

Can today's generation afford a home?

The Chancellor has now produced his budget. Stamp duty on house purchases has been amended with a view to getting first time buyers back into the housing market. The general election has now been called, and between now and 6th May, we are likely to hear politicians of every party promising to do something to help the property market generally, and first time buyers in particular.

Property values

In February 2010 we saw house prices fall, but they then rose again in March. The average price of a UK house is now £164,519. This works out at a hike of 9% over a year ago. It is now not uncommon to see average prices in a number of towns in the south of England (including the South West) average more than £300,000.00.

Baby Boomers

I have three sons. They have all had roughly the same education as me, and have broadly got the same kind of professional job that I have. Yet all of them tell me that it was my generation, the baby boomer generation, which had it all on a plate. By that they mean that anyone now in their 50's and 60's was able to get on the property market quite easily back in the 70's and early 80's. At that time, even though a 10% deposit may have been required, mortgages were roughly a multiple of up to three times income.

Worthless savings

My sons complain that they have to save far harder than my generation did. They also have to find a mortgage of 4, 5 or 6 times their income in order to get a property in the south of England which they would describe as pretty modest. One of my son's has told me a story of someone of his acquaintance who has saved very hard to get the deposit,

and so far has £10,000 saved up but finds it is not nearly enough to put down on a property. Is it any wonder when we see one London based estate agent say this week that the average selling price of its properties had increased during March alone from £261,349 to £269,971? That kind of sudden hike up in prices effectively wipes out savings which have taken years of scrimping and scraping to put together.

Buy to let

It is difficult to know why there has been this substantial disconnect between salaries and property prices. It has hardly happened in any other country in the western world, but seems to get worse rather than better in the UK. An increasing number of people place the blame on buy to let landlords. These are people who, for very good reasons in themselves, have decided to save their money by investing in property rather than, say, in pension funds. Some mortgage lenders have of course had their fingers very badly burned by lending to the buy to let market. They have got even more toxic loans on their hands by allowing self-employed people to self certify their income. Despite such reckless lending, the government has stepped in to effectively shore up what would otherwise be a defunct bank or building society. Yet, it is the first time buyer who gets frozen out of consideration.

Tax breaks

Buy to let investors get some wonderful tax breaks. The government allows them to write off their mortgage interest payments against income tax. First time buyers are not allowed to do that (again unlike countries like America which allow mortgage interest payments to be offset against income tax).

In consequence the speculators have driven up property prices. This has taken prices beyond the grasp of all but a select group of high earning first time buyers. The rest cannot compete, and are effectively priced out of the housing market.

Rent or Buy?

It is an interesting statistic that only 13% of people renting privately say they do it from choice. The vast majority of us home owners would prefer to be exactly that – the owners of our own home. It brings a sense of security, achievement, and hopefully something to pass on to the next generation.

Housing shortage

There has been very substantial house building since 2003. Again much of this is due to substantial initiatives and inducements put in the way of developers. Despite this, however, there are now 650,000 less houses available for first time buyers than there were prior to 2003. In those years, the buy to let sector has grown tenfold. Extrapolating these figures, there appears to be a net loss since 2003 of 647,300 properties for owner occupiers and buyers looking for their first home.

Housing Benefit

We need to factor into these statistics the amount of housing benefit paid out by the government. This amounts to £20 billion a year. Without that huge injection of state funding, the vast majority of people on means tested benefits, and on low incomes, would simply not be able to afford the rents which they pay out. Many would argue that there is now need to take stock. Realigning some of that money might actually provide more funding for building, namely affordable houses. Nowhere is the disparity between earnings and property prices more apparent than in our part of the world. Most of our children have no chance of getting a property of their own unless substantial amounts are gifted to them by their baby boomer parents or left to them in Wills.

Shake up

Perhaps the election will bring a shake up in property. However, initiatives and incentives in the past seem, in this country at least, to have failed miserably. Most of my generation, I feel, do not feel smug self satisfaction that they were able to make it. Rather, most of us in my experience share the desperation of our children's generation,

and fervently hope that something can be done. Tinkering at the edges such as increasing the threshold for stamp duty land tax is a palliative step only – it gets nowhere near the root of the problem.

Action

If you need any help and advice on property matters of any sort, be it residential purchase or sales, or business leases, or indeed anything else on property; feel free to contact my colleagues David Helman and Ian Osborne. Between them they have a wealth of experience. Busbys is a firm recognised by its profession for its legal excellence, having the coveted Lexcel award. Telephone **01288 35 9000**.

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