The big drought in affordable homes

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Funding has been cut for first-time buyer homes. Will private developers step in?

Glum and grim are the words most commonly used to describe prospects for first-time buyers in the housing market these days. Changes to government funding for schemes such as shared ownership, announced in the spending review, coupled with the restrictions on high loan-to-value (LTV) lending advised by the Financial Services Authority (FSA) make for an environment in which the only buyers getting their first foot on the ladder will soon be those with help from Mum and Dad.

And yet, with house prices falling, and the number of loans available with a small(ish) deposit increasing, it might seem the ideal time to start house-hunting. Indeed, would-be buyers are out in force, according to property website Rightmove, with first-time buyers making up a quarter of the people hoping to buy in the next year. Will most of these be disappointed? Is there light at the end of the tunnel for those relying on schemes such as shared ownership? We answer your questions.

Is it easier to get a mortgage now?

Deposits are getting smaller and LTV ratios are getting bigger. Aaron Strutt, a broker at the Trinity Financial Group, says: "We are only starting to see competitive mortgages available to those with smaller deposits. The Post Office has a particularly competitive range, with a two-year fixed rate at 3.45 per cent with a £995 arrangement fee and a 20 per cent deposit."

That's good news, right?

Sort of. Loans at 80 per cent LTV are better than they were but they're still much more expensive than at 60 per cent. And there are some 90 per cent LTVs available, but these are pricey. Santander offers a three-year fix at 5.99 per cent, 90 per cent LTV with a £799 arrangement fee. Equally, 10 or 20 per cent can be a lot of money, and income multiples offered by banks are still low. The National Housing Federation (NHF) has found that a London first-time buyer needs to earn about £100,000 a year to buy an average-priced home. Also, the FSA recommendations will severely limit high-LTV loans, and next year banks will begin paying back money borrowed under the Special Liquidity Scheme at the height of the credit crunch, which will discourage lenders from taking risks with their balance sheet.

Will house prices continue to fall?

Savills predicts that while the price of properties that are well maintained and in covetable areas will rise by 5 per cent over the next five years, the price of those that are run down will fall by 5 per cent. There are also far fewer investors looking for run-down properties to do up and add value, which means that there could be a range of cheaper properties for first-time buyers to choose from. But this is still dependent on them finding a mortgage.

How about shared ownership or shared-equity homes?

During the recession these types of schemes have become increasingly important, with housebuilders, unable to find open-market buyers for starter homes, relying on them. Emma and Samantha Bygrave, pictured below, were going to wait another year to buy their first homes until they discovered the shared-ownership scheme at Lake View in Elstow, Bedfordshire, enabling them to buy 80 per cent of two three-bedroom homes across the road from each other, each with only a £10,000 deposit.

However, while the Government used to provide grants for the construction of many such properties, the spending review has handed the responsibility of funding them over to housing associations. The NHF says that, of the 150,000 new "affordable homes" expected to be built over the next four years, 12,000 will be shared-ownership properties, 2,000 will be shared equity and the rest will probably be to rent. In addition, HomeBuy Direct, the popular part-state, part-private shared-equity scheme, has ended.

So, will there be enough?

The Homes and Communities Agency says 110,000 people have applied for "intermediate housing" in the past year, but only 20,000 properties were made available. With soaring rents, demand for intermediate housing is likely to rise significantly, the NHF says.

Will private builders plug the gap?

Private housebuilders have tended to rely on government subsidy for these schemes. However, Barratt recently launched a privately funded shared-equity scheme, identical to HomeBuy Direct, except that Barratt will supply the whole equity loan (for which payment is deferred several years) rather than half of it. Richard Donnell, director of research at Hometrack, the property data company, says innovation from private developers and housing associations may become the norm. "Having to rely on their own revenue streams rather than capital funds provided by the State could create better products in the long term."

Fast Facts

Current housing tenure for low-cost home applicants:
- Private rented: 44%
- Living with family/friends: 36%
- Social tenant: 9%

• Owner occuper: 5%
• Other: 6%

Size of properties requested:

• 2-bed: 42.5%
• 1-bed: 37.5%
• 3-bed: 16.9%
• 4-bed: 2.6%
• Studio: 0.1%
• Other: 0.6%

Age of lead applicant:

• 18-29: 41.4%
• 30-39: 39.3%
• 40-49: 14.7%
• 50-59: 4.2%
• 60 plus: 0.3%

In 2008-09, there were 22,970 low-cost housing completions. In 2009-10, there were 20,246.

In 2009-10, the Homes & Communities Agency's network of Local HomeBuy Agents received a total of 136,034 inquiries. In the same period, a total of 64,904 full applications were received.

Source: The Homes and Communities Agency's Data Compendium, October 2010