
The Reality of Generation Rent

Perceptions of the first time buyer market

Authors : Alison Blackwell and Alison Park

Date : 19/05/2011

Prepared for: Halifax



Content

1 Preface.....	2
2 Executive Summary.....	5
3 Context.....	8
4 Implications.....	12
5 Main Findings.....	15
5.1 Aspirations and reality.....	15
5.1.1 Patterns of home ownership.....	15
5.1.2 Aspirations for ownership.....	15
5.1.3 A future nation of renters?.....	17
5.2 First time buyers	18
5.2.1 Perceived barriers to home ownership.....	18
5.2.2 Future plans	18
5.2.3 Saving for a deposit	20
5.3 Pessimism about first time buyers and the mortgage process	22
5.3.1 Getting a mortgage	23
5.3.2 People’s understanding of the mortgage process.....	25
5.3.3 Schemes to encourage people onto the housing ladder.....	25
6 References.....	27
Appendix A Methodology.....	30
Appendix B Tables.....	32

1 Preface

This report describes the result of research commissioned by Halifax to explore people's perceptions and views of the first time buyers market. 8,000 people aged between 20 and 45 took part in an online survey, the design of which was informed by a number of focus groups in London and Manchester.

Two thirds (64%) of the non homeowners we spoke to can be defined as 'Generation Rent' – a generation with no realistic prospect of owning their own home in the next five years and who lack the long-term saving mentality that most need if they are to get on the housing ladder. In short, they either cannot get on the property ladder (40% of non homeowners) or they do not wish to own their own home (23% of non homeowners)¹.

Wanting to own a home has been in Britain's DNA since the 1950s when living standards began to rise. The desire to own a home now is just as strong, with 79% seeing buying property as a good investment. However these aspirations are not likely to be met - only 5% of Generation Rent are saving and making sacrifices to their lifestyle to get a deposit together, while 95% say they have no spare cash to save, no interest in saving for a deposit or are trying to save but failing to do so.

The realities of Generation Rent are stark. The rising cost of properties and the credit crunch appears to have taken us to a fork in the road and if attitudes of young people remain the same, the shape of Britain's housing market will be fundamentally changed. Almost half the people we spoke to (46%) predict that "*Britain will become a nation of renters within the next generation*".

As we go on to explain, if there is an increase in the number of people who remain in the rental sector throughout their lives, there are a number of important knock on effects. These include:

- The market coming to a standstill, with those already on the housing ladder not being able to make the next step up the property ladder;
- Generation Rent potentially not having sufficient financial resources when they reach retirement age;
- Changes to social mobility having a negative impact on communities;
- A widening of the existing wealth gap between homeowners and non homeowners. Shelter assert that if this gap continues, there will be a "*generation of children who will grow up permanently disadvantaged, unable to work their way out of the social and financial position given them by their parents' housing tenure*"²;

¹ Figure does not add to 64% due to rounding

² Catherine Grannum (2006) Shelter Policy Briefing – Home Ownership
http://england.shelter.org.uk/_data/assets/pdf_file/0010/43768/19928.pdf

- Fewer homeowners being able to purchase and therefore fund the construction of the estimated 232,000 new homes required each year to meet demand

What are the barriers to home ownership for Generation Rent?

Whilst the financial barriers that first time buyers face are acknowledged as the main barriers to homeownership, our study found there is undue pessimism brought about by fear of the mortgage process and fear of having a mortgage application declined. This, when coupled with the daunting prospect of saving for a deposit, is driving a change in behaviour towards homeownership.

It is clear that many renters would love to own their own home. However the fear of the mortgage application process and a fear of having a mortgage application declined are stopping potential first time buyers from applying for a mortgage.

The majority of people we spoke to are of the opinion that banks do not want to lend to first time buyers (84%). Most people (92%) see it as hard for first time buyers to get a mortgage.

There is also fear of the actual process with many potential first time buyers saying they are worried about the process and find it difficult to understand as there is no clear information about the criteria used by banks to assess mortgage applications.

- *“If I was opening a new bank and I had a mortgage that was available I’d say these are the criteria we want you to meet, this is what we need... if you fit into this criteria or you can work towards it then you know what you’re aiming for” (London, renter)*

The process is felt to be automated as one respondent in the focus group summed it:

- *“It’s not done by a human anyway, they just put all of this into some data in a computer programme that works out whether or not you can get a mortgage, it’s a score system isn’t it.” (London, renter)*

First time buyers would like support throughout the mortgage application process from informing them of the criteria used by banks, to information to guide them through the maze of applications and in the event that they are declined, information about why they have been declined and what they can do to amend this.

Many of the respondents in the focus groups worried that if they were declined, this would stay on their record and hinder future attempts to secure a mortgage. Without help and guidance from the banks, it is possible some renters in this position may not apply again.

Saving for a deposit is seen to be the largest undertaking in buying a home. This is hardly surprising, but potential first time buyers have a decision to make: ‘Do I make sacrifices to my lifestyle to save or do I spend my money on having a good time?’. Many of those we

spoke to were in this latter camp. The size of the deposit required combined with pessimism around the mortgage process makes many question why they should even bother trying to save up. Indeed, only 14% of non homeowners are making sacrifices to save for a deposit:

- *“you just hear about how bad everything is ... it’s like everything’s difficult, you can’t get this, that and the other in this recession, so it’s kind of like a brick wall” (Manchester, renter)*
- *“I’m not interested in trying to stop my life now when I’m 31 to not go out and not do anything to save up the £40,000 deposit. I’d rather live my life now” (London, renter)*

2 Executive Summary

Aspirations for ownership

Owning a home is an aspiration for the majority. Over three quarters (77%) of non owners want to own their own home. Renting is less desirable; three in five (59%) think it is “a waste of money”. This view was summed up well by a focus group participant:

- *“when you’re paying rent it’s annoying... it’s just dead money, you’re paying someone else’s mortgage, you might as well be paying your own instead.” (Manchester, first time buyer)*

Just over half (54%) think “*Britain should remain a nation of homeowners*”, but many think that home ownership rates will fall. Nearly half (46%) believe “*Britain will become a nation of renters within the next generation*”.

Pessimism about first time buyers and the mortgage process

Despite these aspirations, most acknowledge the considerable financial barriers that first time buyers face: the size of the deposit required, high property prices and inadequate earning. But there is also considerable pessimism about what first time buyers face in relation to the mortgage application process. Three in five (60%) think it is either “*very hard*” or “*virtually impossible*” for first time buyers to get a mortgage.

This sense can partly be explained by people’s beliefs that banks do not want to engage with first time buyers or approve their mortgage applications. Two thirds (67%) think there is “*a general perception that everyone is rejected by lenders and there is little point in applying*”. This may well explain why over half the respondents (55%) believe first time buyers are “*too scared of being turned down*” for a mortgage.

Pessimism undermines motivation to save

Although home ownership is seen as desirable, many people aged 20-45 are not making any active steps towards buying a home of their own. Two in five (38%) non owners want to own a home but don’t think they will be able to do so “*unless something comes out of the blue*”. Just a third (32%) have a realistic plan to buy a home within the next 5 years.

A majority (67%) say that the size of the deposit required is a significant barrier to buying a home for the first time. But only 14% of non owners are actively saving for a deposit and “*making sacrifices to their lifestyle to do this*”. Focus group participants commented:

- *“I’m not interested in trying to stop my life now when I’m 31 ... I’d rather live my life now.” (London, renter)*
- *“I mean to save but tend to go out and spend it.” (Manchester, renter)*

Nearly half (47%) say they would like to save for a deposit but “*have no spare cash*” to do so. It is notable that nearly half (46%) of those who describe themselves as having a realistic plan to buy within the next three to five years say they do not have any spare cash to save for a deposit.

Homeowners noted they had to make sacrifices in order to save money for a deposit. A third said they cut down or stopped going out (34%) and a quarter went on fewer or cheaper holidays (25%) or spent less on clothes, toiletries or personal grooming (24%). Interestingly, these are the things that non owners spend their spare cash on. Clearly non owners will need to reassess their spending in these areas if they are to start saving for a deposit.

Unless people change their saving behaviour, these findings suggest that a substantial number of people will struggle to get on the property ladder, despite their desire to do so.

Implications

Our study demonstrates that many people aged 20-45 years are struggling to get on the property ladder and are not actively making steps towards homeownership. It remains clear that if little changes within the housing market, a substantial proportion of people will struggle to get on the property ladder as they have not made adequate plans for the future.

An increase in the number of people who remain within the rental sector throughout their life has a number of possible implications.

As much of Britain’s wealth is tied up in housing, an increase in the rental sector could see a widening of the wealth gap between homeowners and non homeowners.

In the long-term, any increase in the number of renters will have an impact on pensions as less people will have the finances in their home to support their retirement.

Britain’s rental market differs significantly from the European model which offers good quality rental properties with an emphasis on long-term rentals and which places much more emphasis on tenant rights and regulations. In the UK there is a lack of regulation in the sector and this will need to be reviewed to ensure current tenant rights are adequately protected.

An increase in the number of renters could lead to a more transient population. Whilst this has obvious advantages in terms of labour mobility and national economic growth, it can have a detrimental effect on the local area as high levels of mobility do not encourage community cohesion.

Overall, any change in the number of first time buyers will have an impact on the overall housing market as first time buyers are viewed as the life blood of the market and the key to keeping the market moving. In order for the market to remain sustainable, homeowners

need to be able to move up the property ladder. Without first time buyers, there could be a standstill in the market as many people living in their first homes will not be able to move up the property ladder without a first time buyer purchasing their home.

Moving forwards

There are a number of actions the sector should consider in response to these findings. In particular, there is a strong need to consider how best to provide advice to young people in general (and first time buyers in particular) to help them develop realistic and achievable plans to get on the housing ladder. This need was acknowledged by one of the focus group participants:

- *“They need to put something there to motivate you to save I think... because I think say you were 22 and you go ‘right I’m going to save for a deposit, how much do I need? Oh I need £15,000’. It’s not realistic. If it was a realistic target you’re therefore more motivated to reach it”. (Manchester, renter)*

In particular the research demonstrates a lack of saving amongst potential homeowners and the industry should look at how it can encourage potential first time buyers to save for a deposit.

In addition, it is clear that many people have incorrect (and unduly pessimistic) assumptions about the situation faced by first time buyers, so it may be fruitful for banks to consider doing more to engage with actual and potential first time buyers to alleviate their fears. There is a widespread view that lenders do not want to engage with first time buyers and it is crucial that banks do more to dispel this myth.

Respondents in the focus group highlighted there was a lack of information from banks in terms of the application process. The industry needs to ensure that first time buyers are supported throughout the whole process including support prior to an application and afterwards, in the case where a person has had their application turned down.

- *“If it is declined they don’t give you detailed feedback so you can actually understand it...it’s alright going ‘your mortgage is declined’ but say why it’s declined and say these are the actual steps you’ve got to put in place to get there.” (London, renter)*

There are also implications for government, as these findings suggest that their attempts to encourage first time buyers back to the market (for example, through the First Buy Scheme) will not succeed unless people are able to save more or are required to provide less money up front.

3 Context

Britain's love affair with home ownership began in the last century. At the start of that century, most people rented their homes from private landlords (in 1914 only one in ten owned their own homes). By its end, around seven in ten were owner-occupiers. These changes gathered particular pace between the 1950s and 1980s, encouraged by rising living standards, policies favouring home ownership and changes in the mortgage market. However, since the early 1990s home ownership rates have remained largely static, at around 70%; in 2009, 69% of households were living in owner occupied accommodation, 37% owned with a mortgage and 32% owned outright (ONS, 2011).

Levels of owner occupation vary across Britain. Scotland has the lowest level of owner occupation and Northern Ireland and Wales the highest (Wilcox and Pawson, 2011). Within England, the highest rates of owner occupation are found in the East Midlands, South East and East of England (where it accounts for around 73% of households). The lowest rate is in London, where only 53% of households are owner occupied (Department for Communities and Local Government, 2010).

The last decade has been marked by a considerable acceleration in property prices, as well as a shortage of supply in areas such as London and the South East. Property prices have risen dramatically; the average price paid by a first time buyer more than doubled between 2000 and 2010, from £68,644 to £138,682, an increase of 102% (Halifax FTB Review 2010). More recently, there has been a change in mortgage landscape, with lenders no longer offering the high loan to value ratios typically available prior to the credit crunch.

Britain and Europe

Patterns of home ownership vary considerably across the European Union. Ownership rates in the United Kingdom are below the EU average of 73.5%, with the highest rates tending to be found in Central and Eastern Europe (peaking at 96.5% in Romania). These high figures largely reflect the fact that many people in these countries gained possession of their homes when their country became a market economy (ONS, 2011).

Sweden (70%), Poland (69%), the Netherlands (68%) and Denmark (66%) have similar rates of home ownership to the UK (70%). Lower rates are found in France (63%), Austria (57.5%) and Germany (56%).

Despite these apparent similarities with many other European countries there are notable differences between the UK and its continental neighbours. Tenancy law, in particular, varies considerably, with legislation in the UK being more liberal than that in countries such as Germany and the Netherlands where private rental tenants have more security of tenure than those in the UK and rents are more tightly controlled. For example, in Germany unlimited contracts are standard and if given notice, tenants can demand

continuation. In addition, rents cannot be increased by more than 20% nominally over three years and deposits must be repaid with interest on moving out.

There are also differences in the extent to which governments actively promote home ownership; in Germany, for example, the relatively low level of demand for owner occupied housing partly reflects long-term tax and subsidy changes made by government (RICS, 2011). Finally, there are marked differences across Europe in the importance of the social rented sector. An international review carried out by the Department of Communities and Local Government (2007) found that the Netherlands had the largest social rented sector of the countries they examined (at 35%), but that England shares with France, Sweden, Poland and the Czech Republic a significant social rented sector (of between 15 and 18%). This contrasts to the very small scale of the sector in the other English-speaking countries and southern Europe (under 7%).

The housing markets within different European countries have responded differently to the global financial crisis that began in 2008/09. As the most recent European review carried out by RICS observes, the most simple geographic description of developments is “hot north, cold south”, with the Nordic countries, Germany, France and Belgium all seeing house prices rise in real terms in 2010, while prices fell elsewhere (RICS, 2011). The same report also notes that house building is down across Europe and is severely lagging recovery in most countries.

Britain’s attitudes to home ownership

Attitudes to home ownership demonstrate Britain’s enthusiasm for owner occupation. A report for the Council of Mortgage Lenders (2007) shows that, from the early 1980s onwards, a consistent seven in ten (or more) have said that they would like to be living in an owner occupied home in two years time, rising to 84% by 2007. A similar pattern is found by the British Social Attitudes survey, which asks people what advice they would give to a newly married couple, both with steady jobs, as to whether they should buy or rent a home. In 2008, over eight in ten (85%) said they would advise the couple to buy, either immediately or in a while, a figure that has changed little since the question was first asked in 1986.

Past and current government policy

Government interest in promoting home ownership is not new, and reflects the belief that home ownership benefits both the individual home owner and the community within which he or she lives. In addition to the immediate and future benefits that home ownership can offer individuals, wider social benefits have also been cited as flowing from ownership. These range from higher educational attainment to greater participation in civic and political organisations, and greater life satisfaction (Dietz, 2003). These benefits are not, however, irrefutable. Considerable debate exists as to the precise impact of home ownership on individuals and communities, as well as about whether all groups benefit in the same way (Rohe et al, 2001; Searle, Smith and Cook, 2008).

The Conservative government's 'right to buy' policy in 1980 is probably one of the most well known examples of active policy aimed at promoting home ownership, and was driven both by the belief that "it is better to help people towards self reliance than State reliance" (Thatcher, 1974). The scheme encouraged council tenants to buy their homes, something that many tenants went on to do. Government interest in expanding owner occupation continued under the 1997-2010 Labour government, and was particularly shaped by rising house prices and the shortage of housing stock in areas such as the South East. Reflecting this, a key policy focused on helping key workers' get a rung on the housing ladder.

Currently, the coalition Government estimates that there are 1.4 million households who aspire to buy their own home, but are unable to, and believes the first time buyers are being frozen out of the housing market in a crisis that Nick Clegg, Deputy Prime Minister, describes as "hampering social mobility". To help address some of these issues, the Government has introduced a number of policies aimed at helping first time buyers. These include eliminating stamp duty on first home purchases up to £250,000 and introducing a First Buy Scheme which provides those eligible with a loan worth up to 20% of the value of the property jointly funded by the government and house builders.

The decline in first time buyers entering the market led to Housing Minister Grant Shapps calling a summit meeting with industry leaders in February 2011. Participants included The Council of Mortgage Lenders (CML), home builders, the Financial Services Agency and local councils, with the discussions focussing on lending policies and procedures in an attempt to find a solution to the problem and encourage first time buyers back to the market.

First time buyers and the housing market

The rising property prices of the last decade have clearly had a considerable impact on first time buyers, most notably in terms of the amount of money they need to provide up front as a deposit. In 2010, first time buyers were required to find an average deposit of £28,770 (equivalent to 21% of the property price). This compares to an average deposit of £9,865 (14%) in 2000 (Halifax First Time Buyers Review 2010). As a result, many first time buyers have no option but to borrow money from friends or family to help them get on the property ladder. According to the Council of Mortgage Lenders, the number of first-time buyers under 30 who turned to parents or other relatives for financial support doubled in five years, from 38 per cent in 2005 to 84 per cent in 2010. An increasing proportion of first time buyers are having to rely on their parents either through loans, mortgage guarantee or gifts of money.

One consequence of these changes could be an increase in the average age of the first time buyer. The Halifax First Time Buyers Review (2010) states the average age of their first time buyer was 29 and this has remained stable for several years. However, we could begin to see that average age start to rise. The average age of first time buyers who are buying without help from parents or friends has increased from 28 in 2005 to 37 years in 2011. These findings are corroborated by recent research from the National Housing

Association, which estimates that the average age for un-assisted purchases could increase to 43 years as people struggle to save the funds necessary for purchasing a home.

4 Implications

Our findings clearly show that many people aged between 20 and 45 are struggling to get on the property ladder. They feel they lack the financial means to save for a deposit and so cannot afford to purchase their first home. Moreover, many have no plan to start saving, or know how they might go about financing the purchase of their own home.

One clear potential implication that stems from this is the possible rise in the average age of the first time buyer. A recent report by Scottish Widows shows that if people wait until they are 30 before beginning to save for a deposit, it will take them 13 years before they have saved enough for a typical deposit. Our research shows that many people aged 20-45 are not actively taking these steps, and so may well not be able to purchase a home until much later in their life than would have been the case in previous decades, or many remain in the rental sector throughout their life, despite a desire to own their own home.

This section explores some of the possible implications of these findings.

Implications for individuals and families

Homeownership can be seen to offer people a range of benefits, not least increased security and a greater sense of control and belonging (Shelter, 2006). However, one of its clearest potential benefits is financial. Housing represents a considerable proportion of Britain's wealth; at present it is estimated that it accounts for 61% of Britain's wealth (ONS, 2010). Consequently, an increase in the proportion of people who rent rather than own their homes could see a widening of the existing wealth gap between homeowners and non homeowners. Shelter assert that if this gap continues, there will be a "*generation of children who will grow up permanently disadvantaged, unable to work their way out of the social and financial position given them by their parents' housing tenure*".

Homeownership is often seen as representing a financial investment for the future, and many homeowners see their home as a resource that they could potentially draw upon in retirement (Clery et al, 2010). Consequently, an increase in the proportion of people who rent is likely to have an impact on the resources people can potentially draw on during retirement. Research by Friends Provident found that pensioners who rent could face increasing levels of poverty if property prices increase dramatically. They also found that renters will be less well off than home owners at retirement as they will need a larger annual income to cover their rent, utility bills, ground rent and service charges³.

Implications for neighbourhoods

An increase in the proportion of people who rent as opposed to own their homes poses a number of challenges to society as a whole. Many of these reflect the fact that Britain has

³ http://www.thisismoney.co.uk/pensions/article.html?in_article_id=440114&in_page_id=6#ixzz1MWcq8Gfx

more liberal tenancy law than other European countries. Consequently, while some European countries (notably Germany) have far higher proportions of their populations renting on a long-term basis than is the case in the UK, they do so within a very different context and enjoy greater rights and protection. In the UK, the balance of power between the tenant and the landlord can be seen as more heavily weighted towards the landlord.

The lack of tenure security in the UK has an impact on the mobility of renters and, in turn, can contribute to social problems. Recent research by Reading University and the Joseph Rowntree Foundation found the average tenancy length for a private renter was 1.7 years, compared to 12 years for a homeowner. An increase in the number of people renting could lead to a more transient population, able to move geographical areas quickly and easily. Whilst this has obvious advantages in terms of labour mobility and national economic growth, it can also have a detrimental effect on the local area. High levels of mobility do not encourage community cohesion, reflecting the fact that people will not settle for sufficient time to embed themselves within, and contribute to, their local community. High levels of mobility can also lead to void periods between lettings which can disrupt neighbourhoods (Sampson and Davey, 2010). Landlords who fail to manage their stock of property adequately can also contribute to neighbourhood problems.

Implications for the housing market

With current estimates of a housing shortfall and an estimated 232,000 new homes required each year to meet demand, the house building industry needs to continue to supply new developments. But changes in the proportion of people who rent, and the length of time they rent for, are likely to effect the number and nature of new build properties, and may lead to fewer homes being built than is necessary. As first time buyers are regarded as crucial to the housing market and house building industry to keep the market moving, any decrease in the number of first time buyers will have an impact on the funding of new builds. It will also be important that, when planning any new developments, the likelihood of some of it being privately rented is considered, to ensure the stock is of high quality and well managed.

Any decrease in first time buyers will have an overall impact on the future housing market. First time buyers are viewed as the life blood of the housing market and are key to getting the market moving. In order for the market to remain sustainable, homeowners need to be able to move up the property ladder. Without a first time buyer, many people living in their first home will be unable to move up the property ladder and, without this movement, the market will come to a standstill.

Implications for the banking sector

A key finding from our research relates to a general fear of the mortgage process, with many people fearing their application will be declined by a lender, a fear which seems to hold back some from applying for a mortgage in the first place. There appears to be a real need for banks to do more to engage with would-be first time buyers, particularly when it comes to explaining the mortgage process and alleviating the current fears many have.

There was a widespread view that lenders do not want to engage with first time buyers and it seems essential that banks attempt to dispel this myth. Without challenging these perceptions, people may feel alienated from lenders and not approach them for mortgage finance or advice.

This suggests that it would be worth banks exploring offering further advice services to prospective mortgage applicants, so as to ensure that they have all the key facts and are aware of what they need to do to take the necessary steps to get on the property ladder. Our research also shows that making plans to purchase a home by saving for a deposit varies with age with younger people aged 20-29 years being the most likely to be saving and making sacrifices to their lifestyle. Any attempts to encourage first time buyers to the market must adequately cater for older first time buyers (aged 30-45 years) to ensure their circumstances are taken into account.

There are also implications for government, as our study suggests that attempts to encourage first time buyers back to the market will not succeed unless first time buyers are able to save more. This may lead to an increased need for government schemes such as the First Buy Scheme if people are to get on the property ladder, particularly within those regions with very high house prices.

5 Main Findings

These findings describe the results of an online survey of 8,000 20 – 45 year olds, commissioned by Halifax and carried out by Populus between April 1st and 10th 2011. The survey questions were informed by a number of focus groups carried out in London and Manchester in March 2011, and – where appropriate – we have included some of the comments from these groups in the report. Further details about the survey and focus groups are provided in the appendix to this report.

5.1 Aspirations and reality

5.1.1 Patterns of home ownership

Nearly half our sample (45%) owned their own home, and the vast majority were buying their property with a mortgage or loan. Just over a fifth (21%) were social housing tenants while 28% rented from a private landlord. The remaining 5% said they lived rent free.

Not surprisingly, home ownership rates increase with age. As Table 1 shows, only 15% of 20-24 year olds own their own home. This rate doubles, to 30%, among the 25-29 year old age group, and then climbs gradually to reach 63% among those aged 40-45.

Table 1 Home ownership						
	Total	Age				
		20-24	25-29	30-34	35-39	40-45
%						
Own property outright without mortgage	7	4	5	5	9	12
Own property with a mortgage or loan	38	11	25	42	53	51
Rent from the council	10	9	12	8	9	10
Rent from a housing association	11	19	9	10	8	9
Rent from someone else	28	38	42	31	19	16
Live rent free	5	18	5	3	2	3
Base	8001	1188	1485	1711	1759	1858

Despite the falling number of first time buyers, our study shows a fifth of homeowners (22%) had bought their first home since the credit crunch in 2007. Over half the homeowners aged 20-29 years had purchased their first property since the credit crunch (53%). Purchasing since the credit crunch is highest in London and lowest in Wales.

5.1.2 Aspirations for ownership

Owning a home is clearly an aspiration for the majority. Over three quarters (77%) of non owners would like to buy a home of their own, and just a quarter (23%) would not. Respondents in Wales and the West Midlands appear to aspire less to home ownership, with 37% and 30% respectively stating they did not want to buy a home.

The desire among non owners to buy a home of one's own is highest among the younger people we interviewed: only 17% of 25-29 year-olds do not want to own their own home, compared with 33% of those aged 40-45. This undoubtedly reflects the fact that many people in the older age group who want to buy a home will already have done so.

We asked a series of questions to assess people's general attitudes to ownership in more detail. Most people viewed homeownership as a positive investment with the majority (79%) agreeing that *"owning your own home is a good financial investment for the future"*. Unsurprisingly, homeowners are more likely to agree with this (85% compared to 74% of non owners). There was little difference between the views of different age groups.

These findings echo comments made during the focus groups that preceded the survey:

- *"It's always been a sure investment" (London, first time buyer)*
- *"You put money into property because it's a sure sound investment" (London, first time buyer)*
- *"Mainly it's my retirement fund" (London, first time buyer)*
- *"It's one of the biggest ways of making money" (London, renter)*

Renting is seen as less desirable; three in five (59%) think *"renting is a waste of money"* and just three in ten (30%) believe *"all things considered, a young person now would be better off renting long-term than buying a property"*. Homeowners have more negative views on the value of renting, with 69% stating it was a *"waste of money"* (compared to 51% of non owners) while just 23% think *"a young person now would be better off renting long-term than buying a property"* (compared to 36% of non owners). Respondents living in the North East have less favourable views towards homeownership, with fewer viewing homeownership as a good investment (69% compared to 79% overall) and less than half (46%) agreeing that renting is a waste of money (compared to 59% overall).

The view that renting is a waste of money was also expressed by a number of renters taking part in the focus groups:

- *"When you're paying rent it's annoying because it's just dead money, you're paying someone else's mortgage, you might as well be paying your own instead" (London, renter)*
- *"The thing that frustrates me is the amount of rent I pay and that would pay a mortgage if I could get a mortgage." (London, renter)*
- *"I just put it to the back of my head that I'm paying dead money... I'm paying off her mortgage" (London, renter)*

The youngest group in the survey, aged 20 to 24, were the most positive about renting, although the majority still thought buying was preferential to renting. Over a third (36%) of 20-24 year olds agreed that a young person would be better off renting, compared with just a quarter (25%) of 40-45 year olds. This is corroborated by 2011 research by Halifax into the cost of buying vs. renting, which revealed that renters pay on average £100 more than homeowners.

5.1.3 A future nation of renters?

The potential for falling rates of home ownership was recognised by our respondents. Nearly half (46%) agree that “*Britain will become a nation of renters within the next generation*”, rising to 51% among non owners (compared with 39% of homeowners).

Two fifths (44%) agree that “*times have changed since my parents’ generation and Britain is becoming more like Europe – everyone rents there, it’s the norm*”. Again, agreement was higher for non owners; 50% compared to 37% of homeowners. Younger people were more likely to take this view than older ones, as shown in Table 2.

Table 2 Extent to which respondents agree or disagree ‘Times have changed since my parents’ generation and Britain is becoming more like Europe – everyone rents there, it’s the norm’						
	Total	Age				
		20-24	25-29	30-34	35-39	40-45
	%					
TOTAL - Agree	44	51	48	44	42	38
Strongly agree	10	14	13	9	9	7
Agree	34	37	35	35	33	30
Neither agree nor disagree	41	36	39	40	43	45
Disagree	13	11	11	13	14	15
Strongly disagree	2	1	1	2	2	2
TOTAL - Disagree	15	13	13	15	15	18
Base	8001	1188	1485	1711	1759	1858

5.2 First time buyers

5.2.1 Perceived barriers to home ownership

Not surprisingly, the main barriers that are seen to be putting off first time buyers are financial. Three were seen as particularly important in preventing people who would like to buy their first home from doing so:

- Size of the deposit required (67% mentioned this as one of the top three barriers that prevent people from buying their first home);
- High property prices (52%);
- Low income (41%).

Table 3 Most significant barriers preventing people who would like to buy their first home from doing so				
	Total	First choice	Second choice	Third choice
	%	%	%	%
The size of the deposit required	67	36	19	12
High property prices	52	19	20	13
Low income	41	14	14	13
Lack of job security	31	8	11	12
Higher repayments from mortgages that have been secured with relatively small deposits	22	4	8	10
Lenders having unrealistically high expectations of people's credit histories	20	5	7	8
Not feeling able to apply for a mortgage because they believe most applications are rejected in today's economic climate	18	5	6	7
Other debts	16	3	5	8
Extra fees (e.g. solicitors' / mortgage arrangement fees)	15	2	5	8
Finding the right property	8	2	2	4
Not knowing how apply for a mortgage	6	2	2	2
Stamp duty	6	1	2	3
Base	8001	8001	8001	8001

5.2.2 Future plans

We asked non owners to choose one of the seven options described in Table 4 below that best described their current situation as regards buying a home. A third (32%) have a realistic plan to buy within the next 5 years, including 12% who have a realistic plan to buy within the next few years. Those aged 20-29 living in the North East, North West or London and on higher incomes (with a household income of £28,000 or more) were the most likely to have a realistic plan to purchase a property in the next 5 years.

Two fifths (38%) would like to own their own home but feel they will not be able to do so unless “*something comes out of the blue*”, suggesting that home-owning aspirations are still strong, but that people are very pessimistic about this becoming a reality.

Table 4 Current situation regarding homeownership						
	Total	Age				
		20-24	25-29	30-34	35-39	40-45
%						
I would like to buy a home but I don't think I will ever be able to unless something comes out of the blue	38	26	36	43	44	47
I don't want to buy a home and haven't tried	23	26	17	18	24	33
I have a realistic plan to buy a home within the next 3-5 years	20	29	23	18	15	9
I have a realistic plan to buy a home within the next 1-2 years	12	12	16	13	12	7
I am in the process of applying for a mortgage offer in principle	3	2	4	3	1	2
I have applied for mortgage but I was rejected so have given up	2	2	2	3	3	2
I already have a mortgage offer in place	2	3	2	2	1	1
Base (<i>non owners</i>)	4118	975	991	876	632	644

For some respondents in the focus group, inheritance was seen as the only way they would be able to afford to get a deposit together.

- “*The total truth is inheritance will be the only way I buy a house*” (London, renter)

- *“I’d love a chunk of money... If I inherit some money or my parents give me some money... but there is no way I’d ever be able to save up that much money” (London, renter)*

Those who don’t think they have much chance of buying a home were among the *least* likely to have sought professional advice, with only 9% having done so. Potentially this group will contain people who might be able to purchase a home but are simply not aware of this.

The lack of a concrete plan to purchase a property is linked with age. Younger people were both more proactive in seeking advice (27% of non owners aged 20-24, but only 11% of non owners aged 40-45) and more likely to have a realistic plan to purchase their own home within the next 5 years (41% of non owners aged 20-24, but only 16% of those aged 40-45). Again, this will reflect the fact that many of those in the older age group who would like to own a home will already have done so, leaving behind those who are either uninterested in home ownership or unable to take it up.

5.2.3 Saving for a deposit

Although many see the size of the deposit needed to buy a home as being a significant barrier to home ownership, relatively few non owners are actively saving for a deposit. As Table 5 shows, just 14% of non owners said they were *“saving every penny for a deposit and making sacrifices to their lifestyle to do this”*. A further 14% said they were trying to save for a deposit but *“more often than not they spent their spare cash on having a good time”*. Nearly half (47%) said *“I want to save for a deposit but don’t have any spare cash”* with 73% of people who want to buy a home but don’t think they will be able to unless something comes out of the blue stating they have no spare cash to save for a deposit.

Table 5 Statement which captures approach to saving for deposit to buy a house or flat						
	Total	Age				
		20-24	25-29	30-34	35-39	40-45
	%					
I want to save for a deposit but don't have any spare cash	47	41	47	54	48	46
I don't want to save a deposit – I'm not interested in buying for another reason	20	17	13	15	25	35
I'm saving every penny for a deposit and making sacrifices to my lifestyle to do this	14	18	16	16	11	8
I'm trying to save for a deposit but more often than not I spend my spare cash on having a good time	14	17	19	14	11	7
I don't want to save for a deposit – I'm not interested in buying as I would much rather rent	5	7	4	3	4	5
Base (<i>non owners</i>)	4118	975	991	876	632	644

It is notable that nearly half (46%) of those who describe themselves as having “*a realistic plan to buy in the next 3-5 years*” say they are not saving for a deposit because they have no spare cash, suggesting that their aspirations may not be very realistic.

Making plans to purchase a home by saving for a deposit varies with age, with younger people being the most likely to be saving and making sacrifices (18% of non owners aged 20-24 compared to 8% of non owners aged 40-45). Over half (54%) the non owners aged 30-34 say they would like to save for a deposit but do not have the necessary spare cash to do so.

We asked homeowners what sacrifices they had made in order to save money for a deposit on their first home. A third said they had cut down or stopped going out (34%), a quarter said they went on fewer or cheaper holidays (25%), or spent less on clothes, toiletries or personal grooming (24%). A quarter said they borrowed money from friends and family (24%).

Our findings tally with recent assertions that a growing proportion of first time buyers are turning to parents or other relatives for financial support. The percentage of people who say that they borrowed from friends or family when buying is highest among those who have bought most recently; 28% of those who bought a property since 2007 borrowed from friends and family to do so, compared to 22% who bought in the 1990s, 19% who bought in the 1980s and 13% who bought before then.

We asked non owners who were **not** saving every penny for a deposit to say what they spent their spare cash on. The most common answers were clothes (38%), eating out (34%) and holidays (31%). Clearly many non owners will need to reassess their spending in these areas if they are to start saving for a deposit to enable them to get on the property ladder.

The difficulty of saving was an issue that emerged clearly during the focus groups. For some, the desire to save was clear, but other spending often won out:

- *“I mean to [save] but I tend to go out and spend it” (Manchester, first time buyer)*
- *“My savings are usually short term, I normally book a holiday at the start of the year and then save for that, but long term no.” (London, renter)*
- *“If I didn’t drink or go out at all, then I’ll probably save a lot of money” (Manchester, renter)*
- *“A big percentage of my money does go on going out.” (Manchester, renter)*
- *“I’m not interested in trying to stop my life now when I’m 31 to not go out and not do anything to save up the £40,000 deposit. I’d rather live my life now” (London, renter).*

The amount a person might be required to save is clearly a factor that puts many off. One focus group respondent commented:

“They need to put something there to motivate you to save I think... because I think say you were 22 and you go ‘right I’m going to save for a deposit, how much do I need? Oh I need £15,000’. It’s not realistic. If it was a realistic target you’re therefore more motivated to reach it” (Manchester, renter)

5.3 Pessimism about first time buyers and the mortgage process

As well as exploring current behaviour in terms of home ownership, the study also explored attitudes towards the market, first time buyers, and the mortgage process. We found evidence of fear for, and among, first time buyers, both in relation to the mortgage process and to purchasing a home more generally. This fear was clearly felt by would-be first time buyers but was also noted by homeowners in the survey, and could go some way to explaining why would-be first time buyers are not making plans to buy a home. In particular, we found an overwhelming concern about the state of the current housing

market, with a majority (89%) agreeing that *“there is a general fear that it’s too risky getting a home at the moment because too many things could go wrong”*.

5.3.1 Getting a mortgage

The majority of respondents (92%) thought it was hard for first time buyers to obtain a mortgage at the moment with 40% stating it was *“very hard”* and 20% stating it was *“virtually impossible”*. These beliefs could help explain why some people are not actively making plans to get on the property ladder.

Younger respondents are most optimistic about the ease with which people can get mortgages, although this could reflect the fact that they are the least familiar with the process. Twice as many 20-24 year olds as 35-44 year olds thought it was *“very easy”* or *“easy”* for first time buyers to obtain a mortgage (14 and 6% respectively).

Interestingly, those respondents who had bought since the credit crunch in 2007 were more likely to say that it was *“very easy”* or *“easy”* for first time buyers to obtain a mortgage at the moment: 13% compared to 8% overall. This was echoed by first time buyers in the focus groups, who said they found the process easier than they had anticipated:

- *“I found it quite easy to be honest” (Manchester, first time buyer)*
- *“And to say that I had no idea what I was really doing, I came out if it thinking ‘well that wasn’t that hard really”. (Manchester, first time buyer)*
- *“I think they seem more difficult than they are” (Manchester, first time buyer)*
- *“Getting a mortgage wasn’t as hard as I was expecting after all the shock stories in the paper” (London, first time buyer)*

Views about the difficulty of obtaining a mortgage may be partly explained by people’s beliefs that banks do not want to engage with first time buyers or approve first time buyer mortgages. The majority (84%) believe that *“banks don’t want to lend to first time buyers at the moment and find excuses to turn them down”*. Two thirds (67%) believe there is *“a general perception that everyone is rejected by lenders so there is little point in applying”*. This view is most common among young people; 73% of 20-24 year olds agree, compared with 64% of 40-45 year olds.

Table 6 How much respondents think the following is putting people off applying for a mortgage: *'A general perception that almost everyone is rejected by lenders, so there is little point in applying'*

	Total	Age				
		20-24	25-29	30-34	35-39	40-45
%						
TOTAL – A great deal/a fair amount	67	73	70	66	68	64
A great deal	20	22	24	19	19	17
A fair amount	48	50	46	47	49	47
Not very much	27	23	25	29	27	30
Not at all	5	4	5	5	5	6
TOTAL – Not very much/not at all	33	27	30	34	32	36
Base	8001	1188	1485	1711	1759	1858

Alongside fears of the current climate, people are worried about the actual mortgage process. The process for first time buyers is seen as stressful with 61% believing first time buyers do not “*want to go through the stress and anxiety of applying for a mortgage*”. Over half the respondents (55%) believe first time buyers are “*too scared of being turned down*”. This was echoed during some of the focus groups:

- “*All the press is negative*” (Manchester, first time buyer)
- “*I think you just hear about how bad everything is don't you, so kind of quit in a way, it's like everything's difficult, you can't get this, that and the other in this recession, so it's kind of like a brick wall*” (Manchester, renter)
- “*I'm not sure the mortgage process is that easy. I've never done it myself but I keep hearing horror stories*” (London, renter)

Interestingly, younger people have a more negative view of the mortgage process. Two thirds (67%) of respondents aged 20-24 believe first time buyers do not want “*to go through the stress and anxiety of applying for a mortgage*” compared with 55% of 40-45 year olds. They are also more likely to agree that “*hearing horror stories from friends and family about their mortgage applications*” puts off first time buyers (65% of respondents aged 20-24 compared with 50% aged 40-45).

5.3.2 People's understanding of the mortgage process

There are clear gaps between people's perceptions of the current mortgage market and reality. The gap between beliefs and reality is illustrated when people are asked what percentage of first-time buyer mortgage applications are currently being accepted by mortgage providers. Over half (58%) think that 40% or less applications are being accepted and just 5% give the correct answer (currently the Halifax are accepting 8 out of 10 mortgage applications from first time buyers).

It may be fruitful for banks to consider doing more to engage with actual and potential first time buyers in order to alleviate their fears about the mortgage process and fear of having a mortgage application declined, and to encourage would-be first time buyers to start saving and making realistic plans towards purchasing their own home.

5.3.3 Schemes to encourage people onto the housing ladder

We asked non owners about various schemes (shown in Table 7) aimed at encouraging and helping people to get on the property ladder. All the approaches we asked about were popular, with at least seven in ten saying each would encourage them "*a great deal*" or "*a fair amount*".

The most popular schemes are eliminating stamp duty followed by the government's new assisted deposit scheme. People are also positive about getting personal feedback and advice, including a detailed and tailored plan for your mortgage application – three quarters say this would encourage them to get on the property ladder. A slightly smaller proportion (71%) said an interactive illustration of how well you meet lending criteria would encourage them, and a similar proportion (69%) said this about knowing that your lender will provide personal and constructive feedback should your mortgage application be turned down.

Table 7 How much would the following encourage you to get on the property ladder?						
Base (non owners) = 4118	TOTAL – A great deal/fair amount	A great deal	A fair amount	Not very much	Not at all	TOTAL – Not very much/Not at all
	%					
Eliminating stamp duty for first time buyers, regardless of the value of the property	77	37	41	15	7	23
The government's new assisted deposit scheme for first time buyers looking to secure a mortgage on new build properties.	74	33	41	16	10	26
Personal feedback and advice, including a detailed and tailored plan for your mortgage application	74	24	50	18	8	26
An interactive illustration of how well you meet lending criteria, providing an indication of your chances of success before applying	71	24	47	21	8	29
Knowing that your lender will provide personal and constructive feedback should your mortgage application be turned down	69	23	46	22	9	31

6 References

Clery, E., Humphrey, A., and Bourne, T. (2010) Attitudes to Pensions: The 2009 Survey
Department for Work and Pensions Report No 701

<http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep701.pdf>

Council for Mortgage Lenders (2007), Housing Finance, Issue 01, 2007.

Department of Communities and Local Government (2007), An international review of homelessness and social housing policy, HMSO: London.

Department of Communities and Local Government (2010), English Housing Survey, Household Report, 2008/09, HMSO: London.

Dietz, R. (2003), 'The social consequences of home ownership', Homeownership Alliance,

http://www.newtowncdc.org/pdf/social_consequences_study.pdf

Grannum, C. (2006) Shelter Policy Briefing – Home Ownership April 2006

http://england.shelter.org.uk/_data/assets/pdf_file/0010/43768/19928.pdf

Halifax (2011) Buying V Renting Review Press Release 23/04/11

http://www.lloydsbankinggroup.com/media/pdfs/halifax/2011/Buying_v_Renting_23_04_11.pdf

Humphrey, A. and Bromley, C. (2004), in Park, A. et al (eds.), *British Social Attitudes: the 22nd Report*, Sage: London.

Lloyds TSB (2011) Second Steppers: The challenges facing those moving up the ladder. 2011

<http://www.lloydsbankinggroup.com/media/pdfs/LTSB/2011/310111SecondSteppersReport.pdf>

Office for National Statistics (2011), Social Trends 41, HMSO: London.

Office for National Statistics (2010) Press Release 02/08/2010 'UK worth £6.7 trillion'

<http://www.statistics.gov.uk/CCI/nugget.asp?ID=479&Pos=&ColRank=2&Rank=224>

Park, A. et al (eds.), *British Social Attitudes: the 27th Report*, Sage: London.

Reading University and The Joseph Rowntree Foundation (2011) Role of the UK Private Rented Sector in the provision of affordable accommodation

http://www.hcr.co.uk/_assets/client/images/collateral/Role%20of%20the%20UK%20Private%20Rented%20Sector%20in%20the%20provision%20of%20a....pdf

RICS (2011), 2011 European Housing Review, RICS Research, www.rics.org.ehr

Rohe, W., Van Zandt, S. and McCarthy G. (2001) The economic benefits and costs of homeownership. Research Institute for Housing America, Working Paper 01-02

Sampson, A. & Davey, C. (2008) Private renting for public good in Bill, P., Hackett, P., & Glossop, C. (eds) *The Future of the Private Rented Sector*
<http://www.smith-institute.org.uk/file/TheFutureofThePrivateRentedSector.pdf>

Scottish Widows (2011) Post-Crunch Generation of Lost Savers Revealed Press Release
http://reference.scottishwidows.co.uk/docs/2011_03_fifth_s_and_i_report.pdf

Searle, B., Smith, S. and Cook, N. (2008), 'From housing wealth to well-being', in *Sociology of Health and Illness*, Vol. 31, issue 1.

Wilcox, S. and Pawson, H. (2011), UK Housing Review 2010/2011,
<http://www.york.ac.uk/res/ukhr/ukhr1011/index.htm>

Wendy Wilson (2011) Parliamentary Note 15/04/2011: The New Homes Bonus Scheme
<http://www.parliament.uk/briefingpapers/commons/lib/research/briefings/snsp-05724.pdf>

Appendix A Methodology

This report describes the results of an online survey of 8,000 20 – 45 year olds, commissioned by Halifax and carried out by Populus between April 1st and 10th 2011. Respondents were a mix of members of Populus's online panel, PopulusLive, and people who were recruited using Random Online Sampling (advertising to relevant demographic groups on the internet). Quotas were set for the following five age groups using 2001 Census data: 20-24, 25-29, 30-34, 35-39, 40-45.

Following fieldwork, results were weighted to be representative of the sample. Respondents were weighted according to their age and to the gender, region, and socio-economic grade balance of the total sample of 20-45 year olds.

The survey questions were informed by a number of focus groups carried out in London and Manchester in March 2011. A total of 4 focus groups were undertaken with the following groups:

Renters (1 group in London, 1 group in Manchester):

- All aged 25-40
- Male and female
- All with an annual income of £36k – £42k (London) and £28k – £34k (Manchester)
- All live in privately rented accommodation.

First time buyers (1 group in London, 1 group in Manchester):

- All aged 25-40
- Male and female
- All with an annual income of £36k – £42k (London) and £28k – £34k (Manchester)
- All have agreed mortgages in principle but not yet bought, or have purchased their first home in last 6 months.

Appendix B Tables

Table A1 Home ownership aspirations						
		Age				
	Total	20-24	25-29	30-34	35-39	40-45
	%					
Would like to buy home	77	74	83	82	76	67
Does not want to buy a home	23	26	17	18	24	33
Base (non owners)	4118	975	991	876	632	644

Table A2 Extent to which respondents agree or disagree <i>'All things considered, a young person now would be better of renting long term than buying a property'</i>						
		Age				
	Total	20-24	25-29	30-34	35-39	40-45
	%					
TOTAL - Agree	30	36	32	30	27	25
Strongly agree	7	9	9	7	6	5
Agree	23	27	23	23	21	20
Neither agree nor disagree	38	35	36	38	40	39
Disagree	26	21	25	26	27	28
Strongly disagree	7	8	7	6	6	8
TOTAL - Disagree	33	29	32	32	33	36
Base	8001	1188	1485	1711	1759	1858

Table A3 Which of the following, if any, do you spend money on that could otherwise be used to save for a deposit	
	Total
	%
Clothes	38
Eating out	34
Holidays	32
Things for my current home	31
Alcohol/going to the pub	28
Car	22
My children	22
Gadgets	21
Looking good (cosmetics, grooming, beauty treatments)	18
My boyfriend/girlfriend	17
Clubbing	14
Higher quality accommodation that I strictly need	8
I don't spend on any of these things ahead of spending for a deposit	16
<i>Base (non owners not saving every penny for deposit)</i>	2150

Table A4 What respondents did in order to get enough money for the deposit for their first home	
	Total
	%
Cut down/stopped going out	34
Went on fewer/cheaper holidays	25
Borrowed money from friends and family	24
Spent less on clothes, toiletries or personal grooming	24
Spent less on my hobby/hobbies	20
Kept a bonus/windfall to one side	18
Spent less on Christmas, birthdays and other special events	16
Worked an extra job	12
Lived in lower quality accommodation to save on rent	10
I didn't do any of these things	32
<i>Base (homeowners)</i>	3883

Table A5 How much respondents think the following is putting people off applying for a mortgage: *'Not wanting to go through the stress and anxiety of applying for a mortgage'*

	Total	Age				
		20-24	25-29	30-34	35-39	40-45
	%					
TOTAL – A great deal/a fair amount	61	67	65	61	60	55
A great deal	16	21	20	15	13	13
A fair amount	45	46	45	47	46	42
Not very much	32	29	27	32	33	37
Not at all	7	4	8	6	8	8
TOTAL – Not very much/not at all	39	33	35	39	40	45
Base	8001	1188	1485	1711	1759	1858

Table A6 How much respondents think the following is putting people off applying for a mortgage: *'Hearing horror stories from friends or family about their mortgage applications'*

	Total	Age				
		20-24	25-29	30-34	35-39	40-45
	%					
TOTAL – A great deal/a fair amount	57	65	59	58	56	50
A great deal	15	22	17	13	13	11
A fair amount	42	43	42	45	43	39
Not very much	35	29	33	35	36	40
Not at all	8	6	8	7	8	9
TOTAL – Not very much/not at all	43	35	41	42	44	50
Base	8001	1188	1485	1711	1759	1858