

“How can we avoid a ‘lost’ generation of homeowners?”

Joe Garner, CEO Nationwide Building Society

Good afternoon, and thank you for the invitation to speak to you today.

If large organisations contain DNA, then housing is in ours. We’re Britain’s second biggest mortgage lender, and have helped over 300,000 first time buyers into homes of their own in the last 5 years.

We were founded as a building society – and we still are – which means we are more interested in helping our members than maximising short term profit growth:

We were founded to help everyday people in Victorian Britain into homes of their own. And this founding purpose remains absolutely at the core of who we are and what we do today.

Which is why we want to contribute to solving Britain’s current housing crisis.

I say ‘current’ because housing crises in Britain have punctuated much of our history. The nature of the crisis changes with every generation. From squalid workers’ homes in the industrial revolution, to the post-war housing shortage, to the affordability and availability crisis of today.

So, each generation needs to think clearly and carefully about how to overcome their challenges.

And – don’t worry – I don’t think it’s just about calling for housebuilders to build more homes.

This afternoon, I want to look at the long run trends in home ownership in the UK, and how and why some have gone into reverse in the last 10 years. I would like to think about why the housing market is working for some people and not for others – in particular the social injustice of a ‘lost’ generation of aspiring homeowners. Most importantly I want to leave you with some thoughts about how we can correct the imbalances in our housing market, so that the housing market works in a more balanced way.

Home-ownership has been at the heart of British aspirations for generations.

The saying ‘an Englishman’s home is his castle’ has been around since the 16th century. But in fact, it’s only in the last hundred years that everyday people were able to realise their dream of owning a home.



In Victorian times, people like Alfred Idle were among the first ordinary people to buy their own home.

Mr Idle was in fact Nationwide’s first ever mortgage member in the 1880s.

He was an assistant librarian, he had a wife and nine children...

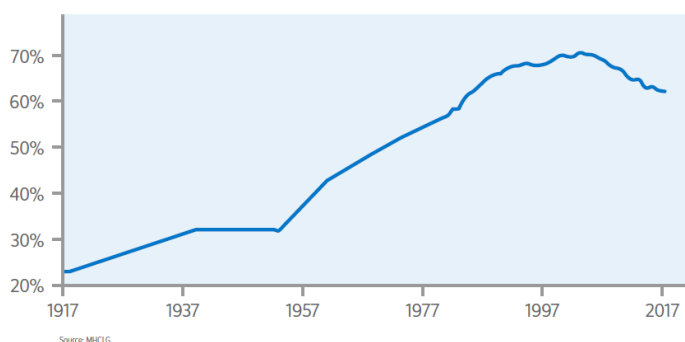


... and he bought this workmen's cottage on the Shaftesbury estate in Battersea for £220. He took a mortgage of £120, that was repayable over 10 years.

The value of Mr Idle's property was a little over three times his income. I suspect there are not many assistant librarians who could buy a property in London on that multiple, and certainly not in Clapham, where houses in this particular street now sell for around £900,000!

Mr Idle was one of the early working class pioneers of home ownership. A quarter of a century later, in 1918, less than a quarter of people owned their own homes.

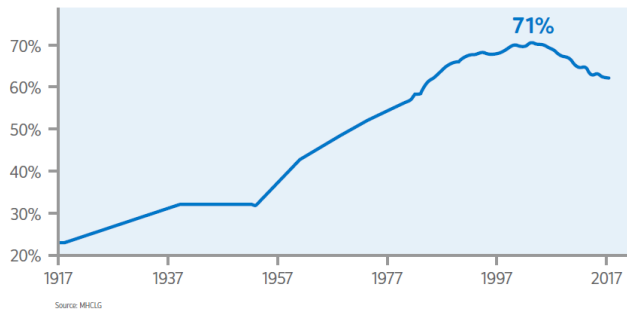
Home ownership rate in England over the past 100 years



But during the rest of the twentieth century home ownership rose steadily, accelerating from the 1950s on.

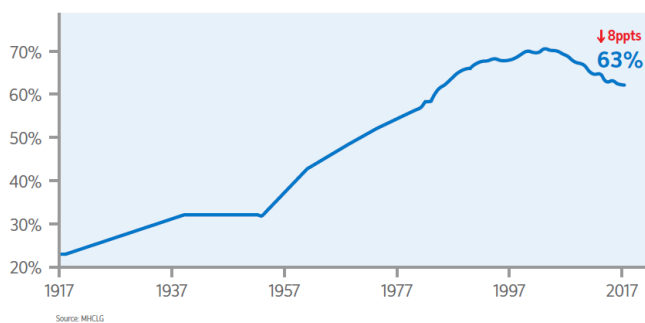
By the time John Lennon sang 'Power to the People' in the early 1970s – home ownership rates had caught up with renting, before decisively overtaking, helped by a range of factors including liberalisation of the financial sector and right to buy.

Home ownership rate in England over the past 100 years



By 2003, the proportion of people in England who owned their own home had reached an all-time high of 71%.

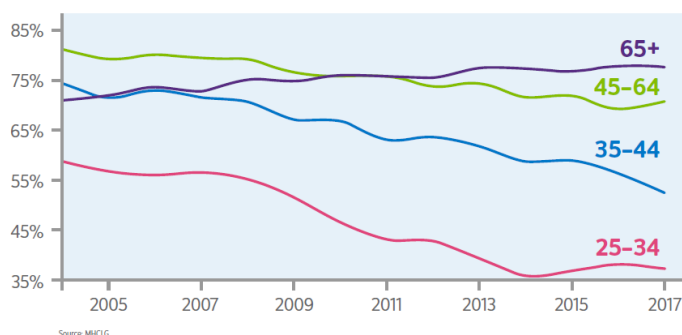
Home ownership rate in England over the past 100 years



Although the absolute number has stayed about the same, the proportion has fallen in England by 8 percentage points to 63%. This puts us 25th out of 29 European nations for home ownership. Yes - that means that there is a higher proportion of renters in England than France and Spain!

Most worryingly, among younger people aged 25-34, in just 30 years, the rate of home ownership in England has fallen sharply, from over 50% to 35%¹, shown in the bottom line of this chart.

Home ownership rate in England by age group



Is this because young people no longer want to own their own home?

No. It's not that they don't want to, it's because many can't. And the resulting disenchantment with society as a result could become problematic if we do not do something about it.

The Council of Mortgage Lenders – now part of UK Finance² – has been carrying out research for years on people's homebuying aspirations. It's latest research for 2016-17 found that 8 out of 10 people still want to own their own homes – a figure that's remained pretty consistent for 30 years³.

This means there is a significant home ownership aspiration gap between those who want to be home owners and those who actually are.

It's clear from this that although the housing market is working for some people, it's not working for everyone.

¹ <https://www.resolutionfoundation.org/data/housing/>

² Note all this data is still ONLY carried on the CML's website, and UK Finance's site directs mortgage enquiries to it.

³ <https://www.cml.org.uk/news/cml-research/home-ownership-or-bust-consumer-research-into/>

So what changed? Who gained, and who missed out?

I don't believe there is any value in looking for 'blame', but rather to attempt to unpick some of the factors that have led us all to this situation.

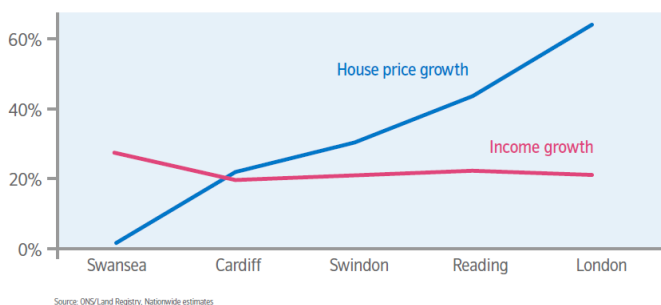
I'd like to start with the upward pressure on prices:



After an interruption between 2008-2012, house prices resumed a rapid northward trajectory, particularly in London and the south east. Meanwhile incomes grew only slowly.

This chart brings it to life clearly. But the increases have been really variable. Imagine taking the train from Swansea to London...

Great Western Railway Line - Swansea to London (2007 to 2018)



It shows the rise in house prices and incomes along the main stops on the Great Western Railway line from Swansea to London. And you can see that talking about the UK as a single housing market is not actually that helpful – it’s quite a different picture up and down the country.

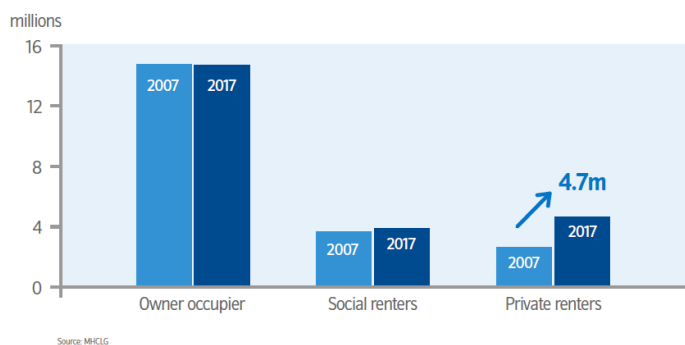
Nevertheless, it’s pretty clear from this chart that wherever someone lives, people who already own their own home, outright or with a mortgage, have gained from rising house prices. That’s especially true in London and the South East.

Meanwhile, post 2008, interest rates fell to record lows, and stayed there. This was an essential policy decision to stabilise jobs and the economy but it also left investors seeking new homes for their money. Quite literally.

Buy to let became a much more attractive investment, and buy to let landlords had the advantage over first time buyers because many were cash purchasers. They could use equity in properties they already owned to expand their portfolios.

Of course, policy measures on stamp duty and interest have to a large extent tamed the buy to let market in the last two years, but we still have a structurally higher proportion of housing stock now in the private rental sector – up from 2.7 million to 4.7 million in 10 years, as can be seen in this chart.

The split in households by tenure



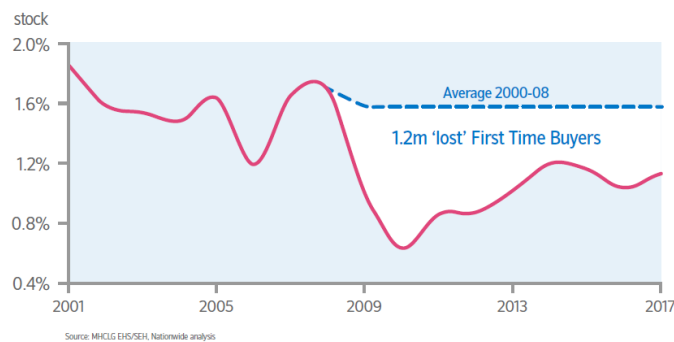
Meanwhile regulators and lenders, many of whom had their fingers burnt in the financial crisis, adopted a much more cautious attitude to risk.

Finally, Help to Buy. There's a clue in the name, and it had all the right intentions of helping people onto the housing ladder. But by incentivising buyers to buy new homes rather than old ones, the benefits are skewed. Yes, housebuilders have benefitted, but I also believe that more homes have been built as a result.

So, if homeowners, landlords and housebuilders have all gained, who's missed out?

Principally, it's younger people who aspire to own their own homes.

'Lost' generation of homeowners over the last decade



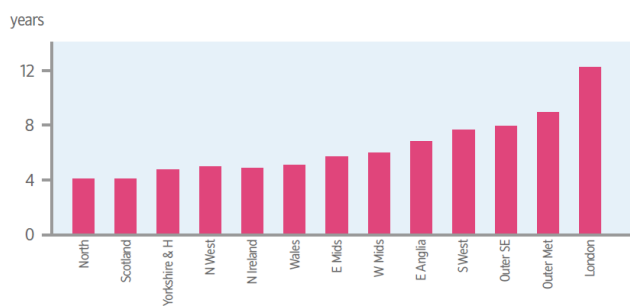
We estimate that in the last decade, over a million would-be homeowners have been unable to get a foot on the housing ladder – truly a 'lost generation' of aspiring homeowners. And without Help to Buy, the number would be larger still.

Affordability is key – albeit for different reasons in different places.

In London and the South East, it's about property prices. Rocketing house prices, combined with caps on high loan-to-income mortgages have prevented some people from buying homes. Some people look enviously at London life, but if you are saving for a property, even on a London wage, it will take you longer here than anywhere else in the country... around a decade.

I expect you read about the Institute of Fiscal Studies research published earlier this week. It found that in 1996, nine out of ten young adults who'd saved a 10% deposit could afford to buy a home by borrowing four and a half times their income. Today, only around 60% of young adults can borrow enough to buy even the cheapest home in their area on the same income multiple.

Time taken to save for a 10% deposit in Britain



Source: Nationwide calculations, ONS. Based on current FTB average house price, saving 10% of net pay/month

And if you're paying substantial sums in rent, prices are going up faster than incomes, and savings rates are at an all-time low, saving for a deposit is a huge challenge. In some places it can take up to 12 years to save a 10% deposit.

Combined with this, the tougher mortgage affordability criterion from regulators and lenders and it is hardly surprising that the number of mortgaged households has dropped by almost a million – nearly 10% – from its peak in 2007.

So how can we make home ownership affordable for our lost generation of homebuyers?

I'd like to call out three suggestions that would help improve affordability.

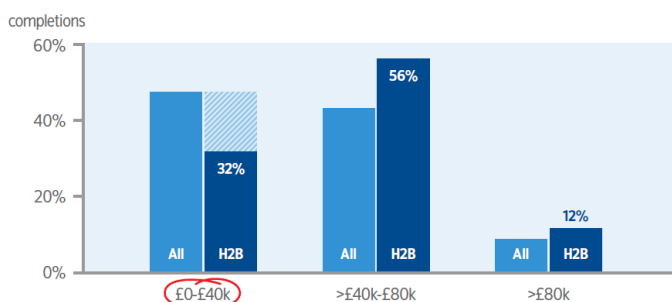
First, we need to extend and adapt Help to Buy.

We know that Help to Buy accounts for over a third of new build sales, and I'm sure many of you here are looking for predictability so you can plan your building programmes over the coming years. I have worked in infrastructure, and I well understand that successful construction needs long term predictability.

Given the housing market's reliance on Help to Buy, and the fact that its sharp withdrawal would put further stress on the market, and ultimately, therefore, on first time buyers, I'd urge the government to extend the scheme beyond 2021.

Help to Buy has helped bridge the affordability gap, but there is more to do if the scheme is to help those who need it most. It has been biased towards helping people who would have bought a home anyway to buy a bigger property more than helping people on low and middle incomes to enter the market – the teachers, nurses and, dare I say it, assistant librarians!

Help to Buy was utilised less by people with a lower income in 2017



Source: MHC/LG UKF RMS / Mortgage Clarity Nationwide analysis

Potential reforms to increase the number of people using Help to Buy might include, for example, an income cap, or restricting the scheme to first time buyers, or lowering the maximum house purchase price.

Help to buy also leaves open the question of how people will repay the equity loan over the long term?

This leads me to my second point, which is that lenders and regulators both need to look at which groups of customers have lost out, rather than been protected by, the current regime...

There is pretty universal agreement that before the financial crisis some risk boundaries were drawn too close to the edge, and even then, some lenders pushed against them – or through them. No-one is mourning the end of sub and near prime lending, or of self-certification mortgages, which were clearly open to abuse. These were important and necessary measures.

Today, we have a world class regime in terms of the standards, and how they are applied. Not just in regulation, but in how lenders assess their own risks. I would also observe that today, responsible lenders do not want to go anywhere near the grey area, and this is a good thing.

In 2006 / 2007, firms were lending on high multiples which is clearly unsustainable. The question is, have we collectively now retreated in such a ‘blunt’ way that we are leaving specific segments unserved.

Today, first time buyers have to meet a high hurdle rate to get their first mortgage. They need a deposit of at least 5%, preferably 10%, rising to 15% on new build homes outside Help to Buy. They need to be able to meet mortgage payments at a stressed rate, which are currently at around 7.25%. When combined with high house prices and low wage growth, it's put homeownership out of reach for many. This might be appropriate for some, but do we have the opportunity to refine and improve our ability to really understand customer needs – and risks?

I believe there is a real appetite from lenders and regulators to work these things through together. This year, for example, we've seen a really positive example of exactly the kind of thing I am talking about. Specifically, in the area of retirement interest only mortgages. When the regulatory treatment of these mortgages was rightly tightened, lenders pulled back from the market leaving a big gap between repayment mortgages and equity release.

Let me bring this to life. It was once assumed that a mortgage was paid off by the time of retirement. Today, there are around 308,000 people who are retired but still have a mortgage. Does it make sense for them to be repaying the capital? For many we believe not. Helpfully, the FCA recently recognised this and changed the rules. This means that retirement interest only mortgages can be offered again – and indeed, we launched our own product last week.

Now, these mortgages are clearly not going to help first time buyers, but it is this type of cooperation between lenders and regulators that will help us find other, safe, lending opportunities, that help people obtain a place fit to call home. Could we find similar opportunities to support younger people in some way?

Third, housebuilders and lender need to work together to solve the problem of the new build premium.

There is still a gap between how much lenders are prepared to lend on new builds outside Help to Buy. The majority of mainstream lenders still cap lending on new homes at 85% of their value, which is severely restricting the sale of new homes to first time buyers outside Help to Buy.

As a Group, lenders and builders need to accept that we still don't have a functioning market for the valuation of new homes. And we need to work together to solve this problem, so that we can help more people into homes of their own. Trust is key here.

Finally, let's innovate.

Modern methods of construction, lending on longer leases, these are areas that we should be able to make progress on. And let's not be afraid to try new things.

Nationwide Building Society recently announced that we are financing the construction of a new community in our home town of Swindon. We're working in partnership with the borough council and local people on all aspects of the design of up to 250 homes, which we hope may become something of a blueprint for other community-centric housing schemes.

Don't worry, we have no ambitions to become housebuilders, but we do believe in making a practical contribution.

That's because we see a real social injustice in today's 'lost generation' of would be home-owners. It's not right that – as it seems to me – the biggest factor currently affecting whether you will be a home owner is whether or not your parents are.

I believe there are achievable steps we can take to rebalance the housing market and put home ownership within reach of young adults today.

We need to decide on the future of Help to Buy.

To work tirelessly across industries, Government and Regulators to help meet the needs of underserved groups.

And to find a way to make lending on new builds as straightforward as it is on second hand properties.

If we do not address the disenchantment of the next generation, it will be all our problem – not just theirs.

Linking back to what I said at the start, the solution isn't just to build new homes, and we have discussed as much – but there is a stark reality that we do also need more homes!

Thank you very much for listening. Now I believe we have time for questions or a debate, and I'd be really interested in hearing your views on making homes affordable for a lost generation of homeowners.