



Milestones & Millstones

Home buying



British obsession with home ownership?

*I suppose buying your own house is **something British**. I was always told put your money in bricks and mortar and when I started on the property ladder thirty years ago the only thing you rented was from the Council.
(Male, 45-54)*



In 2010, given a free choice, **86%** said they would buy rather than rent

(British Social Attitudes Survey, wave 28)

*We are a **nation that is obsessed with home ownership** as if to prove they have somehow 'made it'.
(Female, 45-54)*

Intrinsic link to the family

- People struggle to think about their ‘financial future’
- However, buying a home and paying off a mortgage can define people’s longer-term horizons
- For couples, it’s the point at which “my money” becomes “ours”
- Home ownership is inextricably linked to protecting our families – ‘looking after the kids’ and ‘keeping a roof over their heads’
- And as we get older, the home fulfils a desire to leave a legacy for our children



Owning a home has many perceived benefits

Tangible:

- Building a nest egg for future generations
- The potential to add value to this 'investment' with home improvements
- Having the final say on repairs, decor and improvements
- 'Safety net' of having an asset (albeit not liquid) if a last resort was required

Intangible:

- The ability to transform a house into a 'home'
- Emotional feeling of 'success' making it onto the ladder – 'a place of our own'

*Owning our own home has lived up to my expectations. It allows you to decorate and **improve the house to your taste** and if you add value to the house you will one day **benefit from the money you spent** when you come to sell it. I feel **proud** of my house because it is ours. I don't know whether I would feel so emotionally attached to a rented property.*
(Female, 25-34)

But it's getting harder to buy

Rising house prices

Increasing expectations of deposits

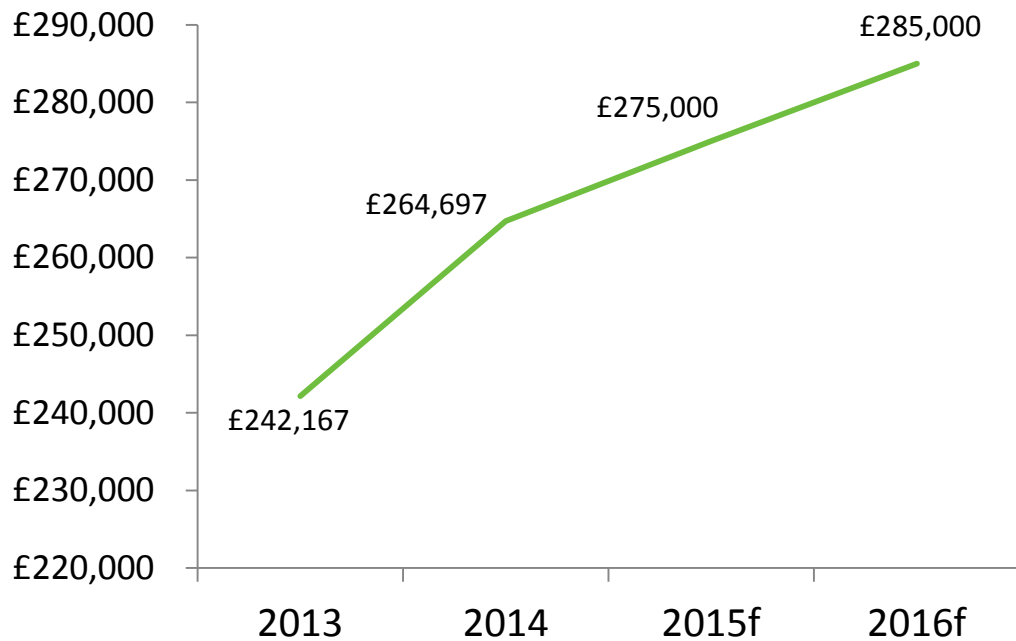
Housing shortage

Slow wage growth

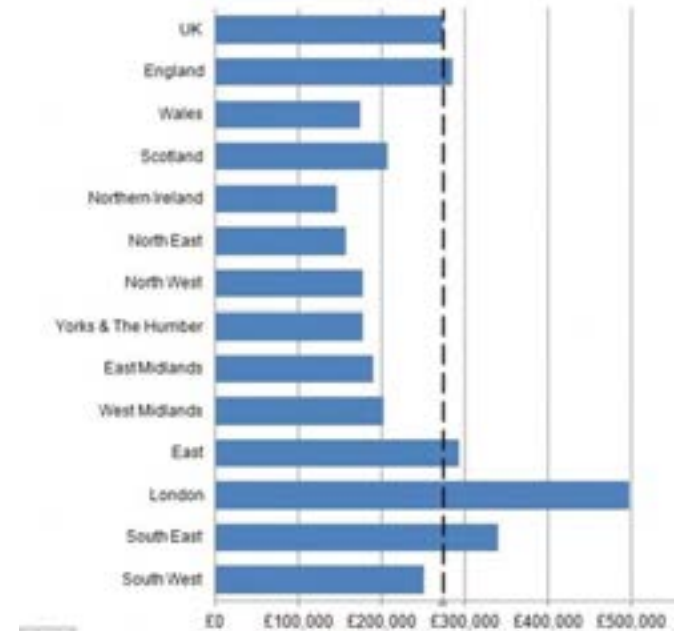
Tighter lending criteria

High (and rising) student debt

Average UK house prices



House Prices for March 2015



Source: ONS

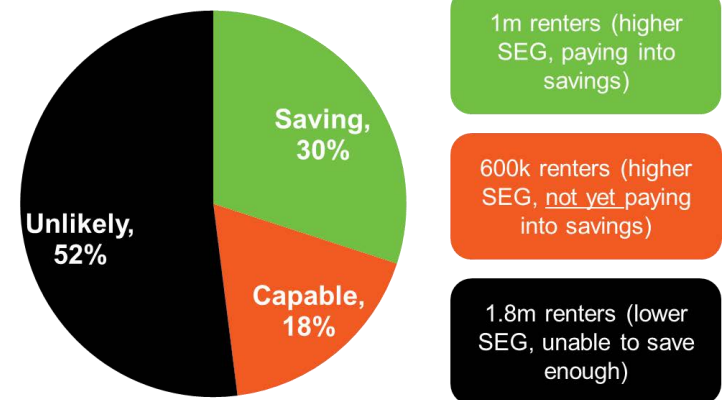
As a result, home ownership is falling

	Born in 1960	Born in 1990
By age 25...	27% owned a home	8% own a home
By age 40...	71% owned a home	47% will own a home (projection)

Source: IMLA / CML estimates

3.4 million people aged 25-40 are not yet on the property ladder - **double** the figure from ten years ago

Source: GfK Generation Rent, 2014



Buying a home can influence good financial behaviour



- **Financial capability** generally improves after people own their own home
- Just the act of saving for a deposit **builds financial confidence** – the ability to meet financial goals
- It teaches a **savings habit** (that people hopefully continue after they've bought)
- And the consequences of poor financial behaviour become more serious
- So those who own prioritise spending on their home over luxuries and socialising

*“For the first two or three months I was buying more stuff for the flat as well, buying furnishings and pictures and just random stuff, you lose track on how much you’re spending, you just keep flashing the card around. Now I’ve got to work out how much I can spend”
(Male, 33, England)*

BUT there is a downside – First time buyers don't fully understand the costs of buying....



25% of potential first time buyers don't think they have a good understanding of the costs of buying

55% of recent first time buyers found costs of buying their property higher than expected (on average £1,300 more)

Half of recent first time buyers considered stamp duty costs before committing to move

...and over-stretch themselves to afford it

**Seven in
ten**

current mortgage holders stretched themselves a little or a lot when they got a mortgage



**Three-
quarters**

of recent first time buyers stretched themselves to buy their property

**Four in
five**

potential first time buyers would stretch themselves to buy their first home

Many also get caught out by the ongoing costs after purchase

Half

of recent first time buyers found ongoing costs higher than expected

18%

of those finding costs higher had financial difficulties as a result. A further two-thirds found it a problem but managed to cope

“Energy costs are a lot higher in our new home and I hadn’t planned for that”

Recent FTB

“I wish we had budgeted for things breaking e.g. washing machine, and for buying furniture”

Recent FTB

“If only we knew.....”



BEFORE HOME PURCHASE

Want to get into their dream home

Fear of missing out

Emotional decision

Less keen to engage with the smaller costs

AFTER HOME PURCHASE

Many regret not considering the associated costs

81%

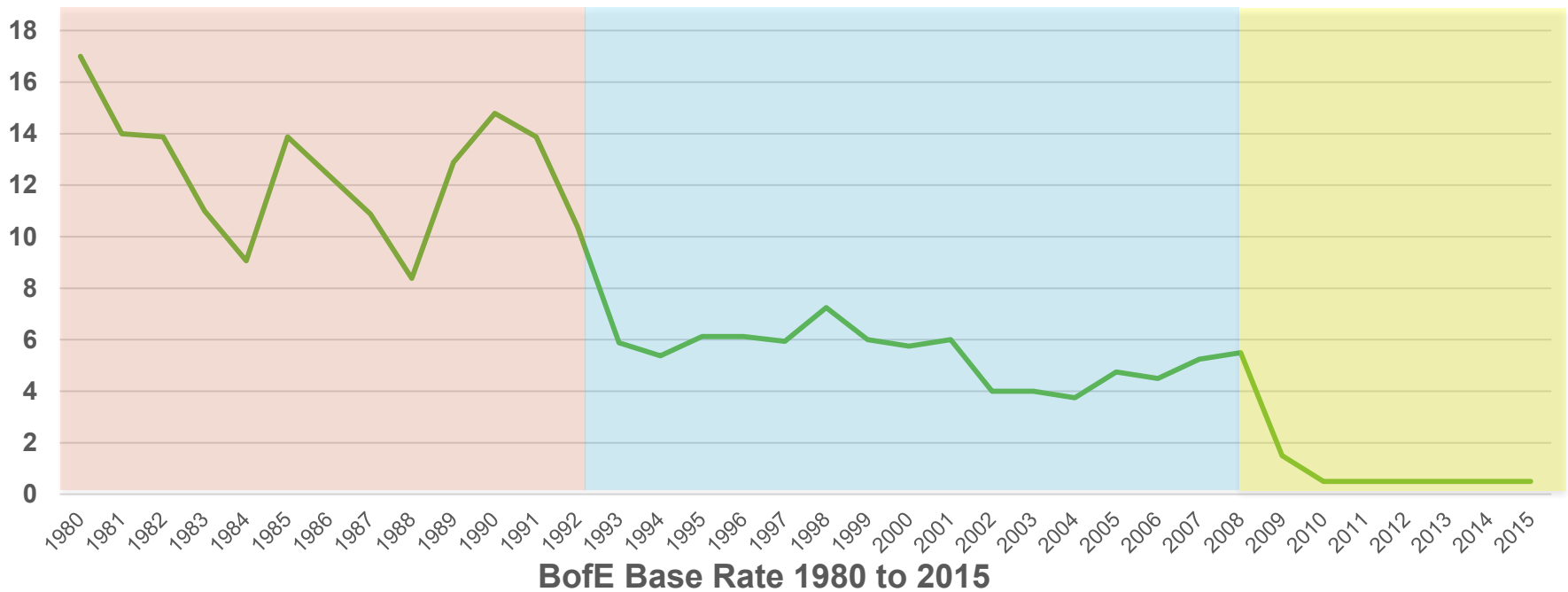
of potential and recent first time buyers agree that they should be told upfront about the other costs buying a property can involve

Ultra-low base rates are now the 'norm'

80s to early 90s
Fluctuating norm
of 9% to 15%

'93 to '08
Steady norm of
4% to 6%

'09 - present
Flat norm of 0.5%



People don't have contingency plans for an interest rate rise



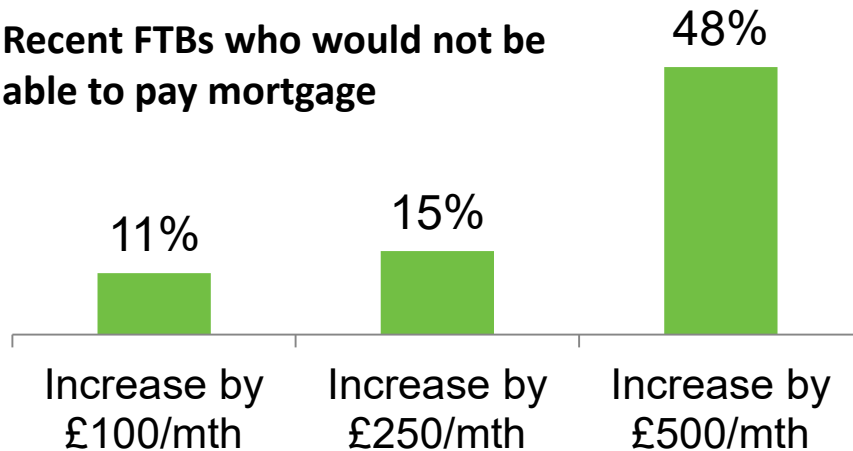
56% of all mortgage holders have a contingency plan in place for an interest rate rise (less likely for younger and lower earners)

*I think the rate has been static for so long I have almost **stopped thinking about it.***

*I **wouldn't say I am actively monitoring it** but I do **sometimes hear announcements** on the radio and I am usually thinking I am going to have kittens in a minute when it has gone up to 6%.*

This could have a major effect on the housing market

Recent FTBs who would not be able to pay mortgage



This could lead to:

- Savings being used to fund normal monthly outgoings or short-term blips
- Reduction in living standards
- People becoming less financially-active (e.g. saving less)
- An increase in indebtedness, and the need for debt advice
- An increase in creditor action (bailiffs, repossessions etc)

Source: Affording Your Home, January 2014, BDRC

Renting has its advantages

It still feels like your 'home' and:

- ✓ It enables families to live in areas where they couldn't afford to buy
- ✓ The landlord shoulders the responsibility for repairs and maintenance
- ✓ It's easier to exit/move
- ✓ Flexibility for those that need it
- ✓ You're protected from house price risk and negative equity
- ✓ No huge deposit required
- ✓ And some just prefer it

Even when I was working full-time I wouldn't have been able to get a mortgage or afford to buy in the area I want to live. I'm retired now and I'm just happy that certainly for the foreseeable future I can afford to live where I want in a privately rented property.
(Female, 55-64)

As a tenant, my landlord is responsible for major repairs / maintenance. I have my own furniture and I put up my own curtains, pictures etc. to make it as much as possible "my home".
(Female, 55-64)

What does this all mean?

1. Home buying is a **MILESTONE** that generally improves financial capability. It shows that goals can be achieved, engenders a sense of responsibility, gives a longer term focus and helps build a 'family' bond in the long term
2. The UK's growing number of renters may not have all of these benefits. They may struggle to get on the ladder, won't have the long-term boost to their wealth that property can provide and may become less financially active. However, many will enjoy the other social benefits that renting provides, and are protected from any future 'property bubbles'
3. For first time buyers, it's not all plain sailing. They may be storing up a potential **MILLSTONE** for the future. For the many already over-stretched, an interest rate rise could severely affect their ability to pay their mortgage and disrupt the whole housing market

How can we help?



Create **social norms** for good financial behaviours e.g. “people like you do this” – needs to be positive

Help them make the **right financial decisions**

Encourage **substituting** normal purchases for less expensive ones to boost savings

Messages about **“protecting the family”** to positively promote contingency planning

Frame the decision to save for negative events by making savings products default alongside mortgages

Show **bright spots** - examples of other financial goals that can potentially give them financial confidence

Shrink the change by providing small steps to having contingency plans and saving

Utilise **new technology** e.g. apps to monitor spending, set goals, proactively suggest changes