

United Kingdom: The “Help to Buy” scheme maintained the home ownership rate at the cost of high prices and higher profits for builders

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The “Help to Buy” scheme provides buyers of new homes with loans of 20% of the purchase price, to improve affordability and to encourage building after the 2008 financial crisis. It has resulted in modest increases in building and has prevented the home ownership rate falling. However, most recipients could have bought without support. It has led to higher prices for new homes and higher profits for builders, and has tied up government borrowing capacity that could have been used for more efficient or targeted schemes.

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Description

The “Help to Buy” scheme was introduced in England in 2013. It was intended as a temporary response to tight credit and a slowdown in building after the 2008 financial crisis, but home builders and middle-income buyers have come to rely on it. In 2015, the scheme was extended to 2021, and in 2018 it was extended again to 2023.

People buying a home priced up to £600,000 (€675,000) can receive a government loan of up to 20% of the price (40% in London since 2016), to bridge the gap between price, deposit and mortgage. Loans are interest-free for 5 years. When the home is sold, the owners must pay 20% of the selling value to the government. The aim was to help homebuyers get mortgages to buy new homes and to increase the rate of house building. There were no objectives for the number or quality of homes to be bought or the type of people to be helped. Wales and Scotland have similar schemes, but in Wales the price cap is £300,000 (€338,000), and in Scotland it is £200,000 (€225,000).

By late 2019, 250,000 households in England had received Help to Buy loans. The median price of the home bought was slightly above the national average and grew from £184,000 (€207,000) to £290,000 (€327,000) between 2013 and 2019. In financial terms, Help to Buy is the largest housing policy of the 2010s. The total value of loans to date is £14.3bn (€16.1bn), and these loans

have helped buy £65.7bn-worth (€74.0bn) of housing.

By 2018, higher loan-to-value mortgages were becoming available. The Ministry of Housing decided that Help To Buy in England would have lower price caps from 2021, and would end in 2023.



Outlook and commentary

Over 2013/14-2018/19, a net total of 1,178,000 dwellings were added to the housing stock in England, and the average annual building rate was higher than before the 2008 crisis. Help to Buy supported 21% of these net additions. Without it, building rates would have been lower than before the crisis.

Over 2013-19, the number of home-owning households in England grew by 590,000. Help to Buy purchases made up 42% of the increase. Different studies have produced slightly different figures, but about 40% of Help to Buy users said they could not have bought without help. The home ownership rate was steady at 63.2% of households between 2013 and 2019, so without the Help to Buy it would have been 0.4 percentage point lower.

81% of people using the scheme were first-time buyers. 25% were Black and Minority Ethnicity, compared with 15% of buyers overall. 62% were under 34,

the age group with the biggest recent falls in home ownership. However, about 60% of recipients said that they would have been able to buy without the scheme, and some were homeowners already. Help To Buy helped these people buy sooner, bigger or better. Most buyers who used the scheme had above-average incomes: their median household income grew from £40,000 (€45,000) to £54,000 (€61,000) between 2013 and 2019. The biggest absolute financial benefits went to people buying the most expensive homes.

There is no evidence that Help to Buy improved affordability. Help to Buy sales have usually been 4% or less of total sales. However, the scheme supported 38% of all newbuild transactions between 2013 and 2018. It has led to slightly higher prices for new homes, which generally attract a premium in any case. Help to Buy also steered buyers towards new homes. More than half of buyers said they would not have bought new build without it. New-build sales grew from 9% to 12% of the

total over 2014-17. Thus Help to Buy may have resulted in buyers paying more than they would have without the scheme. Help to Buy has been dominated by the largest house building companies, and has contributed to increases in their profits over the 2010s (NAO, 2019).

The House of Commons Public Accounts Committee said that, after 6 years and £14.3bn (€16.2bn) in loans, the value of Help to Buy was "uncertain". In 2018, buyers had repaid 11% of the total loaned, but 5% of buyers were in interest arrears. The final outcome for government depends on future house prices which are uncertain. There is an opportunity cost, as government borrowing capacity could have been used for new affordable housing or other policies.

The House of Commons Public Accounts Committee warned that the end of the scheme may lead to a fall in building. It is possible that the effects of COVID-19 and Brexit on building will lead to a rethink.

Further reading

Government information aimed at buyers:

<https://www.helptobuy.gov.uk> (England)

<https://www.mygov.scot/help-to-buy/how-it-works> (Scotland)

General evaluations:

Finlay, S, Williams, P and Whitehead, C and LSE (2016). *Evaluation of the Help to Buy Equity Loan Scheme*, London: CLG

<https://www.gov.uk/government/publications/evaluation-of-the-help-to-buy-equity-loan-scheme>

Whitehead, C, Williams, P, Ipsos MORI and the LSE (2018).

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<https://www.gov.uk/government/publications/evaluation-of-the-help-to-buy-equity-loan-scheme>

National Audit Office (NAO) (2019). *Help to Buy: Equity Loan scheme – progress review* London: NAO

<https://www.nao.org.uk/wp-content/uploads/2019/06/Help-to-Buy-Equity-Loan-scheme-progress-review.pdf>

House of Commons Public Accounts Committee (2019). *Help to Buy: Equity loan scheme, HC 2046*, London: House of Commons

<https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/2046/2046.pdf>

Evaluations focusing on specific issues:

Meeks, JG and Meeks, B (2019). *Who is helped by Help to Buy?*

<http://eprints.lse.ac.uk/88461/1/policiesandpolicy-who-is-helped-by-help-to.pdf>

Carozzi, F, Hilberand, C and Yu, X (2018). *The economic impacts of Help to Buy*

https://www.ucl.ac.uk/bartlett/construction/sites/bartlett/files/affhoupaper_carozzi-hilber-yu.pdf

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