

**BUDGET 2018  
SUBMISSION**

**Supporting first time  
buyers and ordinary  
low to middle income  
working people into  
home ownership.**



**Rentplus is calling on the Government to encourage local authorities to back privately funded models of affordable housing that can inject additional funding to deliver new homes at no cost to the public, complementing existing initiatives to increase access to home ownership and support the Government to meet its target of 300,000 new homes a year.**

### **EXECUTIVE SUMMARY**

- No other home ownership scheme currently helps those on low and middle incomes, or those with current or recent debt history, who struggle to save for a deposit.
- The average household income of those using Help to Buy is £51,000 compared to Rentplus families' £31,700 average income.
- Help to Buy and Lifetime ISAs only benefit those who can already save.
- The proposal in the social housing green paper for tenants to build equity in shared ownership properties for as little as 1% a year offers one possibility but does not add to the affordable housing stock as needed.
- Innovative, privately funded affordable home ownership models – fully NPPF compliant – are already providing a solution and want to increase volume, pace and delivery across the country.
- Rentplus is one such example. Funded entirely by institutional investment at NO cost to the public purse, it delivers additional affordable homes on top of those that local authorities and housing associations can fund, adding to the supply and providing a route from renting into ownership.
- Tenants move into a brand new property on a secure tenancy from 5 to 20 years. They pay an affordable rent, supporting them to save more each month, and then are helped further by a gifted deposit worth 10% of the value of their property when they are ready to buy to add to their savings. The secure tenancy also provides would-be buyers with the time needed to address any historical debt issues that may prevent them from securing a mortgage today.
- Where these affordable rent to buy homes have already been developed, up to 60% of families came from the housing waiting list and at least 35% moved from existing social housing, freeing these units up for those in greater need and supporting the Government's ambition to help social tenants achieve their dream of owning a home. The average household income of those benefitting from the scheme was £31,700.



## Questions

- What options do key workers on modest incomes, or young families starting out in their careers, have to fulfil their ambitions of home ownership?
- What happens to all those families failing to qualify for Help to Buy and/or Shared Ownership because they cannot raise a mortgage today?
- What happens to families with debt history who do not have the £5,000-£6,000 needed to take on a private rented tenancy?

Affordable rent to buy offers solutions to all of these.

## Deposit Barrier

Probably the largest obstacle to home ownership for many on low to middle incomes is being unable to save enough for a deposit whilst also paying monthly rent.

In the 1990s it took the average young family 3 years to save for a reasonable sized deposit; today it would take the same family 19 years to accrue the amount they need, The Resolution Foundation<sup>1</sup> finds.

Low-income families had just £95 of savings and investments, excluding pensions, in winter 2017, compared with £136 in the same period a year earlier<sup>2</sup>.

With first-time buyers paying £208,741 on average for a property<sup>3</sup> and first-time buyer deposits rising to a record high of £33,339, it is not surprising it is taking this long to save. First-time buyer deposits have doubled in the last decade, from £17,740 in 2007.

For those in the South East, getting onto the property ladder is even less affordable, with first-time buyer deposits rising 157% in the last decade to £51,457, reflecting a high average property price of £278,749. Coupled with median monthly private rents in the region of nearly £900<sup>4</sup>, the difficulty in saving for a deposit is clear.

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1. Resolution Foundation, 2018. Available at: <https://www.resolutionfoundation.org/media/blog/the-real-barrier-to-millennials-owning-a-home-is-not-the-mortgage-its-the-deposit/>

2. Aviva, 2017. Available at: <https://www.aviva.com/newsroom/news-releases/2017/02/uk-inequality-worsens-as-savings-gap-grows-25-and-homeownership-levels-fall-for-low-income-families-17740/>

3. Halifax, 2018. Available at: <https://static.halifax.co.uk/assets/pdf/media-centre/press-releases/2018-08-11-FTB-stumping-up-209k-on-property-ladder-press-release.pdf>

4. Valuation Office Agency, 2018. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/)



Aldermore<sup>5</sup> found that 40% of first-time buyers said raising a deposit is the number one obstacle to home ownership, and one in five first-time buyers said that they had to move back in or continue to live with their parents in order to save, according to Which?<sup>6</sup>

Research from Shelter<sup>7</sup> found that half of low-earning renters said that they are not even able to save £10 a month.

## Other Barriers

In addition to the difficulty in saving for a deposit whilst renting, would-be buyers can also struggle to access home ownership due to historic debt problems and not being accepted for a mortgage. Aldermore finds that 1 in 4 first-time buyers was refused a mortgage.

## Low and Middle Income Workers Locked out of Existing Home Ownership Schemes

Existing home ownership schemes do not help those on low and middle incomes who struggle to save for a deposit or are not quite earning enough now to be able to raise a mortgage.

## Help to Buy: Equity Loan

The UK median income is £28,700<sup>8</sup>. For many key workers, however, it is often much lower; a nurse starting their career will have an average annual salary of £23,023 and for a teaching assistant, the average annual pay is £19,446<sup>9</sup>.

Ministry of Housing, Communities and Local Government (MHCLG) data shows that the average household income for those using the Help to Buy: Equity Loan scheme to March 2018 was £50,930<sup>10</sup>.

23% of first-time buyers using Help to Buy (the greatest proportion) had household incomes in the £30,001 to £40,000 bracket.

24% had an average household income above £60,001.

Only 15% of first-time buyers using the scheme had an average household income up between £20,001 and £30,000. Based on two people buying together, this means that at least 25% - a quarter of first-time buyers using the scheme had incomes above the UK average, and in some cases, much above, with at least 5,000 first-time buyers registering a household income greater than £100,000.

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5. Aldermore, 2018. Available at: <https://www.aldermore.co.uk/about-us/newsroom/2018/06/dream-home-dream-again-pitfalls-of-buying-process-are-revealed/>

6. Which?, 2018. Available at: <http://press.which.co.uk/whichpressreleases/homegrown-deposits-why-moving-back-in-with-parents-might-be-the-only-way-on-to-the-property-ladder/>

7. Shelter, 2017. Available at: [https://england.shelter.org.uk/media/press\\_releases/articles/one\\_in\\_three\\_rent\\_burdened\\_brits\\_borrow\\_to\\_cover\\_rent](https://england.shelter.org.uk/media/press_releases/articles/one_in_three_rent_burdened_brits_borrow_to_cover_rent)

8. ONS Annual Survey of Hours and Earnings, 2017. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisionaland2016revisedresults> - average-earnings

9. UNISON, 2018. Available at: <https://www.unison.org.uk/news/press-release/2018/09/home-ownership-now-little-pipe-dream-public-sector-workers/>

10. MHCLG Help to Buy Statistical Release, August 2018. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/734061/HTB\\_EL\\_and\\_HTB\\_NewBuy\\_statistical\\_release.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/734061/HTB_EL_and_HTB_NewBuy_statistical_release.pdf)



Most (62%) using the Help to Buy scheme had a minimum deposit of up to 5%. With the average property price for first-time buyers under Help to Buy £214,750, this still equates to a deposit requirement of nearly £11,000.

This means that the scheme does not directly assist the large group of those on low to middle incomes who have little or no spare cash after paying their rent and therefore cannot afford the deposit requirements.

## **Help to Buy and Lifetime ISAs**

Under Help to Buy ISAs first-time buyers can save up to £200 a month with a 25% Government bonus. The maximum bonus is £3,000 each, so a couple buying for the first time could receive at most a £6,000 bonus from £24,000 worth of savings. The scheme is due to close to new savers in November 2019.

The more recent Lifetime ISA enables savers to deposit more, at up to £4,000 each year with a 25% Government bonus of up to £1,000 a year. The maximum bonus is £33,000 (if you saved from age 18 to 50).

Whilst therefore being beneficial if would-be buyers have some spare cash after paying rent and other outgoings, the ISAs do not address the deposit barrier for those on low and middle income earners who have little to no money spare at the end of each month.

An additional criticism levelled at the Help to Buy ISA is that the money contributes to the 'mortgage deposit', rather than the 'exchange deposit': ie whilst it is taken into account by the bank when calculating the size of a buyer's mortgage, it cannot be used to pay to the seller at the point of purchasing the house<sup>11</sup>.

For those who are struggling to save enough to reach the threshold for the minimum exchange deposit, it still does not help.

## **Shared Ownership**

The proposal in the Social Housing Green Paper to help people build up more equity in their homes by enabling them to purchase as little as 1% of their shared ownership property each year offers one solution. However this only transfers ownership of existing affordable properties and does nothing to add to the stock of such housing.

In addition, for tenants struggling to save after all of their monthly spending commitments, shared ownership may not be the best option as under some schemes, tenants can be responsible for 100% of all repairs and maintenance on their property despite not fully owning it. This can result in unexpected expenses that tenants can't afford, diverting their money away from saving to build their equity.

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11. Help To Buy FAQs. Available at [www.helptobuy.gov.uk/help-to-buy-isa/faq/](http://www.helptobuy.gov.uk/help-to-buy-isa/faq/)



## **Privately Funded Affordable Home Ownership Models Provide a Solution**

Privately funded affordable housing models inject new money to provide additional affordable homes for would-be buyers, helping the Government to achieve its new housing target of 300,000 homes a year and increasing access to home ownership to thousands of families who wouldn't otherwise be able to afford it.

By injecting additional funding into the sector, such models can provide new affordable homes to buy, over and above those that local authorities and housing associations can fund, and without any recourse to public grant or subsidy.

Of the 130 investors that we have met to date, all have expressed interest in various types of UK residential affordable housing opportunities. This represents significant additional funding for the sector.

Rentplus' affordable rent to buy scheme is one such model.

Tenants move into a brand new home for which they are only charged an affordable rent (80% of market rent, including service charges) for a long-term, secure tenancy of 5 to 20 years. This enables them to save more each month, and they are further helped by a cash gift of 10% of the market value of their home when they are ready to buy to put towards their savings. Confident that they won't have to move at the whim of a landlord, families can really settle in the local community.

The longer-term, secure tenancy also provides tenants with the time needed to clear any historical debt issues that may prevent them from being accepted for a mortgage and improve their credit score. Rentplus supports the Government's plans to recognise rent in assessing creditworthiness.

In its Social Housing Green Paper, the Government says that it wants "to encourage innovative models that help tenants that are struggling to raise deposits".

The Rentplus affordable rent to buy model does exactly that.



## CASE STUDY

After moving between private rented housing on average every 18 months, the Hornsey family were sick of living out of boxes and ready to finally find somewhere they could call their own.

Despite having a combined income of £35,000 and saving for over five years, they found that they just could not keep up with the house price growth in their area: “every time we looked to buy we just didn’t have quite enough for a deposit”.

Damian Hornsey says: “For us, the Rentplus model is perfect and it feels fantastic to be living somewhere which we will eventually own. Our new three bedroom house is a real upgrade from the two bedroom flat we were renting, yet we are saving substantially more to put towards our deposit.”

Through Rentplus the family will have the opportunity to buy their new home in five years, and in the meantime they don’t have to worry about any service charges as these are included in their rent, or maintenance costs as any repairs will be undertaken by the Rentplus housing association partner, Cornerstone.

### **Adding to Supply and Using Existing Stock Efficiently**

Data from MHCLG on household moves for 2016/17<sup>12</sup> (see graph below from Social Housing Green Paper) shows that outside of the Right to Buy (RTB), there were very few social renters that moved into owner occupation.

On estates where Rentplus homes have already been developed, at least 35% of tenants moved from existing social housing, and up to 60% from the social housing waiting list. This means that these properties were freed up for those most in need. Many of the families Rentplus housed had been on the waiting list for many years but weren’t deemed a priority. This is true of most people who enquire about Rentplus.

Recent analysis from Savills for the Local Government Association (LGA)<sup>13</sup> claims that councils’ ability to replace homes sold under RTB will be all but eliminated within five years without major reform of the scheme.

The analysis finds that whilst over 12,000 homes were sold under RTB last year, if these levels of sales and borrowing restrictions remained consistent, in 2023 councils would only be able to replace approximately 2,000 of these homes, leaving a significant shortfall of affordable homes to buy.

Privately funded affordable housing models can deliver additional affordable homes at no cost to local authorities or government (the ‘public purse’).

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12. English Housing Survey 2016/17; MHCLG Live Table 671

13. Local Government Association, 2018. Available at: <https://www.local.gov.uk/about/news/right-buy-replacement-will-be-all-eliminated-just-five-years-warns-lga>



### Potential for Scalability

Whilst a number of local authorities have approved affordable rent to buy developments, one of the major obstacles to more widespread take up is a lack of awareness by local authorities that the tenure qualifies for meeting their affordable homes requirements. The revised National Planning Policy Framework (NPPF) has confirmed that this is the case; however, many councils remain reluctant to adopt new affordable housing models.

The affordable rent to buy tenure has the potential to become a mainstream route into home ownership and is a major way of attracting private finance into the affordable housing sector. Councils need to be encouraged to consider privately funded affordable housing models to meet the needs of tenants who remain unable to access home ownership.

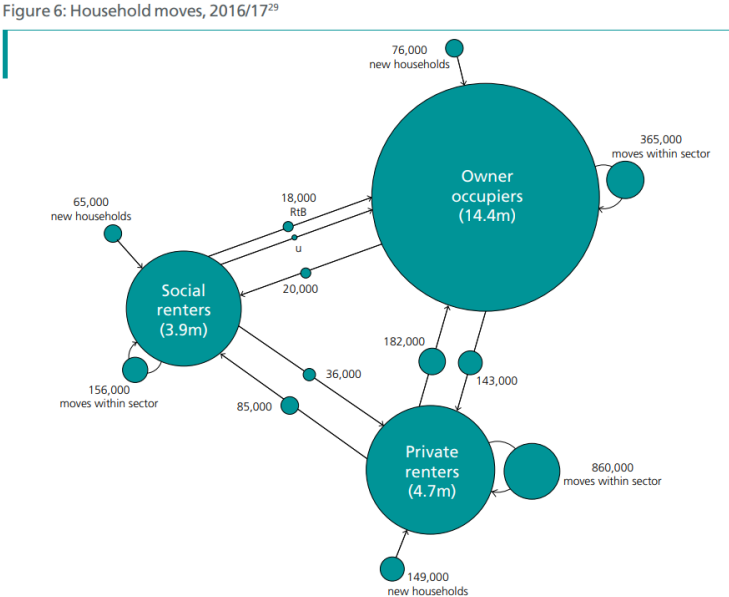
### Action

We are calling on the Government to encourage local authorities to promote the development of alternative forms of affordable housing that are privately funded to boost supply.

Issuing guidelines to all local authorities to consider adopting such models will boost the take up of such models to ensure that low and middle income families have a realistic opportunity to buy.

In addition, to boost awareness by local authorities that such models qualify for meeting their affordable homes requirements, we are calling on the Government to give affordable rent to buy equal recognition and promotion with shared ownership and Help to Buy as a mainstream route into home ownership.

*The Rentplus affordable rent to buy model sits in the space between social and private renting and home ownership, providing tenants with a clear route to progress from renting to owning their home.*

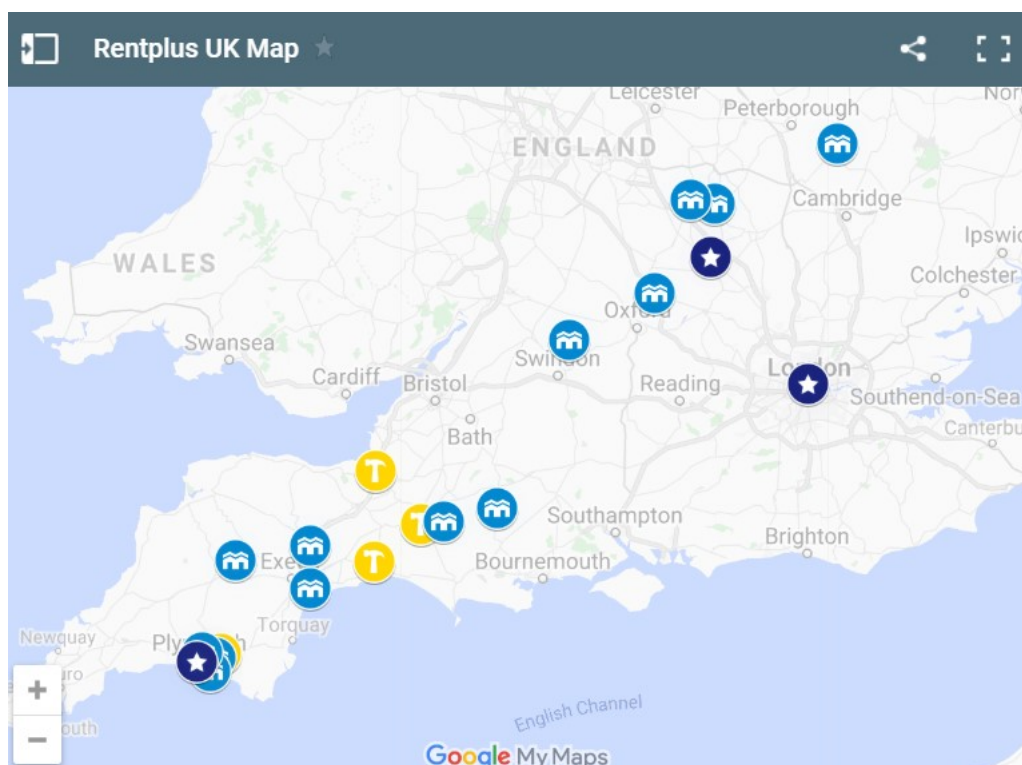




Rentplus is working with local authorities and housing associations to deliver affordable rent to buy homes across the country.

With £2bn of funds to invest today, we're ready to talk to all registered providers to see how we can extend the offer to help more families.

You can see our interactive map at: <http://rentplus-uk.com/current-campaigns>



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