benefitted more from LTV allowances.

This allocation of allowances is in line with analysis that suggests that lenders allocate allowances in an efficient manner: a borrower benefitting from an LTV allowance would be likely to have a low LTI and vice versa, rather than allocating both allowances to one customer. This keeps credit risk at sustainable levels.[19]

The macro-prudential measures have added significant volatility to the mortgage market in Ireland, especially for FTBs. This was evident when the CBI first consulted on the measures in October 2014, introduced the measures in February 2015, began reviewing the measures in 2016 and revised them in late 2016.

There was a significant increase in approval activity between October 2014 and February 2015 as borrowers sought to get ahead of the regulations. Activity levels remained subdued throughout the rest of 2015. Early 2015 also saw a jump in drawdowns as approved customers drew down quickly before the regulations took effect.

[18] Bank of England, 2017. Financial Stability Report, June 2017. [Online] Available at: http://www.bankofengland.co.uk/publications/Documents/fsr/2017/fsrjun17.pdf [Accessed 1 June 2017]

[19] Michel Dietsch et Cécile Welter-Nicol, Do LTV and DSTI caps make banks more resilient?, ACPR Banque de France, August 2014.

Table 2 sets out the LTV and LTI limits in Ireland and the UK. On the face of it, the Irish measures appear more stringent with an LTV limit where none exists in the UK and a lower LTI limit, although the buffer for exemptions to the LTI limit is larger in Ireland than in the UK.

Table 2: Current macro-prudential measures in the residential markets of Ireland and the UK

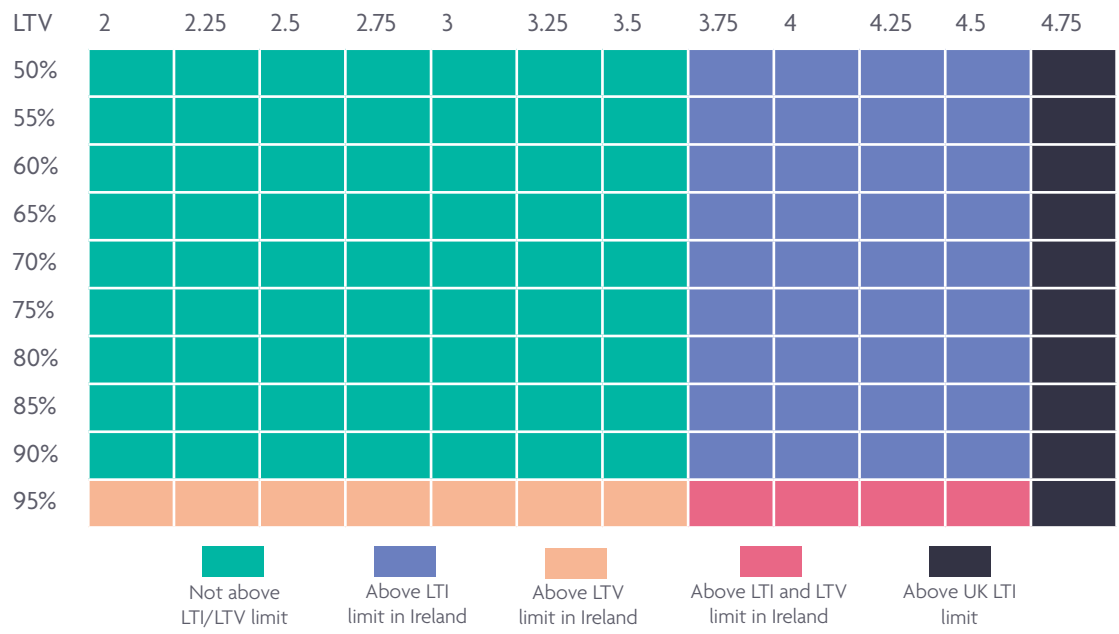
	UK		Ireland	
	LTV	LTI	LTV	LTI
	From October 2014		From February 2015 (revised January 2017)	
Limit	None	4.5x loan to gross income multiple	90% LTV	3.5x loan to gross income multiple
Buffers	N/A	No more than 15% of new loans can be at or above this limit.	No more than 5% of new lending to FTBs can be above this limit.	No more than 20% of new lending for PDH mortgages can be above this limit.
Exceptions	N/A	Remortgages with no change to sum outstanding, and lifetime mortgages.		Switcher mortgages and housing loans for the restructuring of mortgages in arrears or pre-arrears.

As Figure 19 illustrates, mortgages with LTVs up to 90% and LTIs up to 3.5 do not exceed any macroprudential limits in either country. In practice, most loans to FTBs are likely to be in this category.

Loans with LTIs greater than 3.5 but less than or equal to 4.5 would be subject to LTI limits in Ireland but not the UK, while loans with LTI over 4.5 would breach limits in the UK. Banks in Ireland are significantly more likely to allocate exemptions to LTI limits to FTBs than movers. In the UK, the share of FTB mortgages with LTIs of 3.5 or more increased significantly between 2012 and 2016, with a bunching of activity up to an LTI of 4.5.

The exemptions for Irish FTB mortgages over 90% LTV are limited with most exemptions given to movers. As with LTIs, a significant share of LTVs are bunched between 81% and 90%.

Figure 19: LTI and LTV limit of macro-prudential policy



Source: CBI, Financial Policy Committee (FPC)

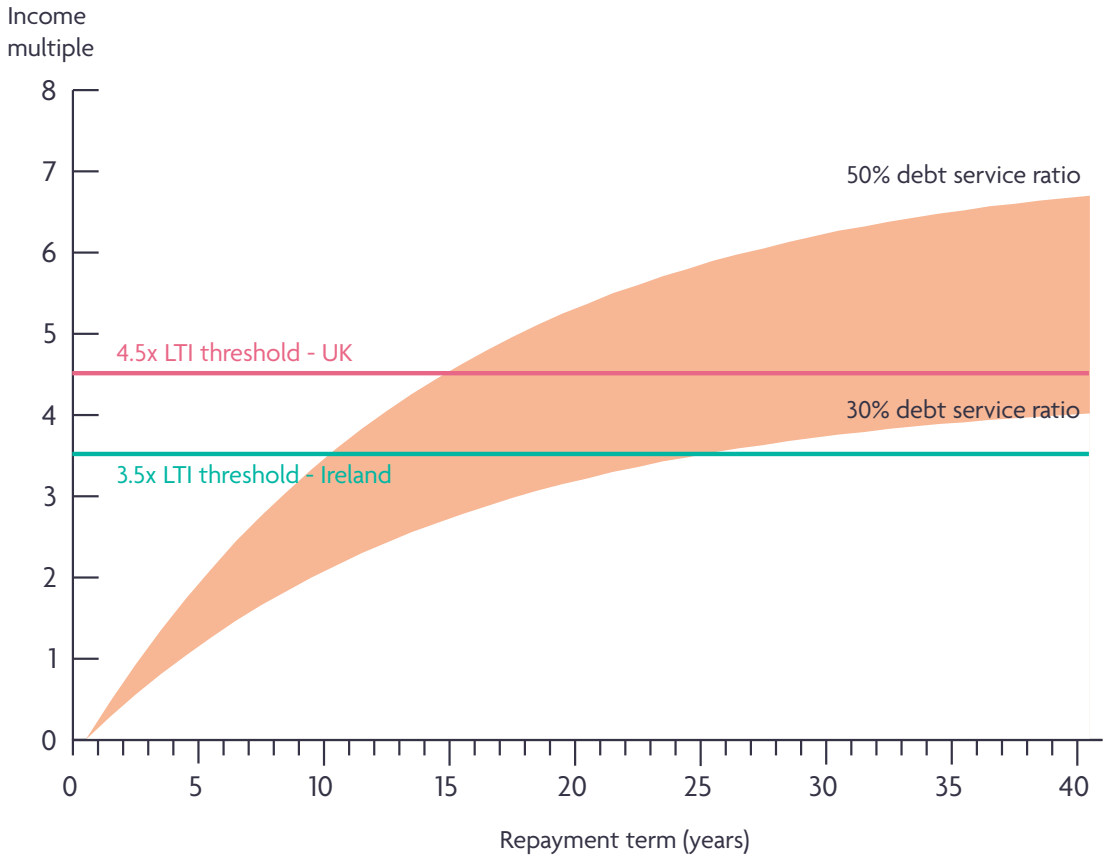
The differences in the LTI limits in the UK and Ireland can also be considered in terms of the impact on the debt service ratio and the mortgage term.

Figure 20 shows the interaction between the borrower's income multiple, the proportion of their income they can use toward servicing their debt (the shaded orange shows the wedge between 30% and 50% debt service ratio), and the mortgage term.

In Ireland, a borrower cannot borrow at a mortgage length of more than 25 years without going above the 3.5 CBI cap unless their debt service ratio is less than 30% of their income.

This shows that the CBI LTI limits stops term stretch to a much larger extent than the FPC rules do.

Figure 20: Relationship between affordability tests and LTI flow limit over mortgage term



Impact of government schemes and regulation

Government housing schemes in the UK and Ireland aim to improve accessibility to and affordability of housing and in particular, home ownership. The broad spectrum of schemes highlights the multi-faceted nature of issues in the housing market, as house prices have grown faster than incomes, transaction costs have increased, and there has been growing demand for housing, coupled with a weak supply response post-financial crisis.

In the UK, the schemes have had varied results. The equity loan scheme, along with the mortgage guarantee scheme and the Help to Buy ISA have all seen stronger take up in the midlands and the north of England.

The strength of the equity loan scheme outside London and the south east has partly been down to the fact the scheme had made some sites which were previously not profitable to build on, more worthwhile, for housebuilders. The reason the mortgage guarantee scheme was used more extensively in these areas was because high LTV lending is more common, while lending in London and the south east tends to be at higher income multiples, even for FTBs.

Shared ownership is possibly the only scheme where take up is stronger in London and the south east, as high house prices relative to incomes means many cannot buy a property outright, so they opt for this scheme instead.

In Ireland, most government schemes have made little impact. The main exception is mortgage interest relief but this is no longer available for new borrowers. The Help to Buy scheme has been very active in its early months but it remains to be seen whether the activity levels will be sustained or how many applicants will make it to claim stage given the lack of new housing supply.

The government schemes discussed above also cater to a range of different households, from low paid to affluent in both the UK and Ireland. Broadly speaking, the HTB Equity Loan and the Mortgage Guarantee schemes, as well as the Irish Help to Buy scheme, benefit those at or above average incomes the most, while the shared ownership schemes would help those lower down the income distribution.

Regulation has a different aim, and is intended to deal with systematic risks, while also trying to fulfil a secondary objective of promoting the government's objectives. The two sometimes work in opposition to one another.

The Help to Buy scheme in Ireland is a primary example of this. In its May 2016 programme, the new Irish government stated that it would "work with the Central Bank, as part of its review of its mortgage lending limits, to develop a new "Help to Buy" scheme to ensure availability of adequate, affordable mortgage finance or mortgage insurance for first time buyers as new housing output comes on-stream."[20]

Indeed, the Help to Buy scheme was announced as a way to help FTBs affected by the CBI's LTV limits to accumulate a deposit.

Government schemes aim to promote activity in the housing market, regulation aims to keep the market sustainable. This is especially the case where there is disequilibrium between supply and demand. While housing supply has remained sluggish since 2009, demand remains high. As a result there is potential for tension between regulation and government housing schemes. This is likely to continue for the foreseeable future unless housing supply grows more quickly.

[20] Department of Finance, 2016. Statement of Strategy 2016 - 2019. [Online] Available at: http://www.finance.gov.ie/sites/default/files/DFIN%20Statement%20of%20Strategy%201619.pdf [Accessed 1 June 2017].

Conclusion

The first-time buyer (FTB) represents the first step in homeownership, a major milestone in the life of the household and the link between homeownership and other housing tenures.

FTBs are a key segment of the housing market, and vital for the wider health of the housing market in the UK and Ireland. They provide liquidity in the housing market, allow people to trade up, and create housing chains.

Recent trends in FTB mortgage lending reflect general demographic factors affecting the scale and nature of housing demand and the failure of housing supply to keep up with demand. It also reflects changing lender risk appetites and practices, tighter mortgage regulation to reduce demand and limit lenders' exposure to losses, and government housing schemes to support supply.

The populations in both countries continue to grow but older people account for an increasing share and this segment is expected to expand in the decades ahead. The major life events that have prompted household formation, especially marriage and childbirth, are occurring later in life. Homeownership rates have fallen in recent years as a growing proportion of households remain in private rented accommodation for longer.

However, the population profiles in the two countries have diverged for younger age groups. The number of young people (18-29 year olds) has grown in the UK over the past decade but it has fallen in Ireland. These trends largely reflect strong net inward migration into the UK and significant net emigration from Ireland. This has not only artificially reduced the number of potential new households in Ireland, it has also resulted in an older FTB cohort than before.

While demand is growing, supply has failed to keep pace. In Ireland, in particular, housebuilding is a fraction of what it was in the early 2000s.

The number of sales transactions per thousand people was similar in both countries between 2006 and 2008 but UK activity exceeded Irish from 2009 onwards. This indicates that there is less liquidity in the Irish market.

Both governments have introduced schemes to support housing supply though Irish schemes have been more targeted towards FTBs.

On the other hand, regulators in both countries have sought to limit lenders' exposure to losses by limiting how much customers can borrow relative to their incomes or house values. Regulators have, to some extent, followed the lead of lenders who had already changed their risk appetites and lending practices after 2009.

High loan-to-value (LTV) borrowing (90% LTV and above) have been largely absent in both markets, especially for FTBs, for some time. However, there is evidence of loans bunching just under the macro-prudential limits in both countries: 90% LTV and 3.5 loan-to-income (LTI) in Ireland; 4.5 LTI in the UK.

Despite these challenges, FTB activity has been growing since 2011 in the UK and 2013 in Ireland.

The UK market has recovered strongly with 19.4 FTB mortgage drawdowns per thousand 18-40 year olds in 2016, the highest level since 2007. In Ireland, there were 9.3 per thousand, the most since 2008. However, while UK volumes are close to the 2006 peak of 23.6, Irish volumes are well short of their 2004 peak of 26.4.

In volume terms, FTBs peaked in 2004 in Ireland and in 2006 in the UK. The FTB share of house purchases in Ireland fell below 35% in 2005 but jumped to more than half from 2009, partly due to the sharp fall in buy-to-let (BTL) activity. In the UK, FTBs accounted for less than 35% until 2012 but by 2016, they accounted for more than 40% of new mortgaged house purchases.

The supply issues evident in both the UK and Ireland mean that prospective FTBs are competing with other FTBs and potentially also competing with bids from movers with housing equity or from landlords.

If activity shifts significantly away from FTBs toward movers or BTL investors then that could point to emerging difficulties for FTBs. To some extent, this is what happened in the mid-2000s, as rising house prices led to FTBs making up a much smaller portion of the market, relative to home movers.

Between 2004 and 2012, movers accounted for more than half of property purchase mortgages in both Ireland and the UK. By 2016, movers' share of new purchase mortgages had fallen for six successive years in the UK and two in Ireland.

Unfortunately, the relative decline of movers may suggest reduced market liquidity. This limits the supply of second hand properties for sale, possibly because movers have low or negative equity, they have an attractive mortgage rate that they do not want to lose or because of relatively high transaction costs. This has a knock-on effect on sales where those willing or able to sell may struggle to find a suitable property to buy.

Creating a favourable environment for FTBs must mean also addressing the needs of other residential property buyers and households in general.

Appendix 1: Who is a first-time buyer?

Who is a first-time buyer?

A first-time buyer (FTB) is someone who, in the strictest sense, has never owned a property or land before. Definitions of an FTB vary significantly depending on how the designation will be used and who is using it.

Governments and tax authorities try to ensure people benefit from government policy fairly, and to allocate the support efficiently. For these reasons, it would be important for governments to know who is likely to have bought or owned residential property in the past.

Lenders also consider the housing tenure of the mortgage applicant. An applicant currently renting or living at home is likely to have less equity to part finance the property purchase and act as a deposit. Tenure also reflects the current financial circumstances of the applicant better than historical purchase or ownership. As a result, lenders focus on current housing tenure as much as, or more, than purchase or ownership history.

Table A.1: First-time buyer definitions

Source	Country	Purchase/Ownership/ Borrowing history	Current tenure
UK Finance	UK	No	Yes
BPFI	Ireland	Yes	Yes
Bank of England MLAR	UK	No	Yes
Central Bank of Ireland	Ireland	Yes	No
HM Revenue & Customs	UK	Yes	No
Revenue Commissioners	Ireland	Yes	No

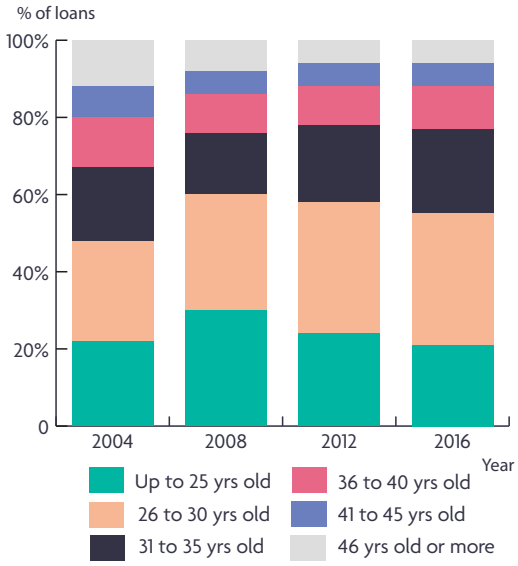
UK Finance's knowledge about FTBs comes from the Regulated Mortgage Survey, and the English Housing Survey. These surveys provide a somewhat simplistic definition of a FTB in that their previous tenure was not owner-occupation. In reality, there is a likely to be a portion of borrowers who are classed as 'first-time buyers' but in fact have been homeowners previously.

In Ireland, BPFI has traditionally defined FTBs both in terms of their previous tenure (they should not be home owners) and their property ownership history (none of the borrowers has previously been an owner occupier). In January 2015, the Central Bank of Ireland (CBI) introduced new regulations limiting loan-to-value and loan-to-income limits on new mortgages, with different limits for FTBs, subsequent buyers and buy-to-let mortgages. It defined an FTB as "a borrower to whom no housing loan has ever before been advanced". From 2016, BPFI aligned its FTB definition with that of the CBI.

This means that those who previously owned but are not currently home owners are less likely to be included as FTBs in Ireland.

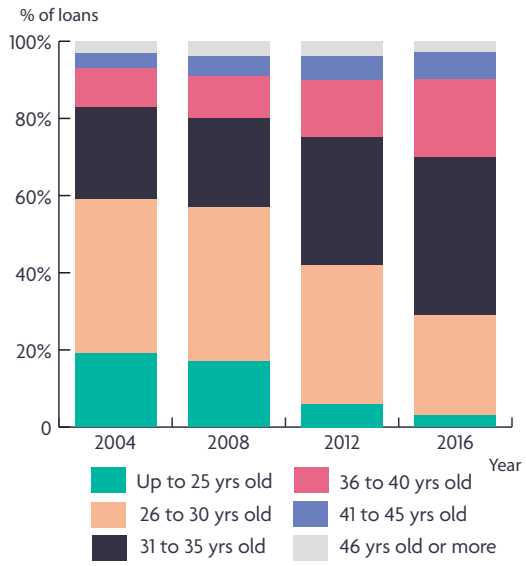
Appendix 2: Comparison of lending to FTBs in the UK and Ireland

Figure A.1: FTB age distribution in the UK



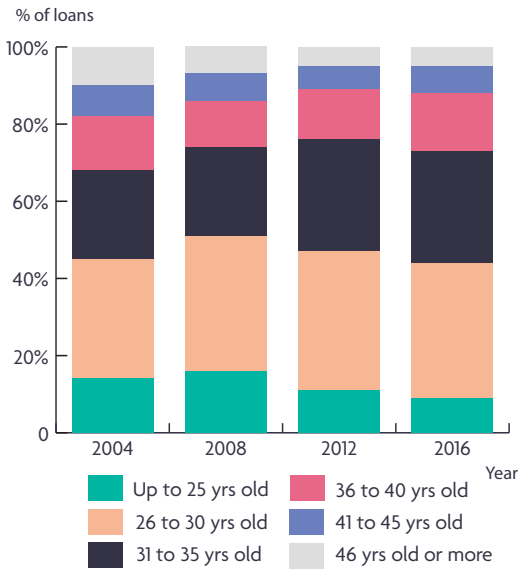
Sources: UK Finance

Figure A.2: FTB age distribution in Ireland



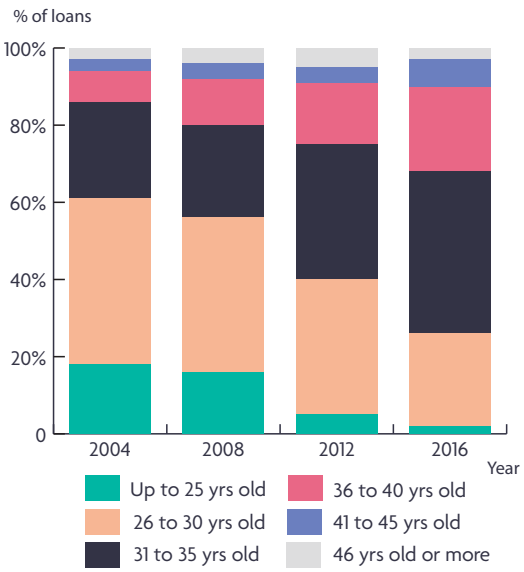
Sources: DHPCLG, BPFI

Figure A.3: FTB age distribution in London



Sources: UK Finance

Figure A.4: FTB age distribution in Dublin



Sources: DHPCLG, BPFI

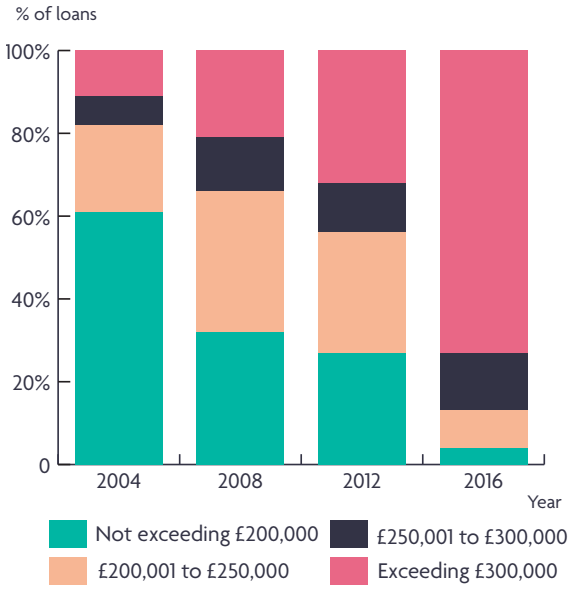
Figure A.5: FTB property price distribution in the UK

Sources: UK Finance

Figure A.6: FTB property price distribution in Ireland

Sources: DHPCLG, BPFI

Figure A.7: FTB property price distribution in London

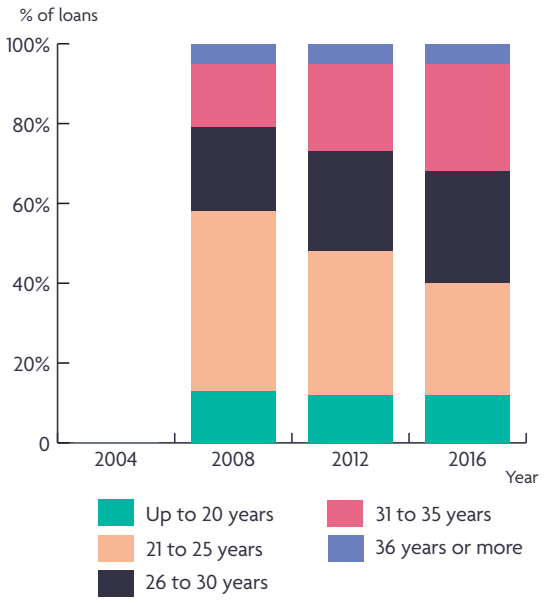


Sources: UK Finance

Figure A.8: FTB property price distribution in Dublin

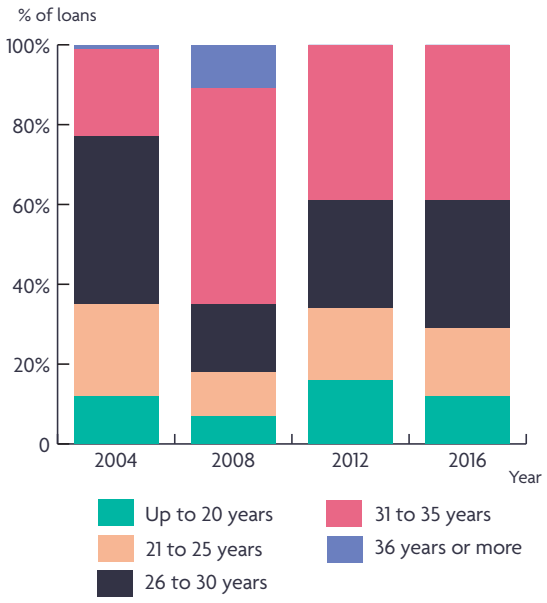
Sources: DHPCLG, BPFI

Figure A.9: FTB loan term distribution in the UK



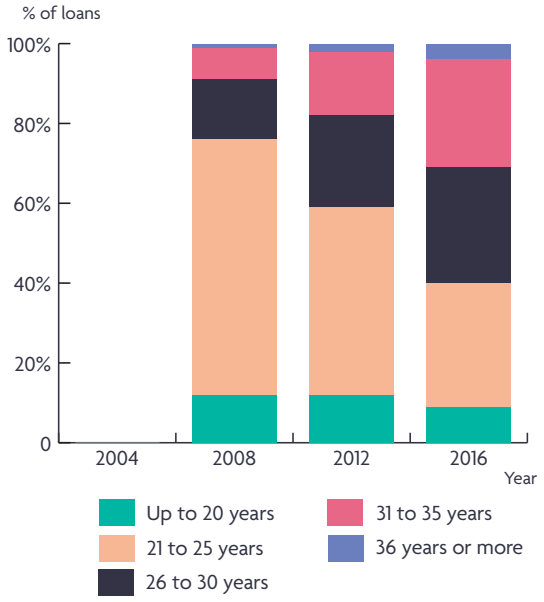
Sources: UK Finance

Figure A.10: FTB loan term distribution in Ireland



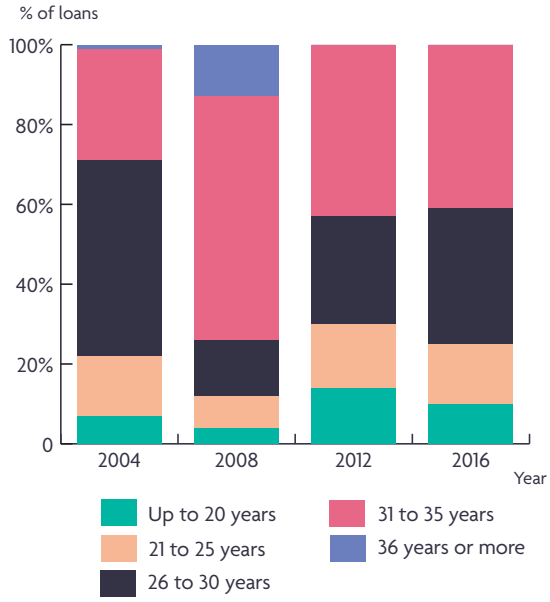
Sources: DHPCLG, BPFI

Figure A.11: FTB loan term distribution in London



Sources: UK Finance

Figure A.12: FTB loan term distribution in Dublin

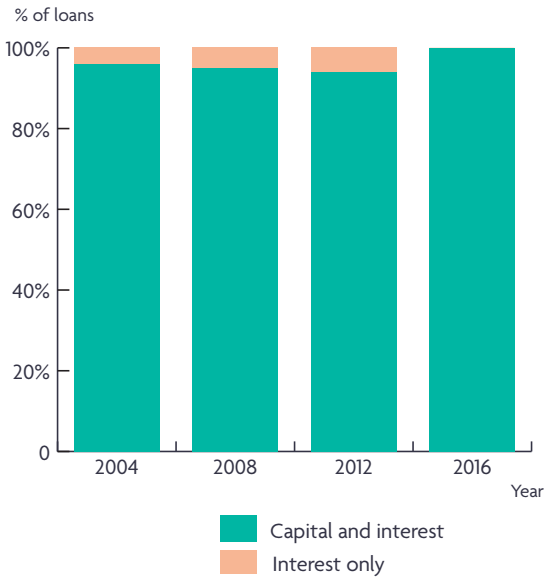


Sources: DHPCLG, BPFI

Figure A.13: FTB repayment type distribution in the UK

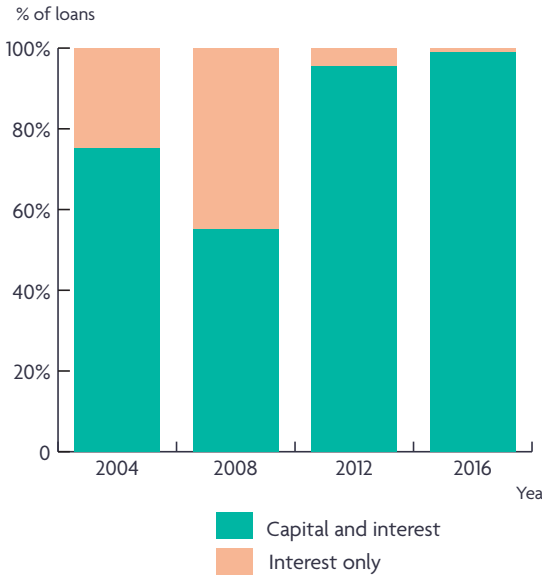
Sources: UK Finance

Figure A.14: FTB repayment type distribution in Ireland



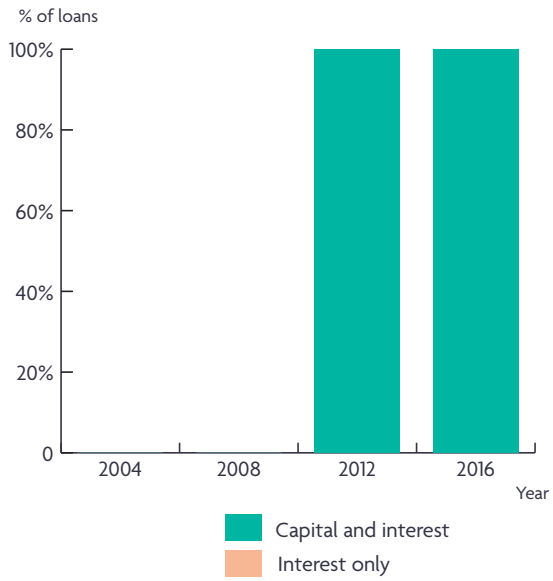
Sources: DHPCLG, BPFI

Figure A.15: FTB repayment type distribution in London



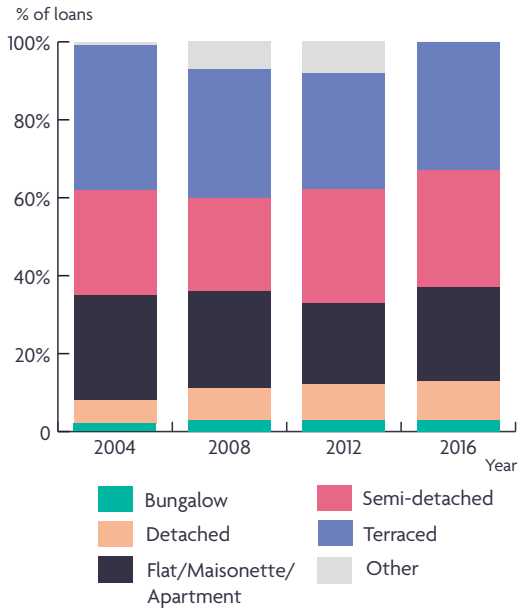
Sources: UK Finance

Figure A.16: FTB repayment type distribution in Dublin



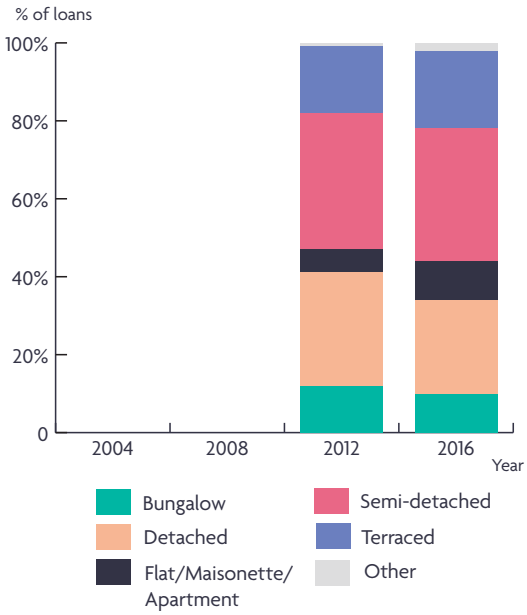
Sources: BPFI

Figure A.17: FTB property type distribution in the UK



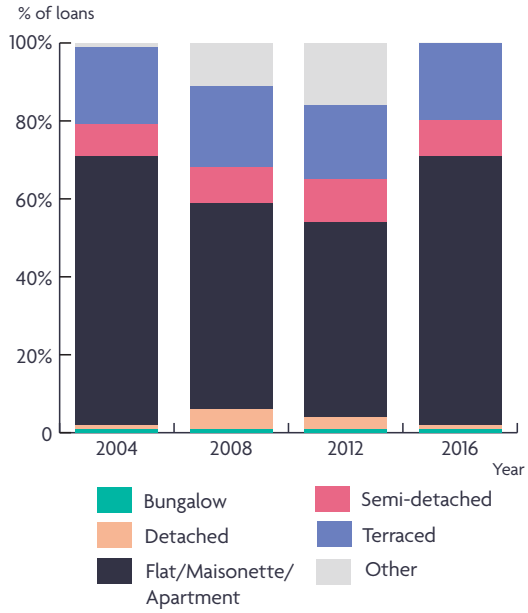
Sources: UK Finance

Figure A.18: FTB property type distribution in Ireland



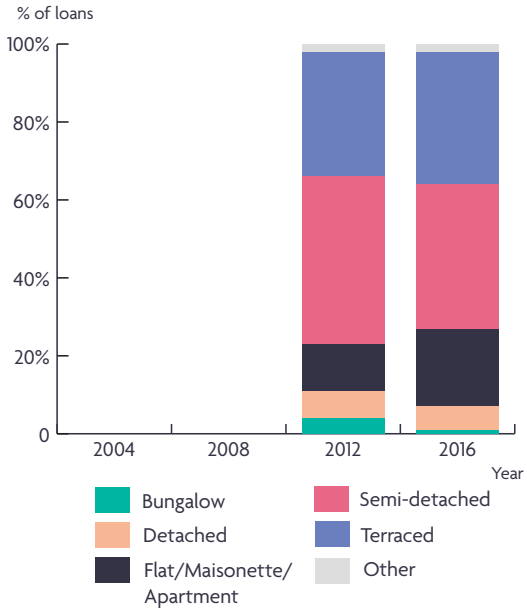
Sources: BPFI

Figure A.19: FTB property type distribution in London



Sources: UK Finance

Figure A.20: FTB property type distribution in Dublin



Sources: BPFI

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