First-Time Buyers: The Missing Millions

Update report into the challenges facing first-time buyers

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Building Societies Association

Contents

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BuiltPlace

Introduction

In 2024 we published our comprehensive report covering first-time buyers in the UK. It highlighted how outstanding owner-occupier mortgages had fallen by over two million since their peak in 2006. This is because prospective first-time buyers are facing two affordability challenges – the high cost of buying and, more recently, the high cost of owning. As a result, more young people are stuck in the expensive private rented sector or at home with their parents. The report suggested Government should do more to make homes affordable, available and appropriate, with building societies prepared to contribute.

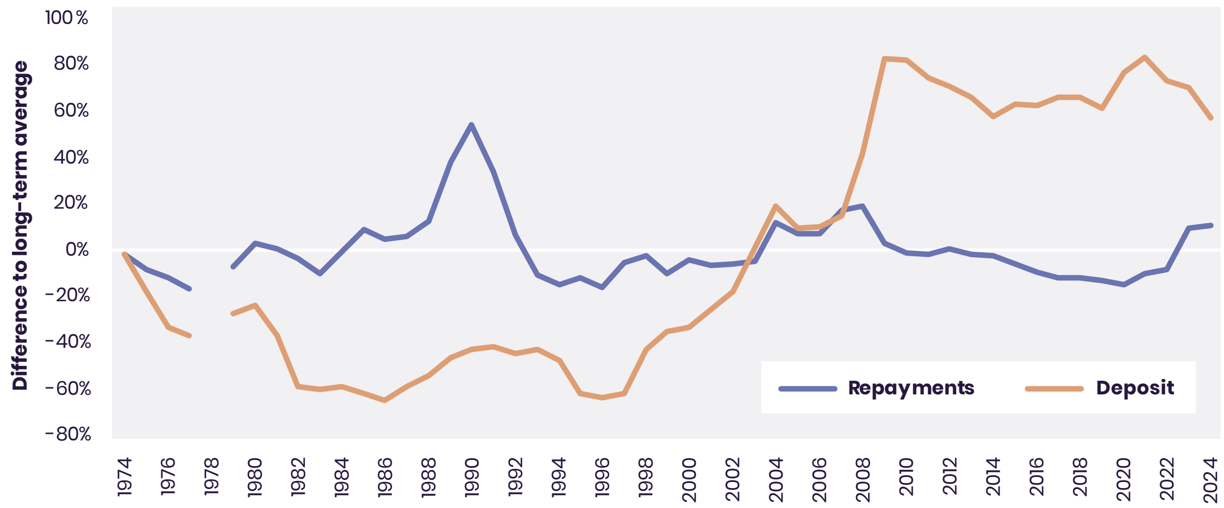
This update looks at some of the key trends since then. It also analyses data to identify the 'missing millions' - those households that would have been expected to buy their first home but have failed to do so since the financial crisis.

Still Stretched

In our previous report, we found that prospective first-time buyers were facing a double affordability challenge. The combination of high house prices and post-financial crisis regulation created a situation where aspiring homeowners required a substantial deposit – a near-record high cost of buying. Meanwhile, the period of record low mortgage rates, during which the cost of owning was also around all-time lows, had ended. As a result, repayments as a proportion of income for new first-time buyers had increased by around 30% since its low in 2020. This wasn't quite as high as the peaks in stretched repayment affordability recorded in 1990 and 2008, but the combination of both a high cost of buying and cost of owning was unprecedented.

Figure 1 – Deposit and Repayment Costs Compared to Long-Term Average

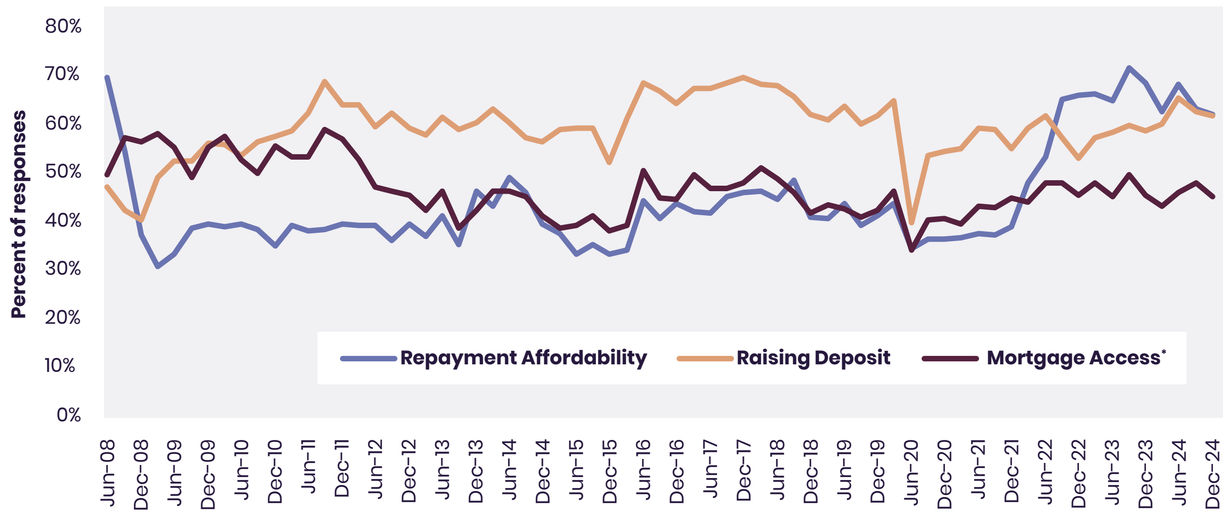
Source: BuiltPlace analysis of UK Finance



While there have been some small signs of improvement, the affordability challenge is still substantial (Fig 1). As a result, most successful first-time buyers are still stretching themselves to buy in the current market. A combination of higher loan-to-income and loan-to-value mortgages have helped reduce the deposit barrier in 2024 compared to the previous year, but it is still well above pre-financial crisis levels. Meanwhile, mortgage rates may be easing but repayment affordability is still stretched and the average for new first-time buyers was higher across 2024 than in 2023. Further falls in mortgage rates should help improve repayment affordability but survey respondents were still ranking it as the biggest barrier to purchase in the Q4 2024 BSA Property Tracker, just above the deposit barrier (Fig 2).

Figure 2 – Major Barriers to Property Purchase

Source: BSA Property Tracker (Access to a large enough mortgage/access to a mortgage at all)

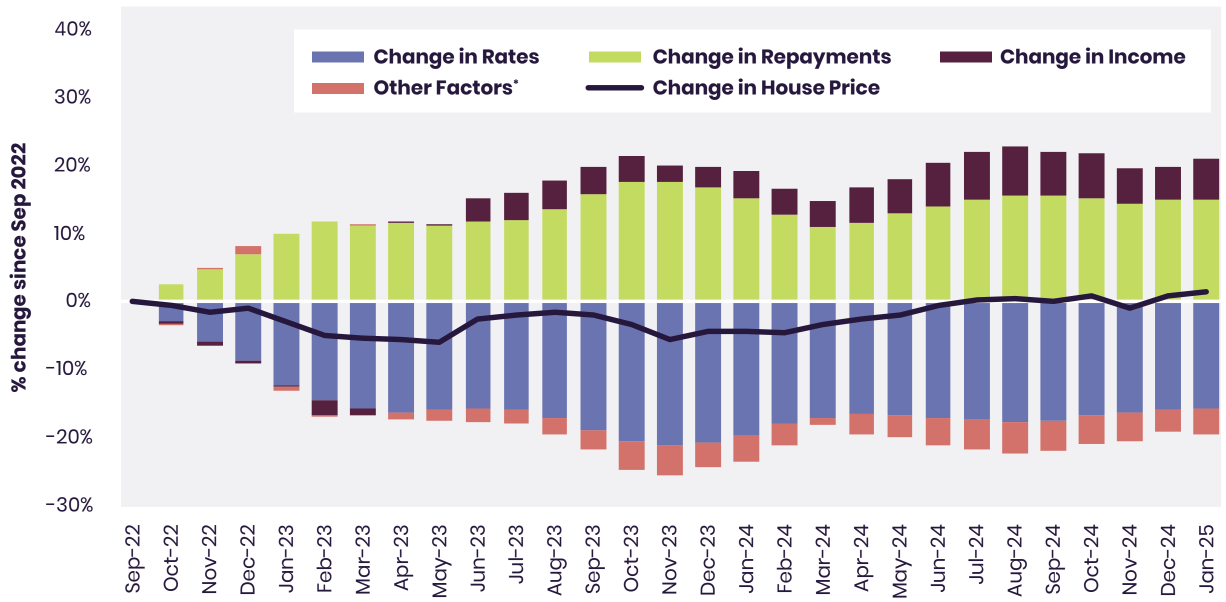


Surviving Higher Rates

Despite the affordability barriers, 333,000 mortgage-backed first-time buyers successfully completed in 2024 – just 5% fewer than in 2019. This raises the question of how buyers are still managing to purchase their first home despite the affordability challenges. Our earlier report highlighted the importance of a fortunate birth – with family wealth contributing to deposits – and the need for higher than average incomes to become a first-time buyer. Our analysis of first-time buyer lending metrics since 2022 (Fig 3) shows that, in the absence of any other response, the increase in mortgage rates could have led to a 20% fall in the average first-time buyer purchase price. However, actual mortgage repayments increased from 18% of income in August 2022 to around 22% in the last couple of years. This increase has helped largely counteract the rise in mortgage rates – limiting the fall in average purchase price to a trough of -6% in May 2023 while in January 2025 it had recovered to 1.6% higher than in August 2022.

Figure 3 –
Components of Change in First-Time Buyer Lending Criteria Since Market Peak in 2022

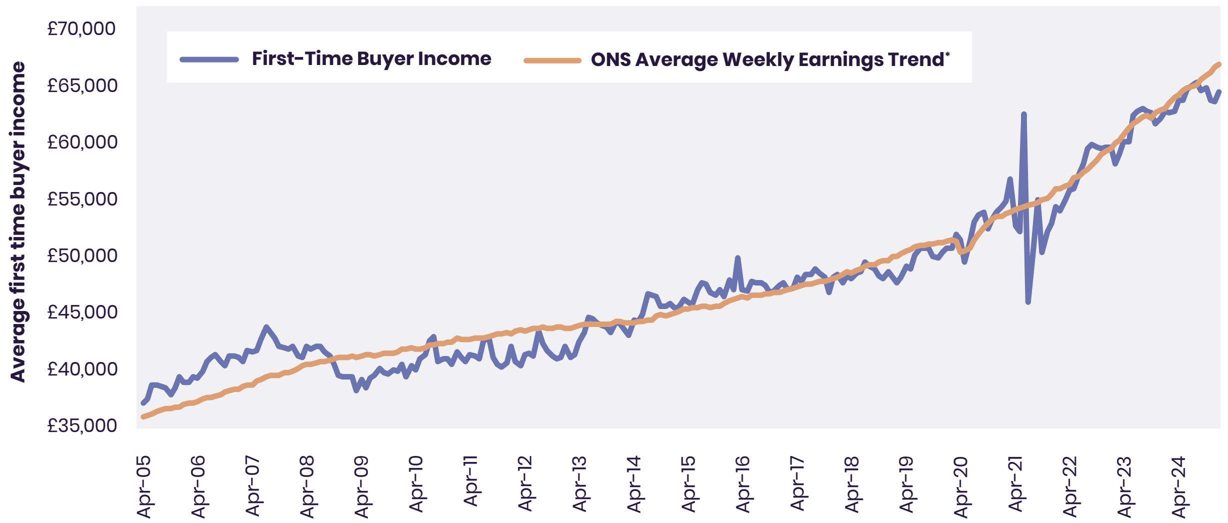
Source: BuiltPlace analysis of UK Finance data
(* other factors include mortgage term, deposit and a residual interaction between variables)



Higher repayments might be the biggest factor supporting continued first-time buyer activity in the current high mortgage rate market, but higher incomes have also helped. Last year we highlighted the need for higher-than-average incomes to successfully buy a first home, including many borrowing based on dual incomes. Alongside the rise in repayments as a proportion of income since rates started rising, there has also been a significant rise in the average first-time buyer income. The average gross income of actual first-time buyers has risen from £59,500 in August 2022 to £64,500 in January 2025. It wasn't clear when we wrote our previous report whether this was due to a shift in the market towards first-time buyers further up the income distribution or simply reflecting underlying wage inflation. Our analysis below (Fig 4) suggests that the increase in average first-time buyer incomes is largely due to the second factor, with underlying wage growth helping to support first-time buyer purchase prices during this period of higher mortgage rates. However, more recently, it appears the typical first-time buyer income has fallen below the trend suggested by wider wage growth. It remains to be seen if this perhaps reflects noise in the data, changes in the mix of buyers rushing to complete ahead of the rise in stamp duty costs or some other factor.

Figure 4 – Average First-Time Buyer Incomes

Source: UK Finance, ONS (average weekly earnings converted to annual and multiplied by 1.93 to match long-term trend relative to first-time buyers)

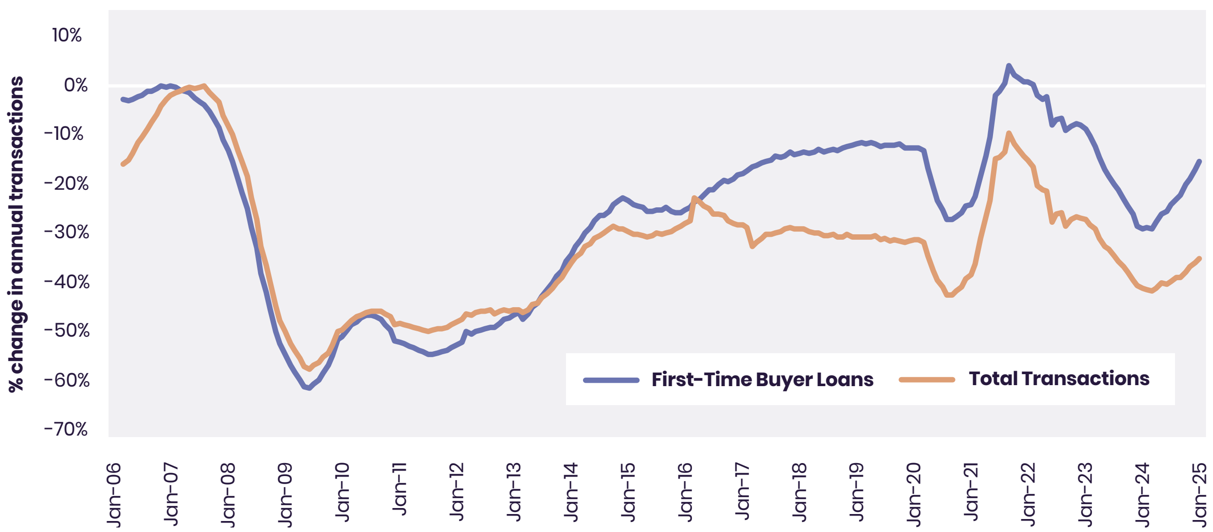


Housing Market Stagnation

It is not just first-time buyers that have struggled since the 2008-2009 financial crises as the wider housing market has also failed to recover to previous levels of turnover. In fact, a comparison of first-time buyer mortgage completions to wider market transactions (Fig 5) shows that first-time buyers have actually recovered better than the wider market – including temporarily overtaking their previous 2006 levels during the post-pandemic rush of activity. The divergence between first-time buyer numbers and the wider market emerges in 2016 – highlighting the importance of tax changes that rebalanced buying power from investors to first-time buyers in all but the most expensive of markets. However, despite the stronger recovery and one-off post-pandemic burst in activity, first-time buyer completions are still consistently lower than levels regularly recorded prior to the 2008-2009 financial crisis.

Figure 5 – Percentage Change in First-Time Buyer Completions and Total Transactions Since 2006/2007 Peak

Source: HMRC, UK Finance

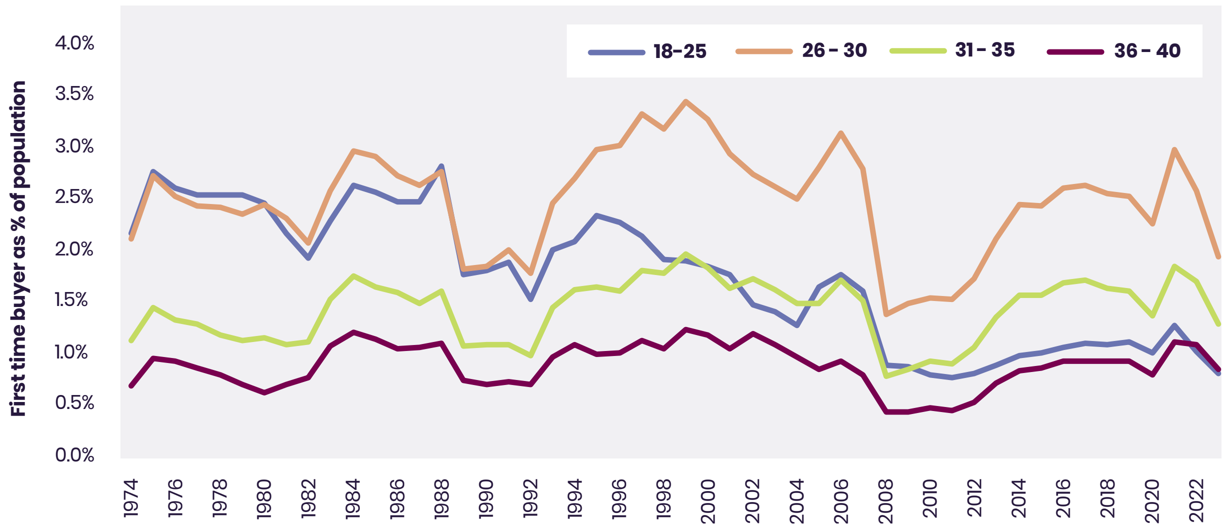


There are multiple feedback loops in the housing market and first-time buyers are no exception. Increasing first-time buyer numbers can help improve market liquidity by providing a bigger pool of motivated buyers at the bottom of transaction chains. However, increasing their number will also be dependent on increasing activity across the wider market, with the optimum scenario one where they make up a larger share of a bigger market.

One way to look at how (un)successful first-time buyers are compared to previous generations is to measure their propensity to buy with reference to the total population of their respective age groups. Our analysis in Fig 6, building on previous publications, shows the proportion of the population in each age group buying their first home during that year. While the impact of previous market downturns and a failure to fully recover from the financial crisis can be clearly seen, the most striking trend is the decades-long decline in younger buyers aged 18 to 25. In the late 1970s and early 1980s around 2.5% of those aged 18 to 25 bought every year while in 2023 it was just 0.8%. The long-term rise in average first-time buyer age largely reflects this decline in purchases by the youngest age group while those aged 26 to 30 are now the largest group of first-time buyers in terms of both absolute numbers and propensity.

Figure 6 – First Time Buyer Propensity by Age Group

Source: AE Holmans, CML/UK Finance, FCA Product Sales Data, ONS (first time buyers as a % of total population in each age group)



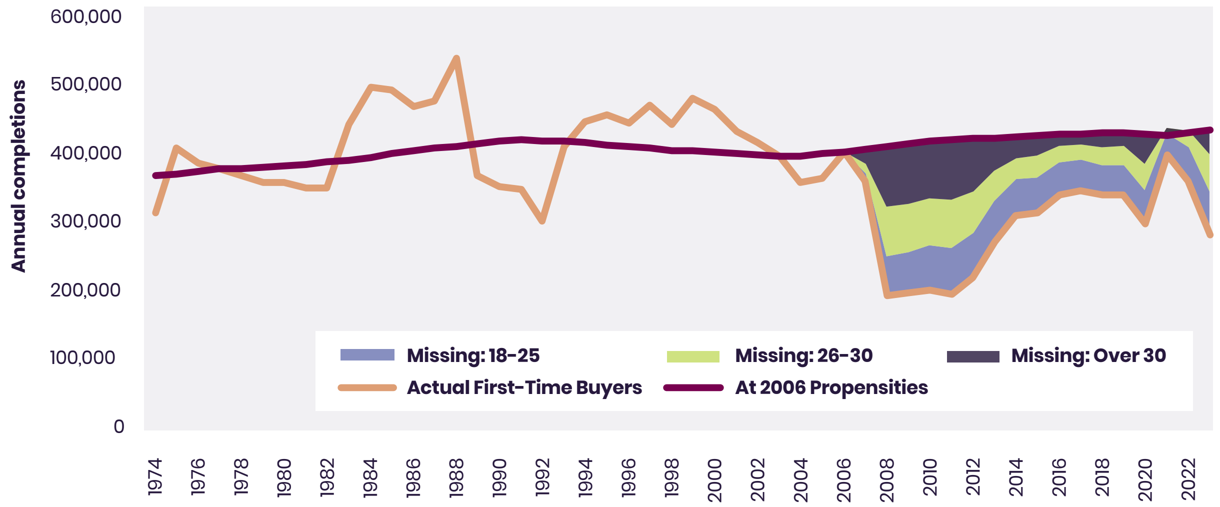
The Missing Millions

Comparing historic first-time buyer propensities to buy versus the actual outcome can help identify how many people have struggled to purchase their first home since the financial crisis. Using 2006 as a baseline, a period that is relatively consistent with historic periods, we can estimate the number of first-time buyers that could have bought if these propensities to buy had continued. Our analysis in Fig 7 suggests that there could have been around 7.2 million first-time buyers since 2006 compared to an actual figure of 5.0 million. This suggests a missing 2.2 million households that would have been expected to buy their first home based on trends in previous periods but have failed to do so since the financial crisis.

The analysis also shows that during the immediate aftermath of the financial crisis, these missing buyers were broadly split across the age groups but in more recent years they have tended towards younger ages – particularly under 30. Increasing first-time buyer numbers in the future will need to target both younger borrowers alongside those that have missed out at these younger ages and failed to catch up at a later age.

Figure 7 – First-Time Buyer Completions & Estimates by Age of Missing

Source: HMRC, UK Finance



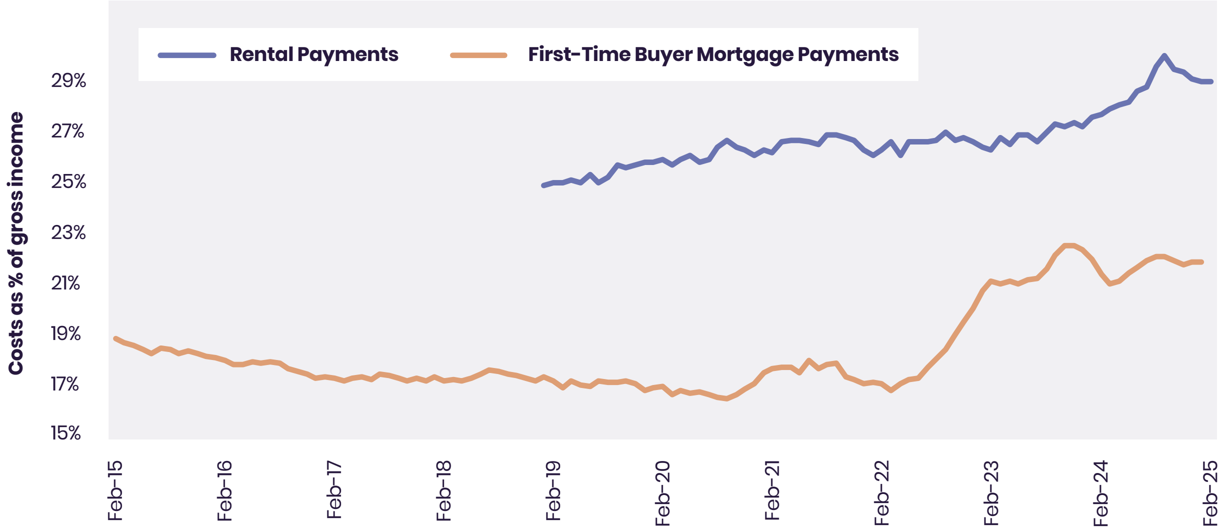
2.2 million households would have been expected to buy their first home based on trends in previous periods, but have failed to do so since the financial crisis.

Stuck Renting

The analysis in this report suggests the greatest challenge to increasing first-time buyer numbers is enabling market access to younger and lower income borrowers. Many will be stuck in the private rented sector. However, helping them will be a challenge given the affordability barriers. Saving for a deposit is perhaps the biggest one, with analysis in last year's report finding that *"18% of private renters have no savings, 44% have savings of less than £3,000, and a further 17% have savings of under £10,000"*. Low wages and the unaffordability of the private rented sector are massive challenges for those looking to save a deposit. While typical repayment affordability for actual first-time buyers has increased rapidly in recent years, the same is also true for private renters. Dataloft data published by the ONS shows that rents as a proportion of gross income hit a peak of 30% in September 2024, though have eased slightly since (Fig 8). This limits renters' ability to save for a deposit and highlights the importance of focussing not just on first-time buyers directly but also helping future ones stuck in the unaffordable private rented sector.

Figure 8 – Comparison of First-Time Buyer Repayments and Private Rental Payments

Source: UK Finance, Dataloft via ONS (both series based on gross incomes)



"Low wages and the unaffordability of the private rented sector are massive challenges for those looking to save a deposit

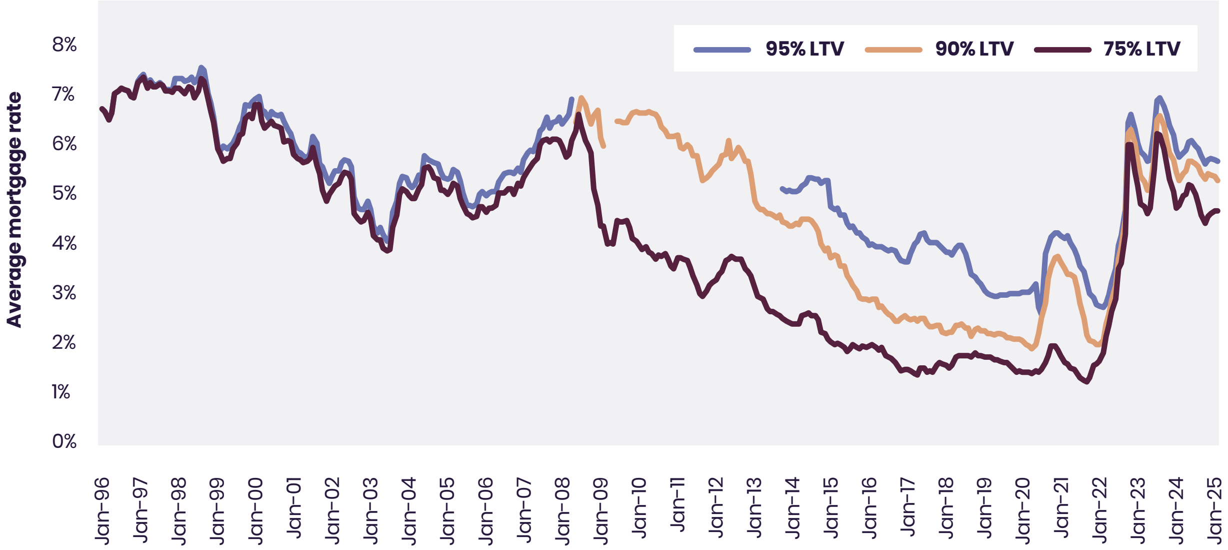
High Loan-to-Value Mortgages

Higher loan-to-value mortgages (at 90% and above of the purchase price) have been a regular feature of the mortgage market during periods of rising homeownership. However, as Fig 9 shows, their cost and their availability have been severely restricted since the financial crisis. Our analysis last year found that increasing the availability of higher loan-to-value mortgages could help more private renters buy their first home. However, low incomes and higher mortgage rates are still a big barrier. Last year's analysis showed that *"with a 95% loan-to-value mortgage, then just 19% of private renters could afford to buy a £100,000 home"* while *"9% of the households that could afford up to a £250,000 home with a 95% loan-to-value are found in London and the South East"*.

Clearly, the unaffordability of house prices relative to incomes is the underlying issue. Intermediate tenures like First Homes and Shared Ownership can help but they need to be much improved from their current form and are always likely to be niche products. Ultimately, what is needed is a long-term strategy for housing with Government creating the conditions for the housing market where house prices rise in nominal terms but fall relative to incomes – helping not just today's first-time buyers but also future generations.

Figure 9 – Average Quoted Mortgage Rate by Loan-to-Value Ratio for Two-Year Fixed Rates

Source: Bank of England



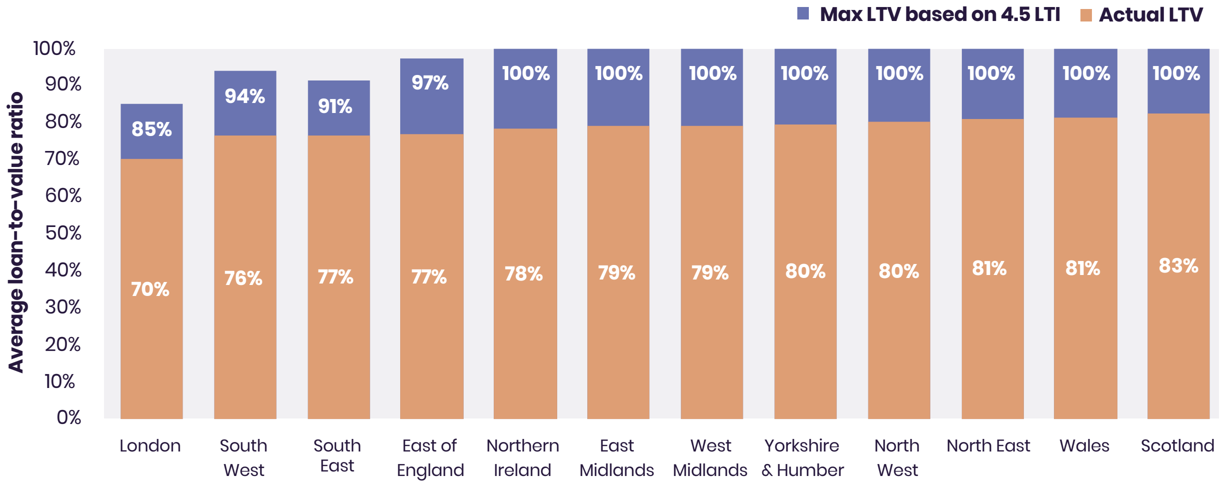
"The unaffordability of house prices relative to incomes is the underlying issue

The Expensive South

Access to the market is not just constrained by deposit availability. In more expensive parts of the housing market, typically in the south of England, access is also restricted due to flow limits on lending above 4.5 times income. This results in a market where bigger deposits are required as buyers can't borrow enough beyond the 4.5 limit. It is for this reason that London, despite being the most unaffordable part of the country, has the lowest average loan-to-value ratio of all regions (Fig 10). Easing the flow limit could help some borrowers but its impact will be largely determined by the future path of mortgage rates – volumes are currently limited by high rates. There is also the possibility that it simply helps higher income borrowers buy a more expensive home than they would have done rather than creating additional first-time buyers.

Figure 10 – Average First-Time Buyer Loan-to-Value Ratio by Region

Source: UK Finance – Q4 2024



Conclusion

One year on from our original report and the affordability challenges facing first-time buyers - both the cost of buying and owning – are still massive. A slight easing in lending conditions and falls in mortgage rates should help but the barriers will remain while house prices remain high relative to incomes. Additionally, the end of the higher Stamp Duty thresholds will have increased the cost of buying for many. Becoming a first-time buyer still requires good fortune in having a well-capitalised Bank of Mum and Dad and/or two incomes that are higher than the average. Meanwhile, those without family help or on single and lower incomes have been excluded. This has led to a situation where over two million households have failed to buy their first home since the financial crisis, putting increasing pressure on the private rented sector.

As we noted last year, increasing first-time buyers is a balancing act:

"The number of first-time buyers is closely linked to the state of the mortgage market, housing market, and wider economy. As such, there is an inevitable balance between support given to first-time buyers and the effects of that support on the housing market and economy, both immediately and in the future. It also works in reverse with policies that impact the housing market or economy having direct and indirect effects on first-time buyers."

There is an important balance between financial stability and first-time buyer numbers. That balance has probably been tilted too far towards financial stability since the financial crisis and it is now an appropriate time to debate the costs and benefits of the current approach. For example, increasing the availability of higher loan-to-value mortgages could help, especially for the younger age groups that have struggled most, both since the financial crisis and before. Meanwhile, some flexibility around the flow limit on lending above 4.5 times income would help in more expensive markets. However, we need to ensure this would help additional buyers into the market rather than just helping existing ones buy bigger homes. Better mortgage market regulation can help but the best outcome for prospective first-time buyers, both today and in the future, is one where house prices rise in nominal terms but fall relative to incomes. Any deregulation that leads to house prices growing faster than incomes may help boost numbers in the short-term but would compromise the prospects for future generations buying their first homes.

Policy Prescriptions

To repeat our original policy proposals: Government should identify what a successful housing market looks like and commit to a package of housing policies and reforms that can achieve it. Working together with lenders, the wider housing market industry, and the public, they should aim to make homes more affordable, more available, and more appropriate to the needs of those living in them and the world we live in.

There is no single solution to increasing the number of first-time buyers and helping everyone that wants to become a homeowner in the current high price-to-income housing market. But some things can be done to help more of those on the fringes to buy their own home.

Our recommendations are:

Housing Policy

- Government should continue building on the positive work to review the first-time buyer market, regulation, and Government intervention to deliver a clear long-term strategy. The objective should be to increase the number of true non-returner first-time buyers, both now and in the future.
- Government should also commit to putting in place all the tools at its disposal to help ensure that - while house prices still rise in nominal terms - they do not rise faster than earnings over the long-term, leading to a fall in the house price to earnings ratio. To achieve this, Government should:
  - Prioritise improving the supply of both existing and new homes including increased delivery of affordable homes.
  - Revise the planning system with a greater focus on strategic planning and less focus on development control.
  - Reform property taxation to increase market liquidity and encourage the more efficient use of existing homes. However, the lessons of using Stamp Duty Land Tax to favour first-time buyers should not be lost and any new tax should continue to favour them above other buyers.
  - Commit to improving the quality, security, and affordability of the private rented sector given its importance to most prospective first-time buyers.

Regulation

- There are specific areas of regulation where building societies need more flexibility to help them to support more first-time buyers, for example:
  - Change the FCA's MCOB rules to more easily allow part-repayment and part-interest only lending during the course of a mortgage, and the flexibility to shift between them as a borrower's needs change.
  - The 15% cap on lending above 4.5 times income has limited the use of higher loan-to-value mortgages in more expensive housing markets. However, there should be a review of the Financial Policy Committee (FPC) flow limit to focus on first-time buyer support. While the 15% cap on lending above 4.5 times income may be less relevant today given higher mortgage rates, an immediate review should be undertaken to assess whether it would be beneficial to adjust the limit and to target mortgages above the cap at first-time buyers.
  - A review of the relative costs and benefits of a stricter regulatory environment versus the social benefits of higher rates of homeownership should be undertaken to strike the right balance between financial stability and enabling access to home ownership. Since the pandemic, lenders have been much more likely to support borrowers in place and, while the risk of negative equity still exists, the impact it has should be less than seen previously. Despite this, it may be worth considering mortgage products that allow households to move home if trapped by negative equity.
  - To support those with lower incomes and less wealth, along with other disadvantaged groups that have lower than average rates of home ownership, lenders should be allowed to offer a greater diversity of mortgage products and, in turn, increase the diversity of the people they help to become first-time buyers.
  - There are currently thresholds that prevent many households from optimising their finances immediately prior to retirement, while the post-retirement mortgage market offers alternatives not available to younger borrowers. Given the increase in longer mortgage terms and the ageing population, a review of the pre and post-retirement mortgage lending market is required.

Glossary

Financial Policy Committee (FPC)	Established in 2013 as part of the new system of regulation brought in to improve financial stability after the financial crisis.
Fixed-Rate Mortgage	Interest rate is fixed for an agreed period.
Freehold	If the property is freehold, then the buyer owns both the property and the land it's built on.
Housing equity	The amount remaining when the value of the mortgage and other secured lending is taken away from the value of the house. At the point of purchase this should be equal to the deposit in a normal mortgage.
Interest Only	Monthly mortgage payment pays only the interest charges on the loan, there is no capital repayment.
Leasehold	If a property is leasehold the homeowner buys a property, but the freeholder retains ownership of the land on which the property stands, providing the homeowner with a long lease giving them the right to live in the property for a period of time. Over recent years there have been many unfair leasehold terms, including high service and estate rent charges, lack of transparency on costs, sale transfer fees and excessive ground rent liabilities.
Loan-to-income multiple	The value of the mortgage divided by the borrower's income. Around 3.3 for the typical first-time buyer.
Loan-to-value ratio	The value of the mortgage as a proportion of the house price. Around 76% for the typical first-time buyer.
MCOB	FCA's Mortgages and Home Finance: Conduct of Business sourcebook
Mortgage Guarantee Scheme	Scheme designed to increase the appetite of mortgage lenders for high loan-to-value lending to creditworthy customers. It provides lenders with the option to purchase a Government guarantee that compensates them for a portion of their losses in the event of foreclosure.
Mortgage term	The number of years the mortgage is paid back over. Around 32 years for the typical first-time buyer.
Non-returners	First-time buyers that are not actually buying for the first-time, but are included in some mortgage market data
Stamp Duty Land Tax	Tax charged on land and property transactions in the UK. The tax is charged at different rates depending on property and values of transaction. First-time buyers in England and Northern Ireland have a higher threshold before Stamp Duty is payable.
Standard Variable Rate (or revert-to-rate)	A lender's normal mortgage rate without any discounts or deals. This is the rate most fixed rate mortgages revert to at the end of the fixed rate period.

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