

The First Time Buyer Economy

2023/24 Edition

Exploring the role of first time buyers on the UK economy



COVENTRY
for intermediaries



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All together, better

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Executive Summary



Jonathan Stinton,

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First time buyers (FTBs) have had to navigate significant challenges over the last few years, with the Covid pandemic, soaring inflation and rising interest rates presenting new and unforeseen hurdles to buying a home.

However, despite these challenges, our latest research in collaboration with the Centre for Economics and Business Research (Cebr), reveals that more than a quarter (29%) of all UK residential property transactions in the last five years were carried out by FTBs.

The research shows that the average age of a FTB has only risen by one year from 33 to 34 since 2022. And average house prices vary widely across the UK, ranging from £193,800 in Yorkshire to £374,100 in Edinburgh in 2023.

Importantly, the research demonstrates the value of advice in the homebuying process. Nearly all buyers who used a mortgage broker (96%) said they proved to be invaluable, an increase from 90% in 2022. This illustrates the importance of brokers in helping FTBs to navigate today's higher rate mortgage market.

An analysis of the data shows that total mortgage lending to this particular market segment is projected to see a growth of 16% in 2024 reaching £65.3 billion. First time buyers play a pivotal role in the economy, strengthening the mortgage market and overall UK economic landscape by contributing through the additional expenses associated with purchasing a home, such as, moving costs, legal fees and home improvements.

Introduction

The findings presented in this report come from a survey of 1,000 FTBs who have purchased a property in the past three years. Additionally, we have incorporated data from sources, such as, CACI and ONS to enhance the projections.

The report follows on from our 2022 edition of the First Time Buyer Economy, and within its pages, we will:



Look into why the role of a broker is crucial in assisting aspiring homeowners



Delve deeper into the current challenge's faced by FTBs



And explore what lies ahead for this vital segment of the UK housing market



Where we are: The FTB landscape

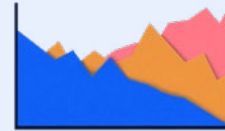
Market conditions for FTBs changed significantly in 2022, with high inflation and rising living costs persisting into 2023 and creating a tougher borrowing environment for buyers.

In a bid to tackle the problem, the Bank of England began to increase the base rate in December 2021. It has since increased the rate on 14 successive occasions, bringing the base rate to a 15 year high of 5.25% in August 2023.

All these market forces have led to a slowdown in the housing market and prompted many FTBs to delay purchasing decisions until things settle down. Forecasts from Cebr suggest this will continue this year – the number of FTB loans are expected to fall by 24% to 286,300 in 2023

With the cost of a typical UK house costing 6.7 times salary in August 2023, according to the Halifax House Price Index, affordability concerns for many FTBs are likely to continue over the months ahead.

However, a slowing housing market, a fall in house prices and wage inflation are likely to help ease the pressure somewhat. The average loan size being taken out by FTBs is expected to have fallen to £194,900 in Q3 2023, which is £8,800 less than in 2022.



Increased interest rates led to slowdown in market



FTB loans are expected to fall by 24% in 2023

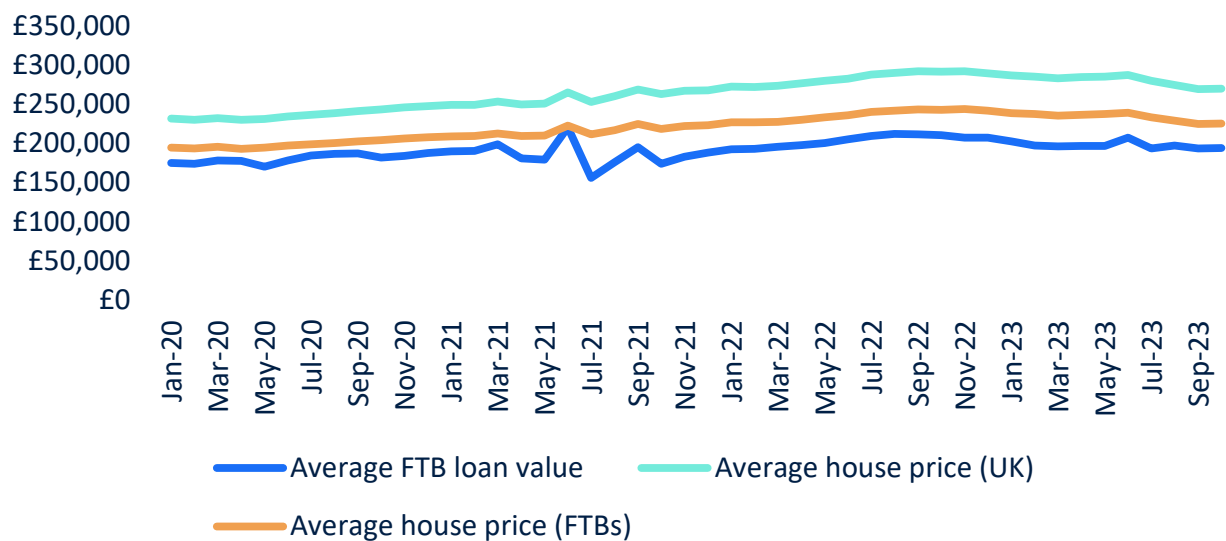


Possible green shoots with falling house prices and rising wages



Appetite remains from FTBs to purchase

Average value of new FTB loans and average house price



† Data from July 2023 is forecasted

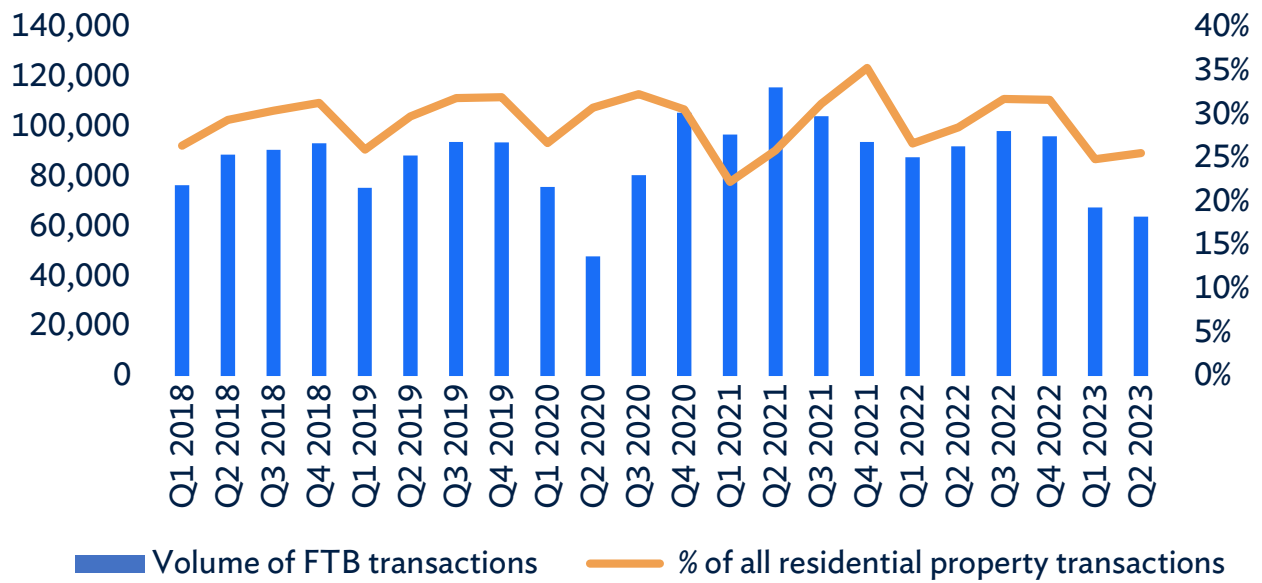
Source: CACI, ONS UK HPI, Cebr forecasts and analysis

The average loan size taken out by FTBs is expected to have fallen to £194,900 in Q3 2023, marking a £8,800 reduction on 2022.



While FTBs face a challenging market, many still need, and want, to purchase a home. This means they will continue to need support from both the industry and brokers to grasp the opportunities available to them, including higher LTV products and government-backed initiatives such as shared ownership.

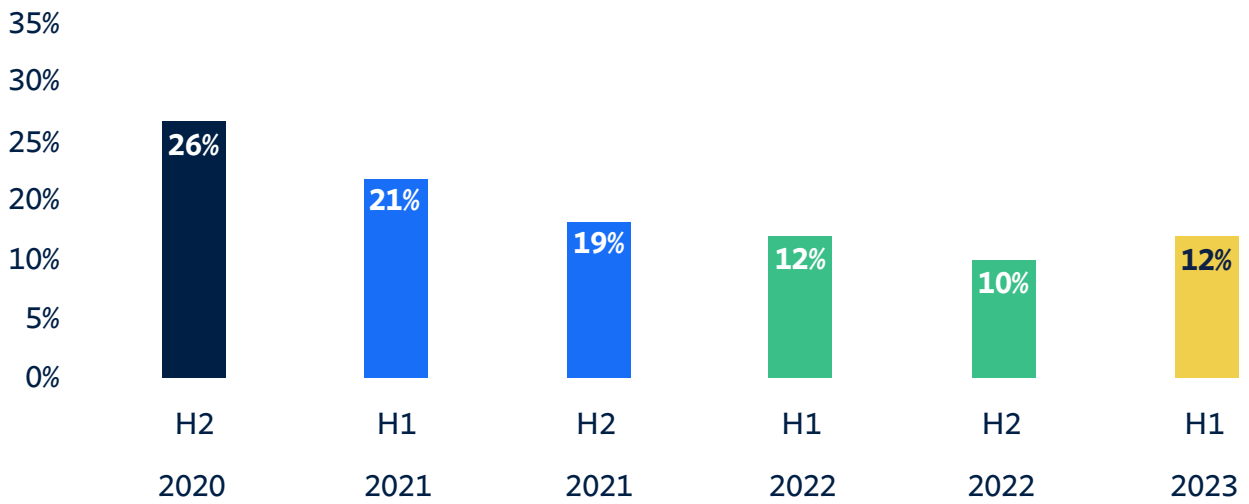
Quarterly FTB transactions as a proportion of all residential transactions



Source: CACI, UK Finance, HMRC, Cebr forecasts and analysis



Percentage of recent first time buyers making their purchase in various periods



YouGov survey, Cebr analysis

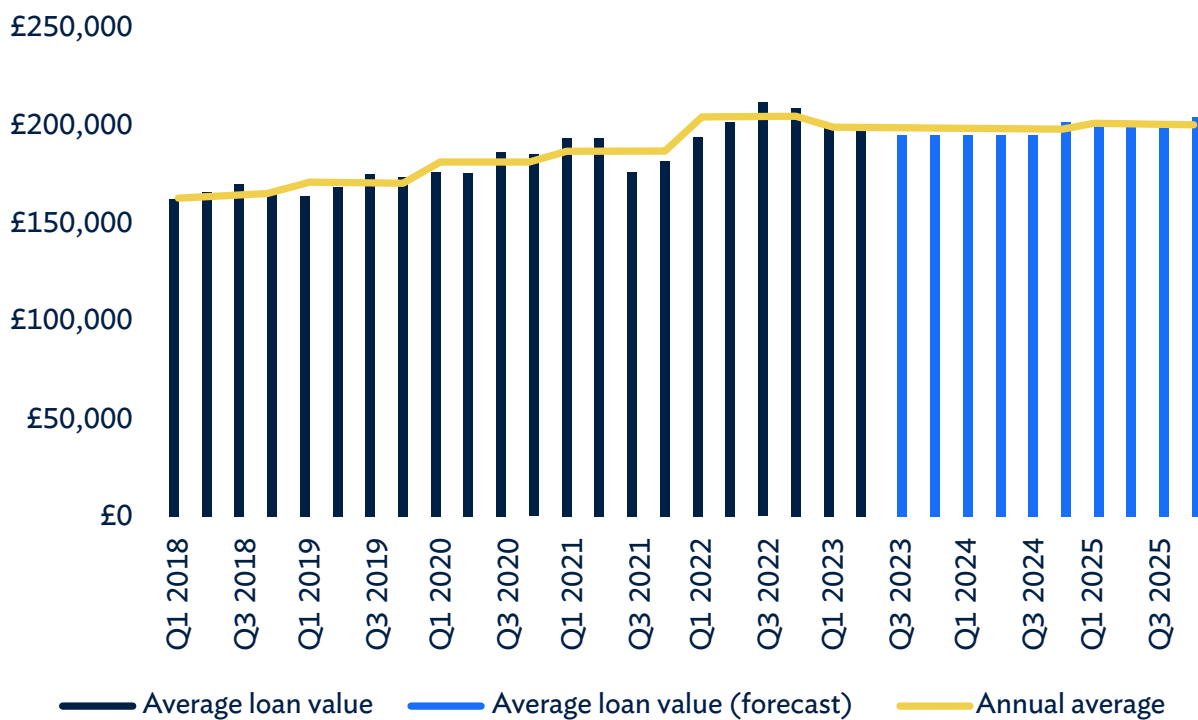


Where we're going: A steady recovery

As we head into 2024, it is anticipated that transactions among FTBs will start to increase, as market conditions stabilise, and confidence returns to the housing market. As a result, 330,000 FTB transactions are expected in 2024, with our research predicting average loan sizes set to increase by 3% to £202,500 in 2025.

Additionally, the total value of mortgage lending is set to amount to £65.3 billion in 2024 and further increase to £71 billion in 2025.

Average quarterly value of new FTB loans, with forecast



Source: CACI, UK Finance, Land Registry, Cebr forecasts and analysis

Driving this recovery is the gradual fall in mortgage rates, expected lower inflation, and improved market access following the scrapping of mortgage stress test rules in August 2022.

The Bank of England's recent decision to maintain interest rates at 5.25% in September 2023 is another encouraging sign that borrowing costs have reached their peak, which should help to further ease affordability challenges.

However, as the economy starts to recover, brokers must ensure they remain proactive in their support of FTBs by helping them navigate the impact of rising living costs and higher interest rates on their purchasing power.

This report shows that brokers must make the most of the opportunities to add value by educating clients on the costs associated with buying a house and ensuring they are budgeting accordingly and within their means.

The profile of a first time buyer

Issues around affordability and the crucial role of advice become clearer as we look at the increasing costs associated with buying a home. On average, FTBs aged 35 to 44 spent £316,100 on their first home in 2023 compared to £256,600 in 2022.

Average FTB house price, by age



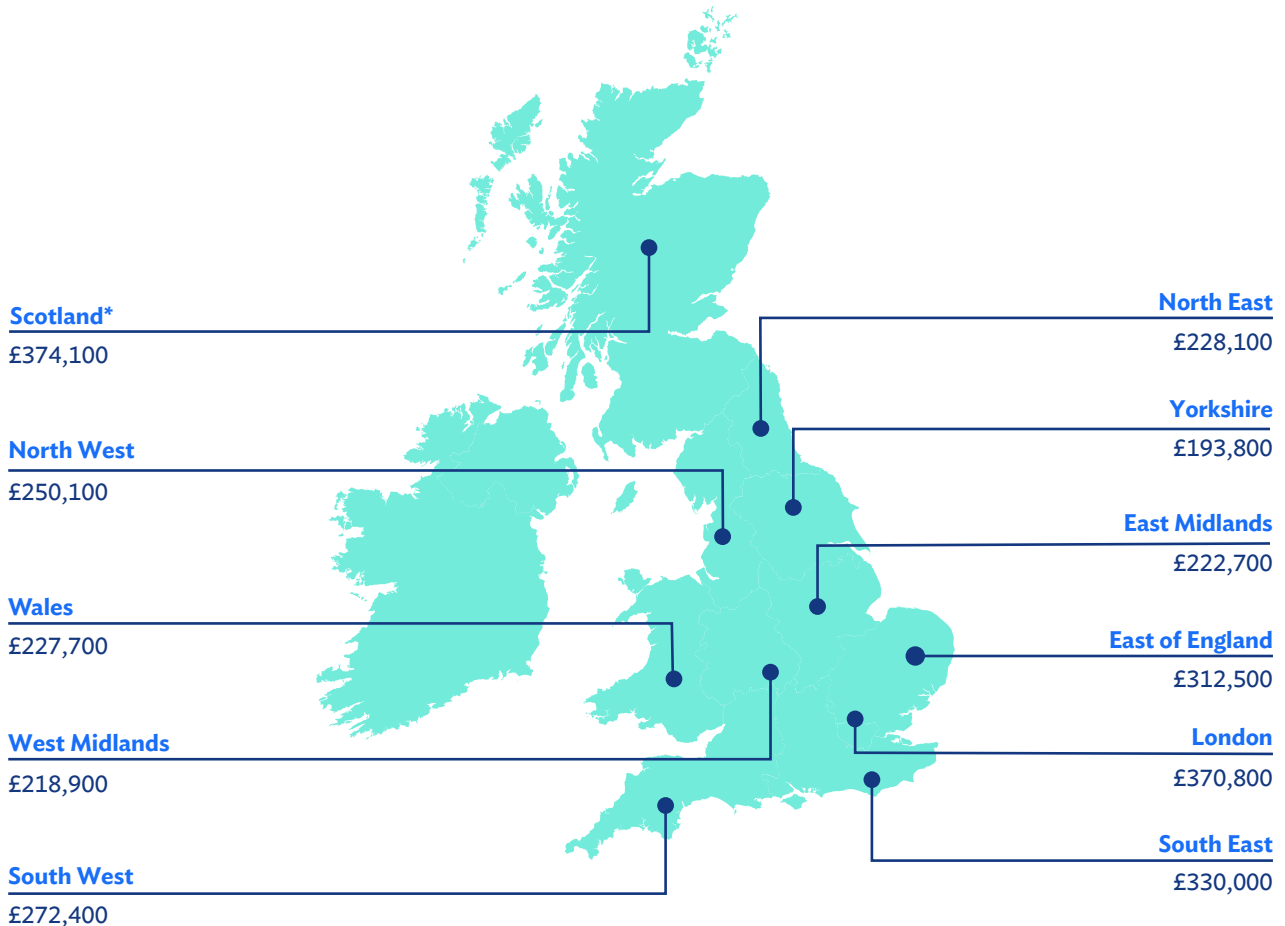
*Due to the small sample sizes, the results for age groups 18-24 and 25-34 are combined for 2022.

Source: Source: (2023) YouGov survey, Cebr analysis



Average FTB house price, by region

Average house prices varied considerably across the country, with FTBs in or around Edinburgh reporting the highest average house price at £374,100, while those in Yorkshire paid £193,800, 31% below the UK average.



*Figure includes a high proportion of respondents purchasing in Edinburgh

† Due to a small sample size, Northern Ireland has been excluded from analysis.

Source: (2023) YouGov survey

The majority of FTBs fell within the 25 to 34 age group (43%), although these numbers are down from 61% in 2022. As purchasing power increases with age, it is to be expected that only 10% of FTBs were aged 18-24 compared to 30% aged between 35-44 years old.

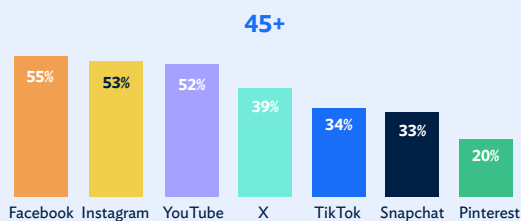
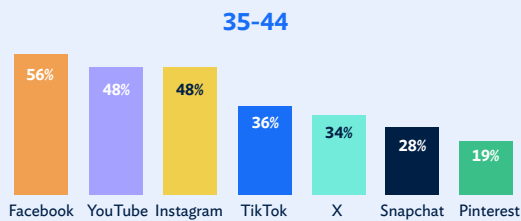
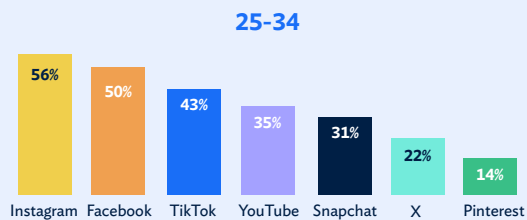
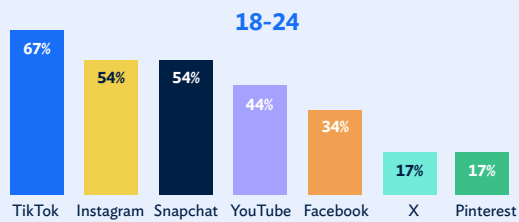
Brokers should be mindful however, that although 92% of all FTBs said they used a broker when buying a house, the majority

of those who didn't were aged between 18-24 (11%) and over 45 (10%).

Therefore, brokers must ensure they work hard to engage with these buyers, by identifying ways to communicate effectively with these groups and demonstrate their worth.

92% of all FTBs said they used a broker when buying a house.

Social media channels used multiple times a day, by age group



*X formerly Twitter

Source: (2023) YouGov survey

Social media is frequently used by individuals of all age groups, with most visiting each platform multiple times a day. This highlights its potential as an effective way for brokers to target aspiring FTBs.

However, brokers must consider that the most used platforms vary significantly depending on the age range of the FTB.

The top three channels used by 18-24 year olds are TikTok, Instagram and Snapchat, whereas those aged 25-34 mainly use Instagram and Facebook with TikTok taking the third spot.

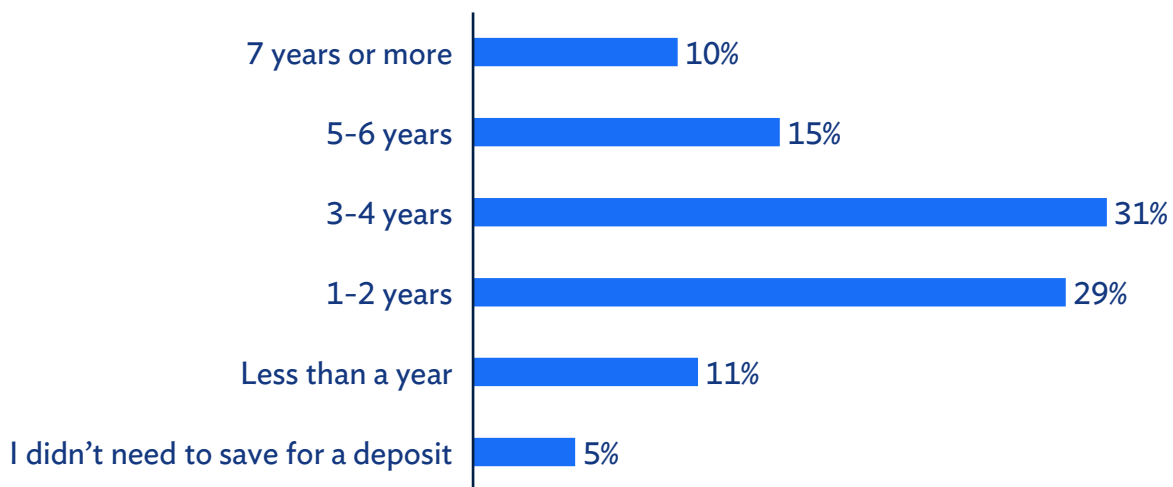


Funding the deposit

Although mortgage affordability is now the main concern for FTBs looking to get on the property ladder, according to the Building Societies Association, raising a deposit remains a significant challenge for many FTBs¹.

However, it is encouraging to note that despite rising living costs, the length of time taken to save remains unchanged from 2022 at three to four years.

Time taken to save for a deposit



Source: (2023) YouGov survey

More than half (58%) of FTBs said they funded some or all of their deposit themselves, down from 76% in 2022, a fall that could be explained by the overall decline in FTBs numbers buying a home. In contrast, 34% said the cost was shared with a partner or co-buyer, down from 2022 (47%) and 19% used inherited money.

Despite reports suggesting that more buyers have been relying on the Bank of Mum and Dad in recent years, the use of money gifted by a living relative to fund homebuying costs has fallen from 41% in

2022 to 21% in 2023 while those relying on a loan from family or friends (17%) has increased from 8% in 2022.

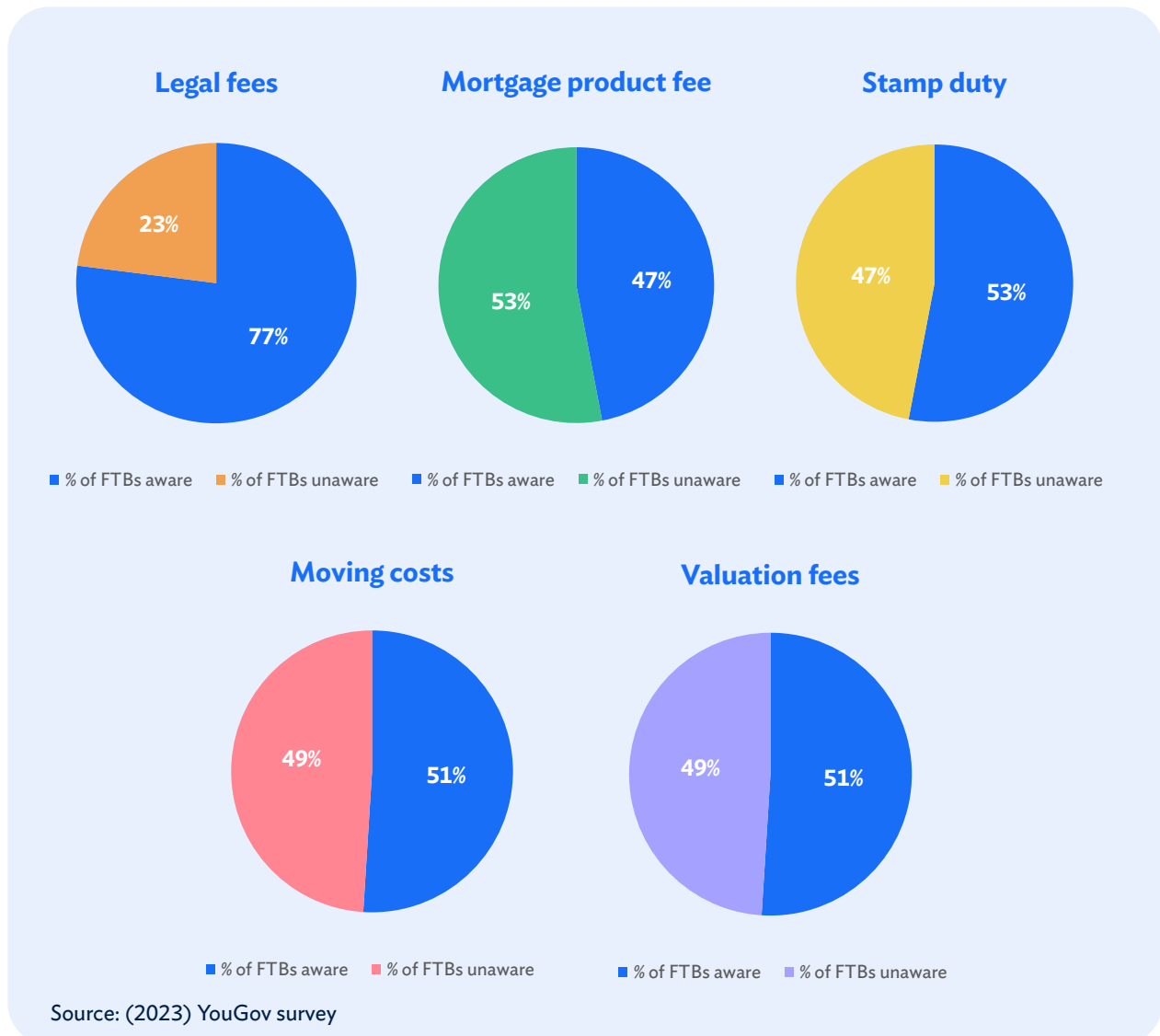
The fall in gifted deposits and the subsequent rise in loans could be reflective of rising living costs, as well as the possibility that the Bank of Mum and Dad may not have as much disposable income and are choosing to lend, rather than gift, their children money.

¹<https://www.bsa.org.uk/media-centre/press-releases/bsa-calls-on-the-chancellor-to-support-first-time-buyers-in-the-spring-budget>

The unforeseen costs

One of the most overlooked aspects of buying a house is the unforeseen costs such as legal fees, moving costs, mortgage and valuation fees, and stamp duty.

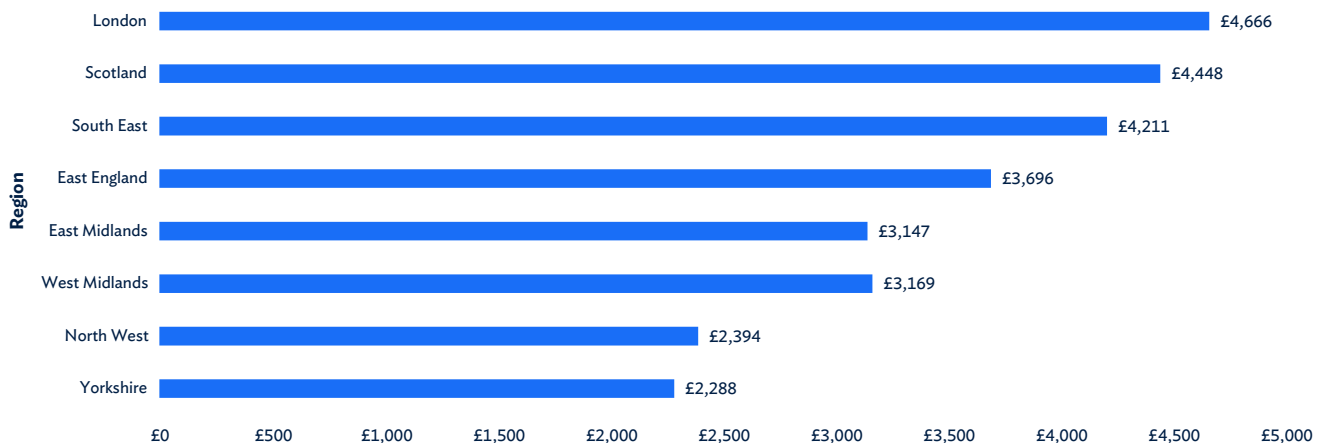
Our research found that although 77% of FTBs were aware of legal fees, only 53% were aware of stamp duty costs and only 47% were aware of mortgage product fees before they applied for a mortgage.



These costs are far from insignificant either. FTBs spend an average of £3,400 on upfront costs such as legal and valuation fees. These, combined with the average FTB spend on renovations and redecorating - £4,900 - means that FTBs are spending £8,300 in extra costs associated with buying their house.

Collectively, FTBs are predicted to spend an annual total of £3.1 billion on extra costs relating to the home purchase by 2025, meaning that on top of mortgage lending, FTBs are set to contribute £74.1 billion to the UK housing market in the next two years.

Estimated average costs associated with buying a first home, by region*



*Excluding any redecoration/ furniture costs and stamp duty.

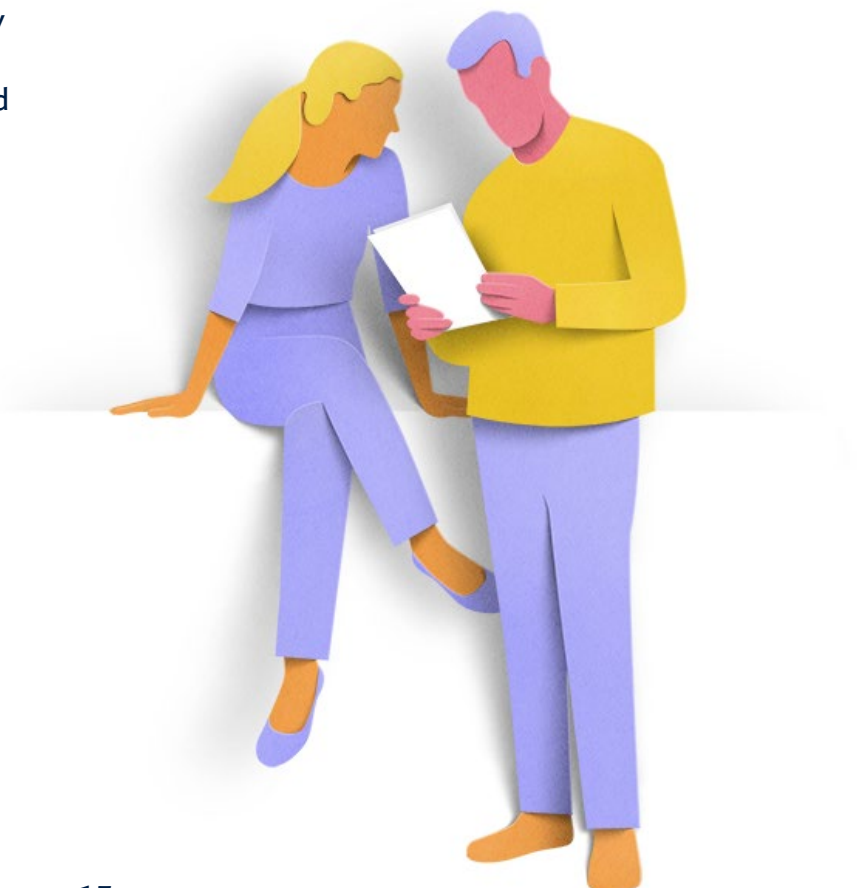
† The North East, Northern Ireland, South West and Wales regions have not been included as the sample sizes were not large enough to draw robust conclusions on the data

Source: YouGov survey, Cebr analysis

For brokers, this presents a great opportunity to show FTBs the true value of advice by educating them on the upfront costs associated with homebuying, ensuring they are budgeting correctly, and have realistic expectations about what they can afford.

This personalised approach will not only stand them in good stead, it will make FTBs feel more financially confident and provide well-needed reassurance that their broker has their best interests at heart.

Because FTBs have their whole house buying lifecycle ahead of them, brokers that demonstrate expertise and insight that helps their client buy their first home, will lay the foundations for the start of a long-term relationship that could lead to a strong pipeline of repeat and future business through word of mouth recommendations.



The value of broker advice

With the role of the broker more important than ever in helping FTBs navigate market complexities and establish future pipeline business, it is encouraging to see that 96% of those who used a broker said they were important in the homebuying process, compared to 90% in 2022.

However, there remain concerns that 44% of FTBs would turn to family and/or friends before a broker for advice on the homebuying process, as family members are unlikely to have the same level of knowledge as a professionally qualified broker. Brokers have a valuable opportunity to bridge this knowledge and advice gap. As they interact with clients daily, discussing various mortgage needs, brokers can also emphasise their support for first time buyers to clients who may be parents or guardians of aspiring homeowners.

Furthermore, our research reveals a knowledge gap amongst FTBs, with 40% saying they needed more information and guidance about applying for a mortgage, while 36% required more detail on exchange of contracts and associated costs such as legal and broker fees, the deposit and stamp duty.

Brokers have an excellent opportunity to fill this knowledge and advice gap. The challenge now is for brokers to consider the ways in which they can tailor their support to different age groups, particularly younger FTBs who could really benefit from the value brokers can bring.



10% increase in FTBs using a broker vs 2022



44% of FTBs turn to friends and family before speaking to a broker



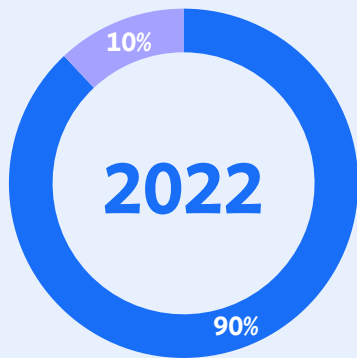
36% say they need more guidance on the whole process, including associated costs

% of FTBs who used a broker

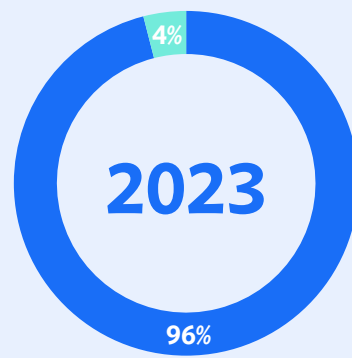


Source: (2023) YouGov survey

% of total FTBs who felt their broker was important in the homebuying process

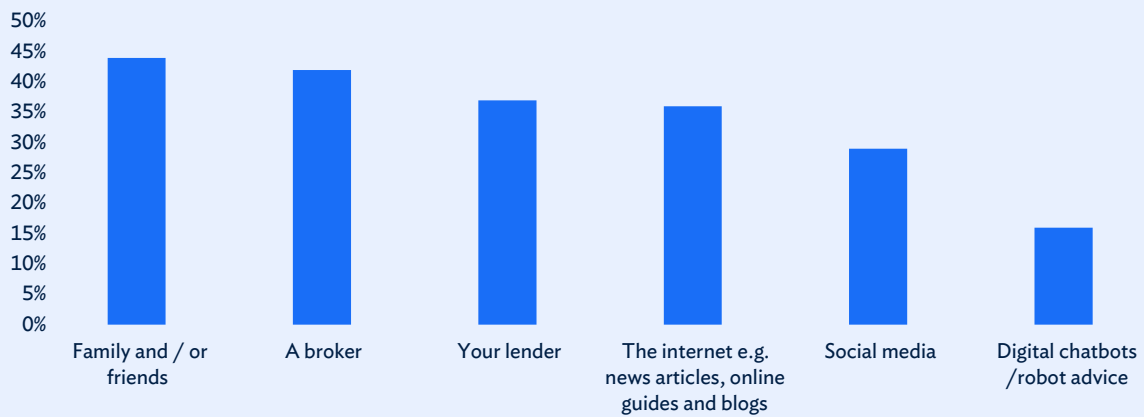


■ Important ■ Not important



■ Important ■ Not important

Information sources used by FTBs



Source: (2023) YouGov Survey



Conclusion

With inflation set to remain high and the cost of living crisis continuing, brokers will continue to provide an essential source of knowledge and targeted advice to FTBs during the homebuying process.

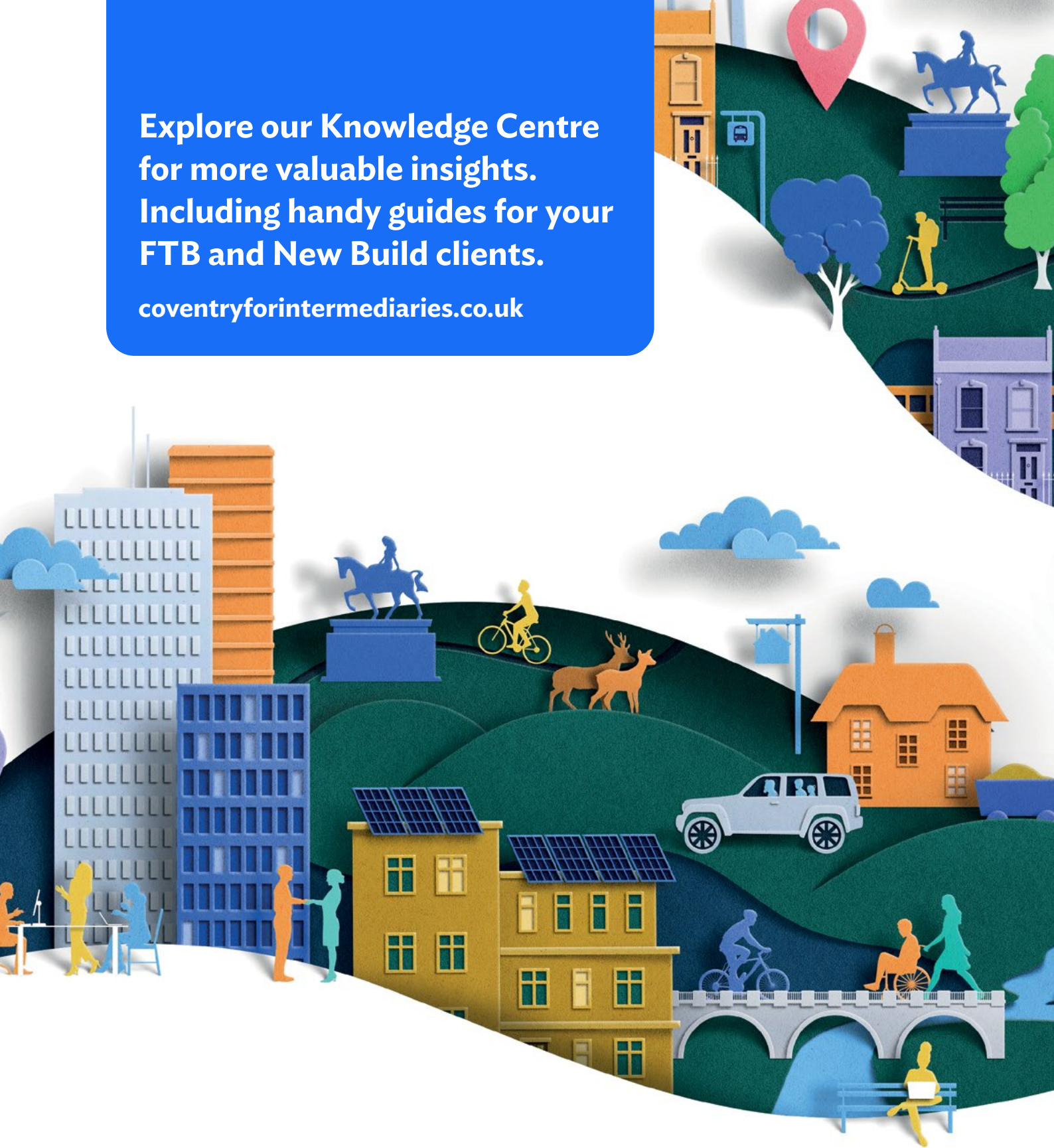
Our research shows that many FTBs are unaware of the associated costs of buying a house before they start their homebuying journey, which can add up to £8,300. It is here that brokers can really differentiate themselves from other information sources by helping FTBs understand how, and for what, they should be budgeting.

In addition, many younger FTBs are finding it difficult to secure a mortgage and are relying on financial support from family and friends, which is why brokers, with access to a wider selection of products across the market and knowledge of lenders' criteria, will continue to play an integral role in supporting FTBs onto the property ladder.



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