# How long before you'll never be able to buy a house?

"A must read for anyone still renting!"

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# How long before you'll never be able to buy a house?

*By Andrew Boast MAAT MIC, Co-Founder of Share a Mortgage*

**For most people buying their own home is a naturally occurring milestone in the journey of life; there is no greater badge of achievement, no more tangible evidence of their efforts or symbol of success. Home ownership signifies maturity, stability and is a stepping stone towards marriage, children and all that that brings. So how would you feel if you were told that if you don't buy a house within the next 5 years you may never be able to?**

## "If you don't buy a house within the next 5 years you may never be able to"


As sensationalist as this may sound the reality is that times are changing and changing fast. For the average earner in England their salary alone is no longer enough to secure a mortgage on a house because property prices are going up faster than their wages and have been doing so for years. If you're an average earner of **£26,500**, a '**4 times salary mortgage**' of **£106,000** may not be enough to buy a property in your area. Unable to afford a property on your own your only option is to sit living with mum and dad, or stay on the rental treadmill until you find someone to buy with to increase your mortgage buying power.

Now if you're anything like me, in our day and age of instant gratification, even waiting a few minutes for my coffee at Costa is too long. Apply this to buying a home you may be shocked to find out that a report by **Affordable Home Advice**[1] in 2013 stated the average age of a first time buyer in London was **52** years old; with the rest of England an average of **39**.

A study in June 2014[2] by **Shelter** to assess how much of the housing market is affordable to the average earner found that in **85%** of local authority areas, more than nine out of ten properties were unaffordable to an average earner. There were some areas in England where no properties were affordable and this is a trend set to get worse as property prices increase. There were of course more properties to buy if there were two average earners buying together.

A divide has secretly crept in under everyone's radar with a clear gap between the 'haves' and 'have-nots' of home ownership. Between 2003 to 2013, home ownership dropped from the highest ever of 71% to 65% and is set to drop to 50% in less than 20 years.

The fall in home ownership is new to our generation as most of us grew up seeing our parents owning their home and expected to buy our own place in turn somewhere down the line. So how come our parents could do it back then but it is so hard for our generation? The answer is the balance between salaries and property prices. In **1970** the average property cost **£4,975**[3], which was 3 times the average salary of **£1,664** at the time. Nowadays, the average house is over 12 times the average salary because salaries have not increased at the same rate as property prices.

**In 1970 the average property cost £4,975**

Sadly, the delays you face getting onto the property ladder can have a knock on effect to some of your other life decisions like getting married or having children. In fact if you leave buying a property too long, you could still be paying mortgage repayments well into retirement.

[1] Affordable Home Advice – The bare facts about property prices in the UK

[2] Shelter – How much of the housing market is affordable? June 2014

[3] National Institute on Aging – Global Health and Aging

We weren't always a nation of home owners; in fact **in 1900 90% of England was renting** and the class divides in society were greater. People worked longer, died younger with an average life expectancy of 52 years. People entered old age (if 45 to 52 is old age!) without any pension, relying upon family to look after them during their comparatively brief retirement years.

Since **1900** we have had two **World Wars**, **social housing**, **several property booms** and the worst ever **financial crash**. Nowadays we retire at **65** and have a life expectancy of around **79** years which means you need to have saved enough money to carry you through from retirement to death. Based on the average salary being spent a year, you'll need to save enough for **14 years** equalling **£364,000**.

As a nation we are reliant on our **personal savings** (including pensions), **assets** (mainly our home) and the **State** to pay for our extended **retirement**. With home ownership on the decline and people paying mortgage-sized rent for years making saving hard, our generation is faced with a dilemma of no home, no savings and a scary retirement reliant on what benefits the State can provide.

"It is simple, the average earner in 2014 will struggle to buy a property on their own"


**The top five problems facing home buyers today are:**

1. **salaries** aren't going up at the same rate as property prices;
2. **mortgages** are becoming harder to get;
3. **first time buyers** are **priced out** of the market;
4. the shortage of **affordable** properties; and
5. there aren't enough **new homes** being built (I'll come onto this)

In this E-book I'll reveal the truth behind the rise and fall of property prices, why home ownership is no longer a given but is making a return to the 'aspirational' and most importantly, I'll tell you what you need to do now to make sure you're not left behind trapped on the eternal rental treadmill.

# So how did we get to where we are now?

## The dark times

I can still hear the echoes of the Chancellor of the Exchequer telling us "*'we are not through the worst of it*" after a double dip recession when unemployment reached **2.68m**, banks were bailed out (or taken over) and a huge drop in property prices with London reaching a low of **£292,925** in average property prices in May of 2009.

In the years between 2008 and 2011 we saw a property market brought to its knees after years of careless lending. At points during the previous years' property boom you could get a mortgage for **110%** of a property's value. Yes, you heard me right: mortgage lenders were banking on the fact that your property was going to go up in value by more than **10%**. It was good business and who could say no to being given money for more than your property is worth. The same games were being played over the pond creating a 'sub-prime market', however suddenly it crashed, and crashed hard.

Within days people were sat in properties where their mortgage debt was more than their property was worth (negative equity). This left home owners unable to sell and unable to remortgage. So, people were stuck paying (or unable to pay) their mortgages on high variable interest rates. The Bank of England did the only thing it could do to save the country from going bankrupt: it dropped the BOE base rate to **0.5%** and the Government leant **£124bn**[4] to banks in cash and **£332bn** in guarantees to keep them alive.

**Did it work?** Well, we are still here and no one has invaded yet. It was however a very public lesson to mortgage lenders: make sure the people you lend mortgages to can afford them.

[4] National Audit Office – Second Report

# Is it a housing bubble?

Today we see a different picture that comes with a whole new world of problems. As we saw before, the housing bubble in 2008 was caused, very simply, by the **over-availability of mortgages** allowing for people to pay what they wanted for properties with very little chance of being able to pay the mortgage back. This pushed property prices higher and higher and higher to their peak of **£350,573** (Feb 2008). Now it seems we're in another property bubble with property prices shooting up even higher but is it the same problem we saw in the dark times?

The average house price in London is the highest it has ever been at **£439,719** (May 2014); that is **£89,000** more than at the height of the worst ever property bubble that almost made Britain bankrupt in 2008. The Centre for Economic and Business Research predict the increase to carry on and in 5 years time it'll cost a whopping **£566,000**[5] for an average home. So, unless in 5 years time your **salary** is more than **£127,500,** the average priced property in London will be far beyond your reach.

The **average** house price in England is currently **£172,000**, and although not as high as London, the average earner would need a deposit of **£66,000** to add to their mortgage of **£106,000** before they can afford to buy. A deposit of this size would take a long time to save and is unrealistic for one person to save this on their own.

Now, I know what you're thinking, stop scaremongering - the banks leant based on low deposits and average salaries before, they'll do it again won't they? Sadly lessons have been learnt and mortgage lenders now only allow a certain percentage of their total portfolio to accept low deposits. So whereas before you could get a **110% mortgage** if the day ended in 'y', mortgage lenders now won't go near you unless you have a **10% deposit**, a **clear credit history** and the ability to pay your mortgage even if the Bank of England base rate goes up by **3%**. They have a clear target list of who they want to lend money to and ***'if your names not down, you're not coming in!'.*** There are Government driven schemes like **Help to B**uy and **Shared Ownership** which allow you to buy with a **smaller deposit**, however these can be used too infrequently, have **strict parameters** of use (most only available on **new build properties**) and even a **5% deposit** is hard to pay for on your own.

On the upside, the banks are more aware of their responsibility to make sure the people they give a mortgage to can actually afford to repay it. No one wants to go back to 'the dark times' in 2008 and repossession is bad for business – honestly, a mortgage lender would rather not do it. The lessons of the past are still an embarrassment to the banking sector and in April 2014, the **Financial Conduct Authority** (FCA) conducted an emergency Mortgage Market Review (MMR) to put in place controls to prevent high risk lending.

## "So what is different this time round? Why hasn't the bubble burst and the apocalypse started?"

More controls are in place to slow the number of mortgage applications being approved. The Bank of England's Financial Policy Committee has curbed the number of above **4.5 times salary** mortgage applications to **15%** of a mortgage lender's portfolio which means that most mortgages will be based around **4 times salary or less**. On an average person's salary of **£26,500** that'll get you a mortgage of **£106,000**. As Shelter reports, there are few properties available to buy for this amount of money.

I know what you're thinking, if mortgage approvals are going down, why are house prices still going up? **Supply and demand** is one reason and the other is the **cash-buying buy-to-let investor**. Yes, if you can't afford to buy a home to live in, that means you need somewhere to rent. Buy-to-let investors know this problem only too well and are swooping in to supply the **demand for rental**. The swing from **home ownership** to **private renting** has already happened and if you're not reading this from the comfort of your own home, you may never know what that feels like.

[5] Centre for Economics and Business Research

# Welcome to generation rent


Did you know that '**private home ownership**' dropped from its peak of **71%** in 2003 to **65%** in 2013[6] and it is estimated to drop to **50%** by 2034?

## "OK, there's been a drop in home ownership. So what?"

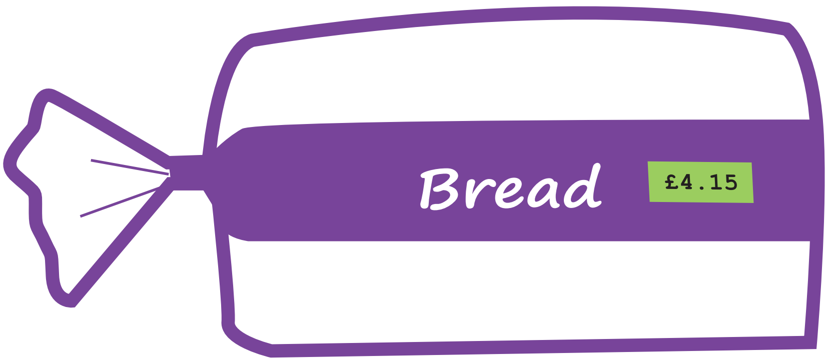
Children of the **70s** and **80s** have grown up with the assumption that they'll leave school, get a job, buy a house and retire living off a combination of their pension, their savings and the equity in their home. Sadly, gone are the days when you can assume you'll own your home.

"""...gone are the days when you can assume you'll one day own your home...only 1 in 2 people will"

After the Great War and just after the Second World War the country went construction mad. More social housing, there was a flood of privately funded developments and between **Thatcher's Right to Buy Scheme**, enabling council tenants to buy their homes and the plentiful supply of properties on the market, housing became affordable for almost everyone.

In 1971 the average house cost **£5,632** where now it's **£260,000** – a **4,616%** increase. If shop prices had gone up at the same rate, a **23p** carton of milk would cost **£10.62** today and a **9p** loaf of bread would be **£4.15**. Property prices are a rule unto themselves but disrupt the balance of the rest of the economy (see average salary increase later and be prepared to march into your boss's office!)


**Is the answer to build more properties?**




[6] Office for National Statistics – Housing Survey 2013

# Economics 101

The only baker in the village sells 100 loaves to 100 people for £1. The following week the same amount of people come looking for bread, however the baker has been cunning and to save time he's only made 50 loaves and **increased the price** to £2. The baker knows that people need bread and he is the only bread maker around, so people will have to pay more. Supply and demand is the biggest factor affecting the property prices.

England needs **250,000** new homes to be built each year to meet with its housing demand. There were only **133,650** built in the 12 months up to March 2014[7] so this means there is a high demand for two things:

1. More new build properties
2. More rental properties

The latter is obvious because if you aren't living in your own property, you have to live somewhere. The number of people renting is the highest it has ever been since the ONS started recording such things. Currently **nine million** of the 22 million properties in England are **rentals** and this is steadily increasing.

There is also concern that the **new build** properties are only built in **fast purchase, high return areas** of England. In fact the BBC recently reported in its documentary Hot Property that **no new properties** are being built in **many areas of England**. Building is focused mainly in **London** and the **West Midlands** where there is **high demand** and a **fast turnover** for developers to monetise, especially for the **overseas investors** buying in London. **Civitas**[8] reported that in the last 2 years since February 2014 **73%** of new build properties in London have been sold to **overseas investors**.

## "Why doesn't the Government flood the market with new build properties so prices fall?"

Not a bad suggestion, but here's the thing. Around **1m** properties were bought over the last year when property prices were at an **all-time high**. In a few years' time, these properties will drop off their **fixed interest rates** onto a **higher variable** and will need **remortgaging**. If the market was flooded with properties, the excess supply would see **house prices drop** resulting in a high number of people who bought at the height of the property market owning properties now **valued at less** than they were mortgaged at – remember, **negative equity** is not good.

## "What if there were less people to eat the bread?"

Removing the demand is always a good way, but how do you do that? At the turn of the 20th Century, England's population was a little more than **30m**. In **2014** the population has almost doubled to **56.1m**[9]. At this rate we will have another **1.25m** people needing homes in the next 5 years (that's why we need 250,000 new homes a year).

With such a **high demand**, normally what happens is a new shop opens that **undercuts** the original baker and starts selling bread more cheaply. Where is this new competitor providing competition in the housing market? It appears **property developers** are keeping this market under their control and there doesn't seem to be any new 'bakers' on the horizon.

So a serious drop in property prices is not likely to be any more forthcoming than the other solution – Government imposed population control. So where does that leave you? You'll have to find a way to pay the current asking price through your **salary**. Let's find out how much you need to be earning.

[7] Department for Communities & Local Government – House Building: March Quarter 2014 England
[8] Civitas reported by The Telegraph in rich overseas investors uk-eu housing market
[9] Office for National Statistics - 2011 Census: Key Statistics for England and Wales.

# How much do I need to be earning?

If you get an **annual pay rise**, that is fantastic news. You're not only a good employee but have a great employer who is making money. Sadly **pay increases** aren't going up at the **same rate** as **property prices** with the average salary going up by **1.7%** in the year up to February 2014[10] however property prices increased by **5.1%** for the same period. The gap in London is even greater with an increase of **16.4%** up to June 2014. With salaries not keeping pace with property prices, if you are buying on your own, your salary will need to be high enough so that a '**4 times salary mortgage**' is enough when added to your deposit of more than 10%. Let's see.

The average house price in England is **£260,000**. With a **10% deposit**, you'll need a mortgage for **£234,000**. Based on a '**4 times salary**' mortgage you need to be earning **£58,500** per year. As a comparrison, if you're earning **£33,750** per year, this'll get you a '**4 times salary mortgage**' of **£135,000** and you'll be able to afford a **£150,000** property (with a **£15,000** deposit)..

How does this compare against what our parents' generation were earning? Well, the average salary in **1970** was **£1,664** per year (£32 per week). If salaries had gone up at the same rate as property, the average salary would be **£76,810**, nearly three times what it actually is.

Is it just the case that **salaries** need to go up? It's not that simple I'm afraid. A massive salary increase would affect a wide variety of economic factors, however what this does show is that one average earner on their own is going to struggle to buy a house. This limits the options to **living with your parents** or **paying thousands in rent** until you can find someone to buy a house with.

## Sit tight and save your pennies

You may be thinking that you'll just sit tight and keep **saving** away each month until in 5 year's time you'll have saved a large enough deposit to add onto the '4 times salary mortgage' enabling you to buy a home. But by delaying the purchase of your first property into you **mid-30's or later**, you could end up committing to mortgage repayments well into your **early 70's**. Further, any **savings rates** offered by the banks can't match the runaway effect of inflation so even while you're saving, you're losing money and playing an unwinnable game of catch up with inflation and **soaring property prices**.

**HSBC**[11] recently stated that the previous generation of home owners who bought in the early **1980s** tended to become **mortgage-free** at **56**. Now first-time buyers, whose average age is **29**, are likely to be mortgage-free at **60**. However by leaving it just **5 years longer** you are likely to be approaching **68** before you own your home outright.

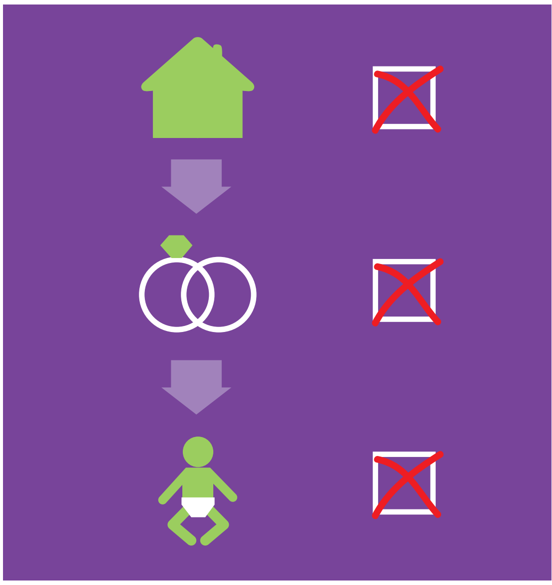
For those who are sitting tight **renting** there is a clear aspiration to get

[10] Office for National Statistics – Annual salary increases for the year up to February 2014

[11] http://www.thisismoney.co.uk/money/mortgageshome/article-2553023/Two-thirds-time-buyers-turn-Bank-Mum-Dad-deposit-help.html

onto the housing ladder. The **Office for National Statistics survey** in **2013**[12] found that **40%** of **renters** aspire to **buy** a home; **20%** want to buy within **2 years** and **60%** within **5 years**. Having the aspiration is fantastic, however there are so many factors stopping you reaching your goal of buying a home that these aspirations may turn into unrealised dreams. Do these delays have any other effects on us?

## The effects of not buying



In a recent **YouGov survey** of 2,500 people, commissioned by **Share a Mortgage.com**, **36%** stated that being unable to afford to buy a property makes them feel '**stuck in a rut**' and **32%** believe that people might feel like they have not achieved their **life goals** if they can't afford to buy a home. It isn't just a **financial concern** you have now, you are also made to feel like your life is '**on hold**' until you can afford to buy a property, stopping you progressing with other life goals such as **marriage** and **children**.

In this new age where you are forced to **rent** instead of **buy**, will your perception of **life goals** need to **change** so that when you move into your **rented** apartment, that is your nest ready for **marriage** and **children**? Do you give up the **aspiration** of **buying** a home and start to look to other life paths?

If things do change, you need to start **saving** for your **retirement** and fast. For instance, if at the age of **16** you were able to save **£200** a month until you retired at **65** you will have accumulated a pension pot of **£117,600**. That means if you lived to **79** you'll have **£8,400** a year or **£700** a **month** to pay your bills, medical expenses, holidays – you can see that **£200 a month** wouldn't give you a comfortable lifestyle in your later years.

*"Save £200 a month from the age of 30 and you'll have £500 a month to spend in retirement!"*

## 5 years and ticking

### Let's summarise:

1. *Property prices can't drastically drop otherwise current home owners will go into negative equity.*
2. *The Government can't flood the market with too many properties as they'll drop property prices too quickly.*
3. *Most mortgages will be based on a 4 times or less salary.*
4. *110% mortgages are a 'noughties' thing – not coming back anytime soon.*
5. *The Population continues to increase and no one is going to mention population control.*
6. *If you wait you could be retired before your mortgage is paid off.*
7. *You could miss out on other life goals like marriage and children.*

[12] Office for National Statistics – English Housing Survey 2012-13

## Without a property to buy what are your plans for the future?

For the last few generations the plan was get a **house**, pay off the **mortgage** and use the **equity** when you **retire**. However, with no property and most of your money going on **rent**, what are you going to do when it comes round to being **65** (or more likely **70**) and need money to live with through your **retirement**?

It would appear all your options are being removed as we affirm our position within **Generation Rent**...or is there another way?

Throughout we have looked at an **average salary** earner making **£26,500 yearly**. As we have seen, **buying** on your own can be incredibly hard and you could spend a long time saving for a **10% deposit**. What if you could buy with a **friend** or **family** member? **Double your salary** and **split the deposit**. If two average earning friends bought together they could get a mortgage for **£212,000**. With a deposit of **10%** you could buy a property priced in the region of **£235,000**, opening up new opportunities to buy a house better suited to you and with more available choice.

*"sharing with another average earner could give you a mortgage of £235,000"*

The **pooling of two people's resources** to buy a property is normally what happens to enable first time buyers to get on the **property ladder**, although it is usually a **partner** you buy with. Much like with flat sharing, you can buy with house mates and get on the property ladder at an earlier stage, well before you find a partner to live with (in fact owning a home might improve your chances of finding a partner!)..

In sharing a home, you can benefit from any property price increases and **split any profits** between you when you sell, giving you even **more buying power** in the future.

## Join the collaborative economy

The **World Wide Web** opened up the opportunity for free thinking people to **share data** between one another. It was cutting edge at the time and still paves the way for new ideas with the world's biggest brands dominating it. Just imagine a **social network** with no web; you'd actually have to go to someone's house and talk to them...ahhhh!! Crazy, however did the cave men of 30 years ago live?

Well it didn't stop there and sharing has evolved and is no longer limited simply to sharing data. Now we have a world where **assets** and **property** are **collaboratively owned**. Suddenly people are sharing their stuff on **Ebay**, letting out their spare rooms on **AirBNB**, sharing a car at **Car2Go** or **Zipcar**, investing with other investors they have never seen before on **Crowd Cube** and it goes on. The **Collaborative Economy** is here and presents the solution to the housing problem you are faced with.

Right at the beginning I said *"It is simple, an average earner on their own will struggle to buy a property"*, but what happens if there were 2, or 3 or even 4 average earners **buying together**? This increases your **buying power** and opens up new opportunities to buy a property.

**But what else does it do?**

1. Puts 2 people who were renting separately into 1 property which maximises space;
2. 2 people's salaries are used to calculate affordability for the mortgage;
3. The responsibility and the benefits of owning a home are shared; and
4. suddenly you are on the property ladder and your dream has come true.
5. If you hit tough times, there is more than one salary to help weather the storm

With the **decline** in **affordable properties** and the **ownership divide** growing, **co-ownership** provides a simple solution that for years people have been doing without even knowing.

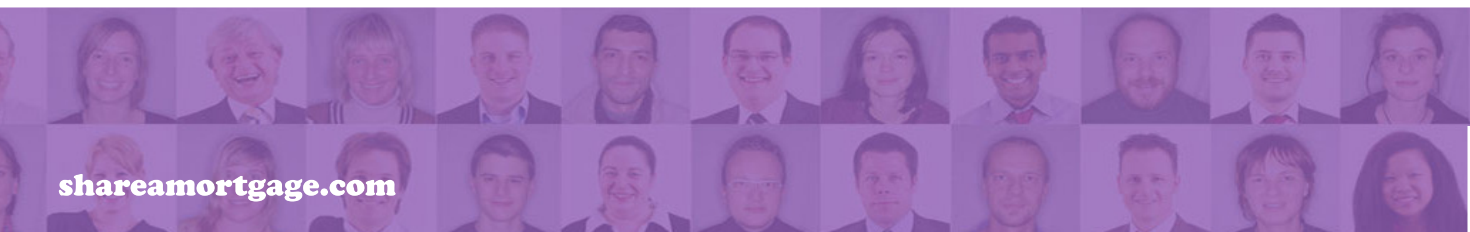
In 5 years time house prices are estimated to **continue rising** and there is no current talk about offering more favourable mortgage products to help single buyers such as a 6 times salary mortgage – this may never happen as the **risks** would be **too high** and would put too much **pressure** on you should your circumstances change. The Government is now pushing for **more housing** to be built, with a plan to build **50,000** new homes in London a year. However, without the right funding and the delays you face whilst you save, you may find you have **missed the boat** by the time you are ready to buy on your own.

**Share a Mortgage** can give you the opportunity to get off the **rental treadmill** or stop living with your **parents**, years before you'd be able to do it by yourself. By **joining forces** with another person like you, you can take that step onto the **housing ladder** and in a few years, decide whether you can look to buy a place of your own taking your deposit and any potential increase in property value with you.

**Visit www.shareamortgage.com to see how you can get on the property ladder.**

"Don't think you can't because Yes You Can!"

Thanks for reading



Andrew is a start-up entrepreneur specialising in the conveyancing sector. He is experienced in helping guide clients through the complex process of buying a home with his teams of expert solicitors, surveyors and mortgage advisers. Andrew is also working hard to combat the challenge of affordability faced by first time buyers with a market leading solution called **Share a Mortgage**. He has a fresh thinking approach to the challenges first time buyers face and is a champion of using the sharing economy to overcome these.

Andrew qualified in 2012 with the **Association of Accounting Technicians (MAAT)** and has been a Member of the **Institute of Consultants (MIC)** since 2013. He has years of hands on experience in the conveyancing sector and uses this to make sure Share a Mortgage clients get the easiest house buying experience in the market.

Andrew published his first book in November 2014 on the housing market crisis called ‘How Long Before You’ll Never Be Able to Buy a Home’ and is currently working on his new book called ‘The First Time Buyers Survival Guide’ due to be released summer 2015.

Andrew has commented as a market expert on the BBC, London Live, Tip TV and has been quoted in most of the mainstream press. He continues to support the drive of home ownership and is working in 2015 on the launch of a brand new solution to support this.

Andrew is currently working alongside the Royal Holloway University of London in mentoring students looking to become entrepreneurs. He is currently working closely with one student looking to revolutionalise the fashion industry with a hugely needed sustainability project.