

Affording Your Home Research

Prepared by BDRC Continental for:

Money Advice Service

January 23rd 2014



providing intelligence

Background & Objectives

At the start of January 2014, Money Advice Service (MAS) commissioned BDRC Continental to conduct a rapid turnaround study on the affordability of purchasing and maintaining a house. The research was conducted amongst two key groups; potential first time buyers (intending to purchase in the next year) and recent first time buyers (who bought their first property in the last 2 years).

The objective of the study was to understand whether there were any discrepancies between the perceived costs of purchasing a property amongst first time buyers (FTBs) pre-purchase, and the actual value of the associated costs post-purchase. From this MAS intend to generate information for consumers to assist and guide them through the potential costs associated with the purchase-pathway and beyond.

The questionnaire was designed in conjunction with MAS and conducted using Research Now's online panel between 10th – 20th January 2014.

A representative sample of 1,229 UK adults aged 18+ was interviewed. The data were weighted to be representative of the FTB market in the UK (so far as possible with an online study).

This report presents:

- An initial summary of findings
- A brief profile of our respondents
- A summary of the mortgage details and buying process comparing the expectations of potential FTBs with the actual experience of recent FTBs
- A summary of the actual outlays incurred by recent FTBs compared against both their initial expectations and the expectations of potential FTBs
- Conclusions

Summary of findings

Summary

Details of the mortgage

Both potential and recent FTBs have a preference for fixed rate mortgages. The mean loan amount required was higher amongst recent FTBs (£140,800 vs. £133,300), although the average LTV taken was lower than potential FTBs expect (72% vs. 80%).

The buying process

Most rely on independent mortgage advisers, banks or building societies or online calculation tools to find out how much they can borrow. The majority consider at least one additional cost, although 55% found the costs associated with purchasing a property higher than expected – on average by around £1,800.

Mortgage affordability

Around three quarters had / have a budget and intend to stick to it, although 82% of potential FTBs claim they would stretch themselves financially to get their ideal property and 74% of recent FTBs actually did.

Mortgage contingencies

While most FTBs could cope if their mortgage payment increased by £100 a month, larger increases would see significant numbers struggling. On average, recent FTBs expect they could meet their mortgage repayments for around 6 months if the main breadwinner was made redundant.

Experience of associated costs

The majority have, or did, consider many of the on-going costs of running a property. However, half of recent FTBs found these costs higher than expected, with 1 in 5 of these finding it caused them a problem financially. Overall, 9% of all FTBs have struggled financially due to higher day to day costs than anticipated.

Sample Profile



Sample composition & weighting (1)

Potential FTBs

Total: n=255

Intention to buy in next 6 months: **n=75 (29%)**
Intention to buy in 6 – 12 months: **n=180 (71%)**

Mortgage Amount

Less than £50k: **n=29 (9%)**
£50 - 100k: **n=87 (33%)**
£100-200k: **n=111 (43%)**
£200-300k: **n=24 (12%)**
£300k+: **n=4 (3%)**

Age

18-35: **n=207 (82%)**
36+: **n=48 (18%)**

Recent FTBs

Total: n=974

Purchased in last 12 months: **n=439 (50%)**
Purchased 12 – 24 months ago: **n=535 (50%)**

Mortgage Amount

Less than £50k: **n=52 (4%)**
£50 - 100k: **n=330 (33%)**
£100-200k: **n=477 (48%)**
£200-300k: **n=87 (10%)**
£300k+: **n=55 (5%)**

Age

18-35: **n=760 (74%)**
36+: **n=214 (26%)**

*Note figures in brackets are weighted percentages

Sample composition & weighting (2)

Potential FTBs

Total: n=255

Region

London and South East: **n=72 (28%)**

Midlands and East: **n=61 (24%)**

North of England: **n=63 (25%)**

Wales and South West: **n=36 (14%)**

Scotland: **n=18 (7%)**

Northern Ireland: **n=5 (2%)**

Recent FTBs

Total: n=974

Region

London and South East: **n=316 (28%)**

Midlands and East: **n=228 (24%)**

North of England: **n=227 (25%)**

Wales and South West: **n=121 (14%)**

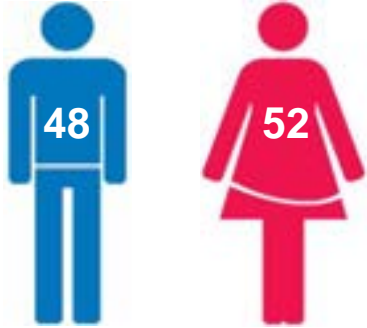
Scotland: **n=64 (7%)**

Northern Ireland: **n=18 (2%)**

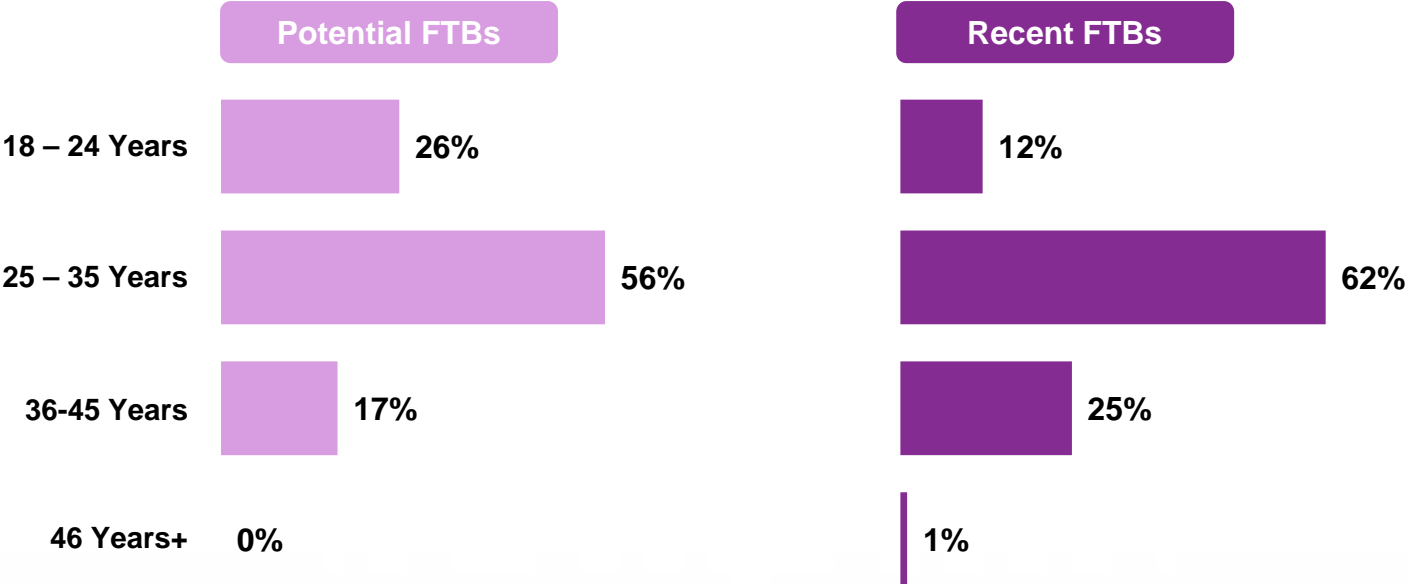
*Note figures in brackets are weighted percentages

Age and Gender

Gender (%)



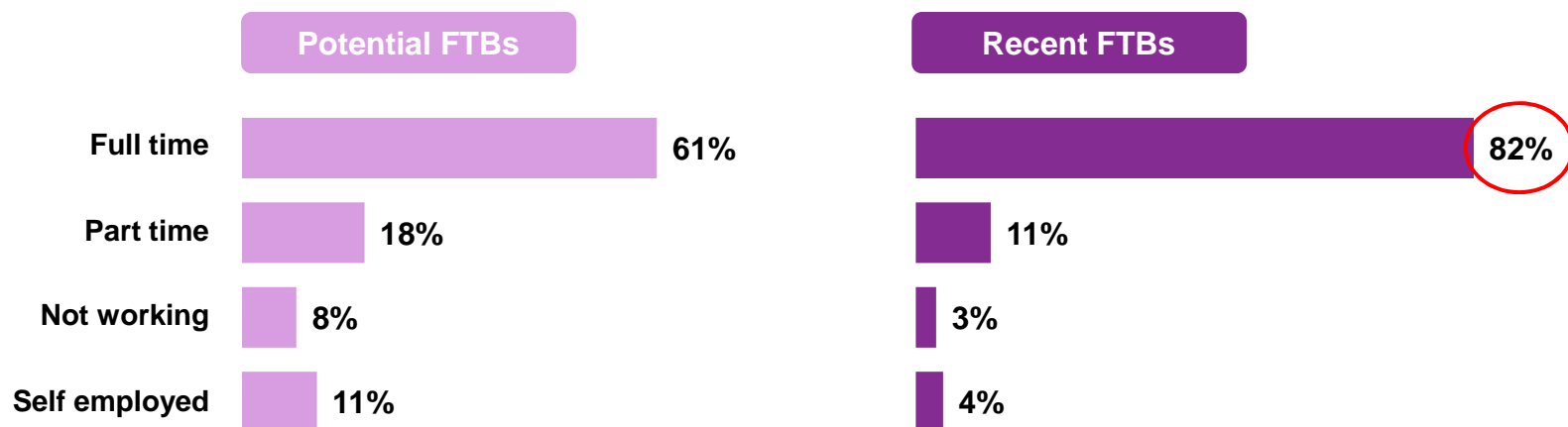
Age (%)



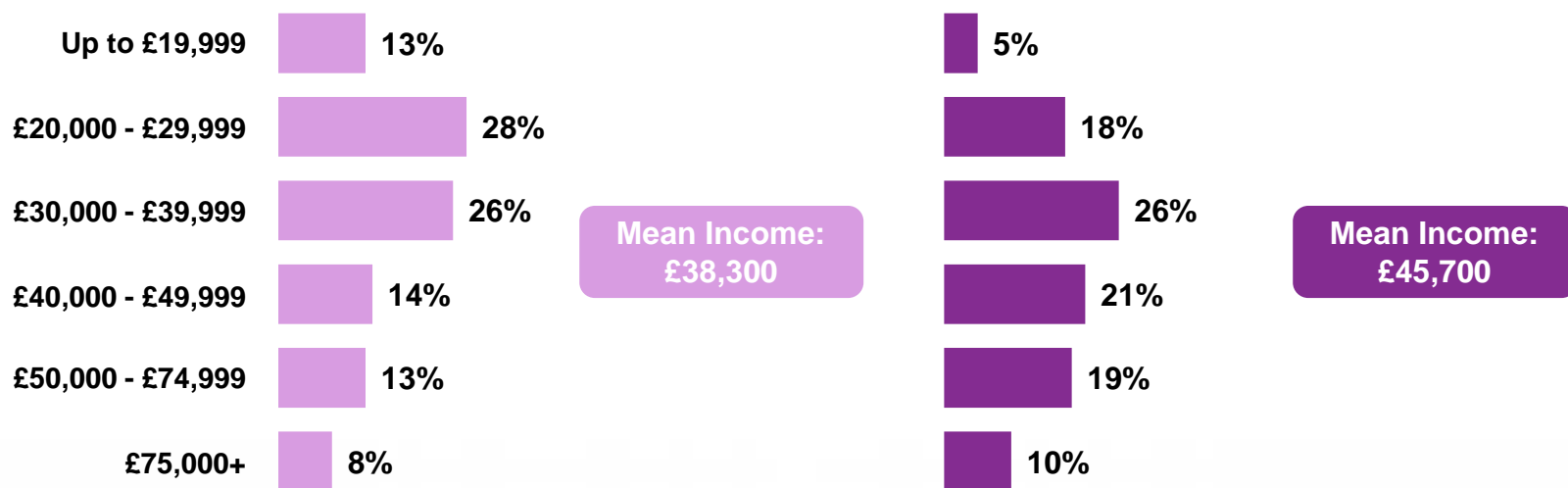
Q3a / Q3b
Base: All (n=1,229)

Recent FTBs are more likely to be working full time and have a higher annual household income than those looking to buy in the near future

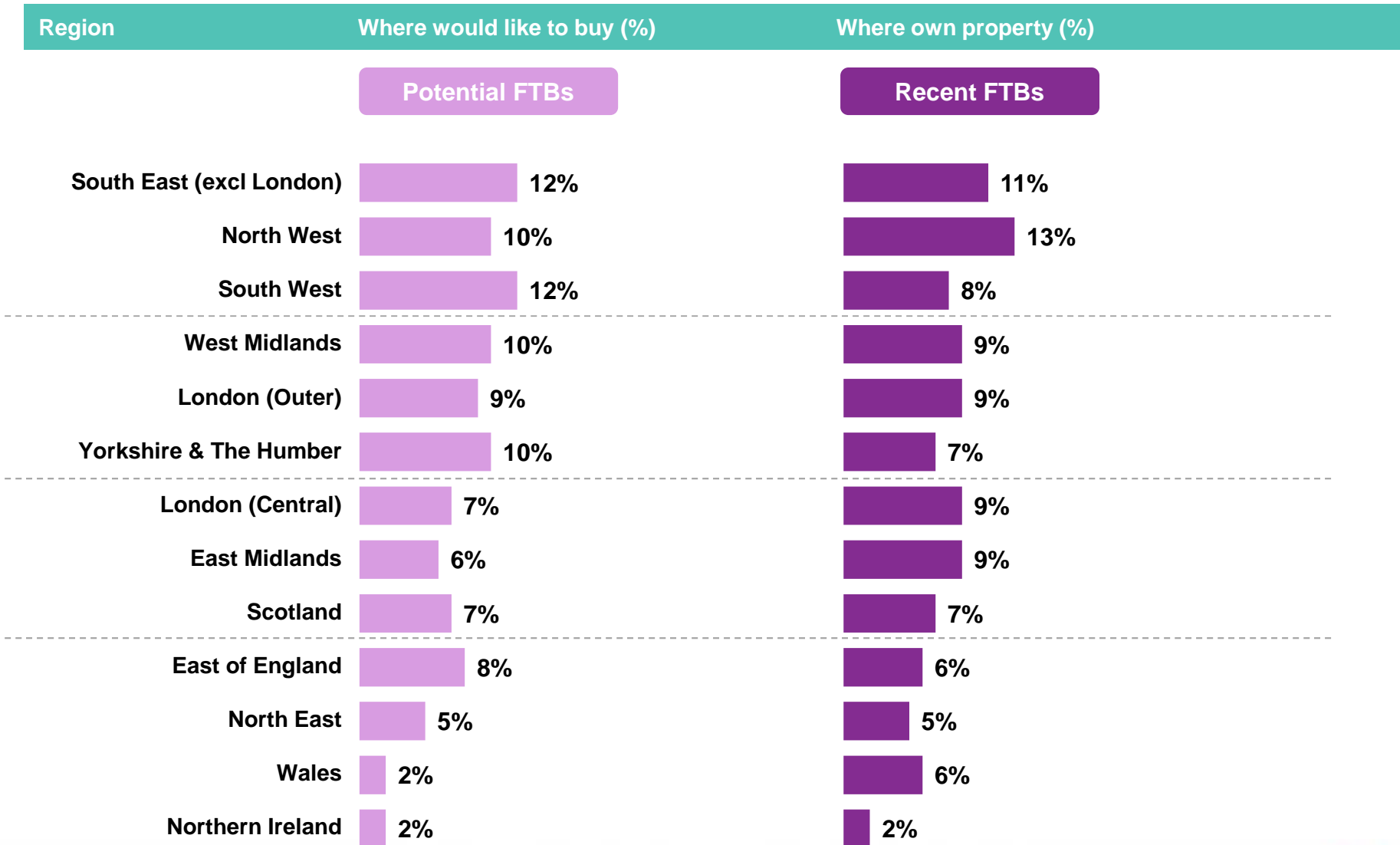
Employment Status (%)



Annual Household Income (%)



Regional Distribution

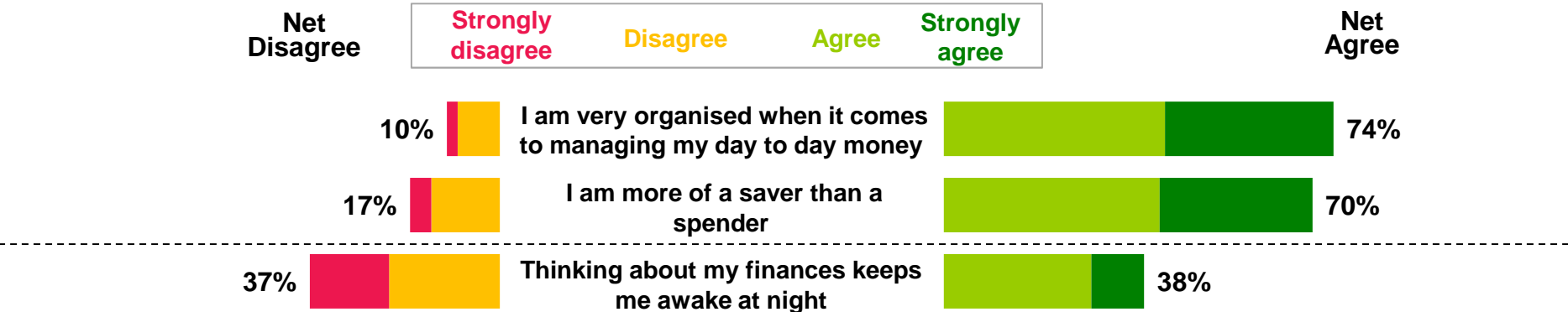


Q3f / Q3e
Base: All (n=1,229)

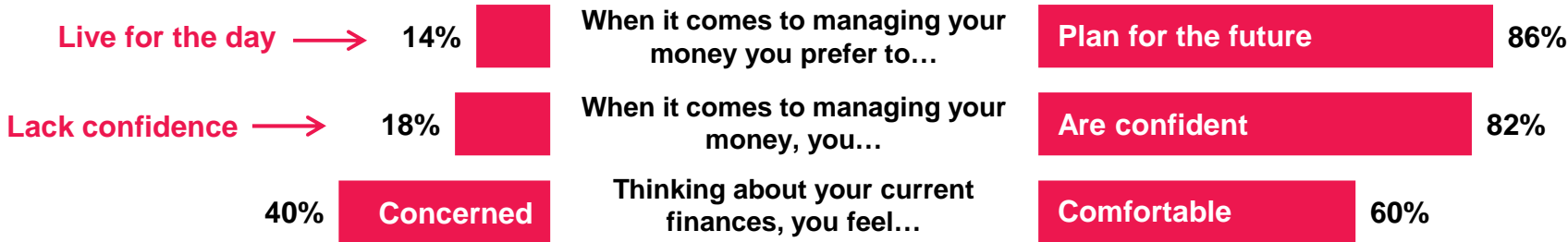
*Rank ordered on total base

The majority of both recent FTBs and potential FTBs describe themselves as financially organised, confident and as planning for the future

Q3h. How much do you agree or disagree with the following statements?



Q3i. And for each of these three issues, which answer best describes how you feel?



Potential and recent FTBs are more likely to describe themselves as financially responsible than representative samples of the general UK population, perhaps as a result of the scale of the financial commitment attached to buying a property. Similar response across all statements for both potential and recent FTBS.

Context

Profile Summary

Potential FTBs

% working full time: **61%**

Mean household income: **£38,300**

Expected mean mortgage amount: **£133,300**

Expected LTV: **80%**

% joint mortgage: **60%**

Preferred mortgage type – Fixed rate: **44%**

Willing to financially stretch themselves: **82%**

Recent FTBs

% working full time: **82%**

Mean household income: **£45,700**

Actual mean mortgage amount: **£140,800**

Actual LTV: **72%**

% joint mortgage: **56%**

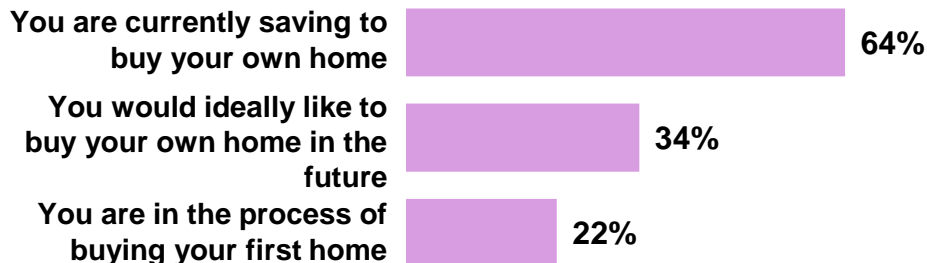
Mortgage type – Fixed rate: **68%**

Felt financially stretched themselves: **74%**

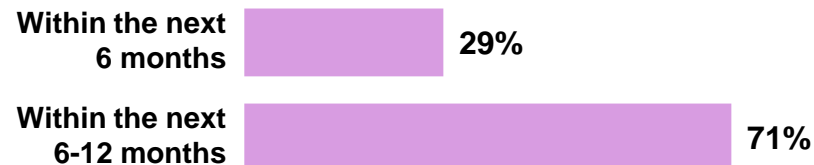
The majority of potential FTBs are either actively saving for, or in the process of buying, their first property

Potential FTBs

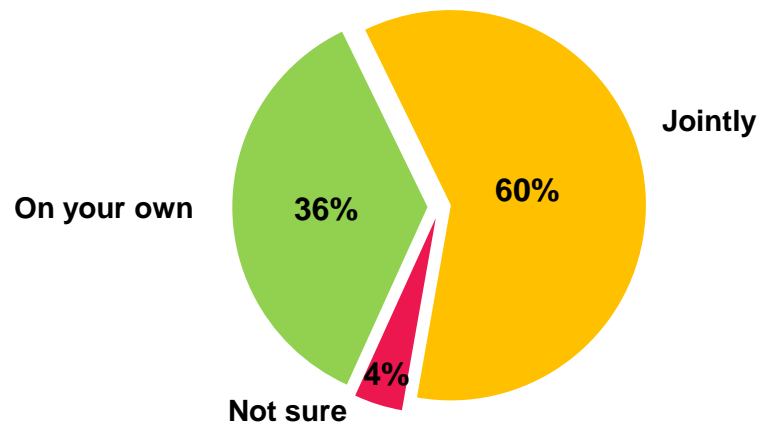
Q2a. Which of the following, if any, apply to you?



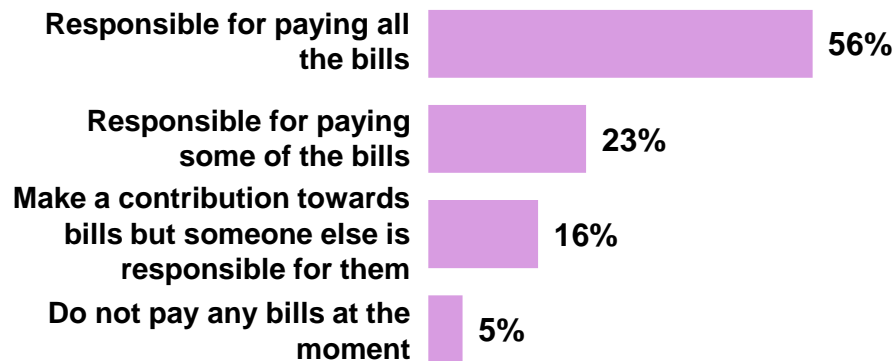
Q2b. When do you intend to purchase this property?



Q2c. And are you planning to buy this property on your own or jointly with other people?



Q2f. Do you have any responsibility for paying bills relating to the property where you currently live?



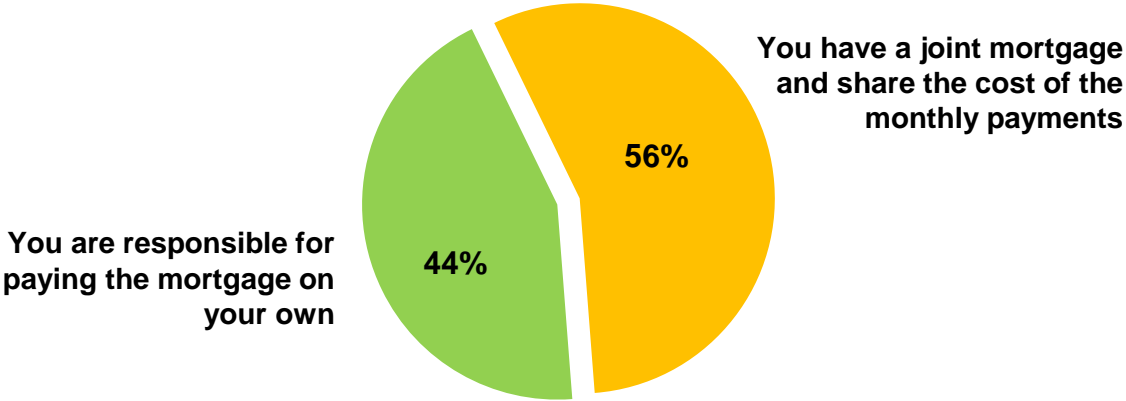
73% of potential FTBs are currently in rented accommodation, while 27% are living with parents or family. Overall, 1 in 5 potential FTBs do not have responsibility for paying the bills where they currently live, with those living with family less likely to have responsibility.

There is a roughly even split between those with a joint and sole mortgage

Q1c. When did you purchase this property?



Q1d. Which of the following applies to you?



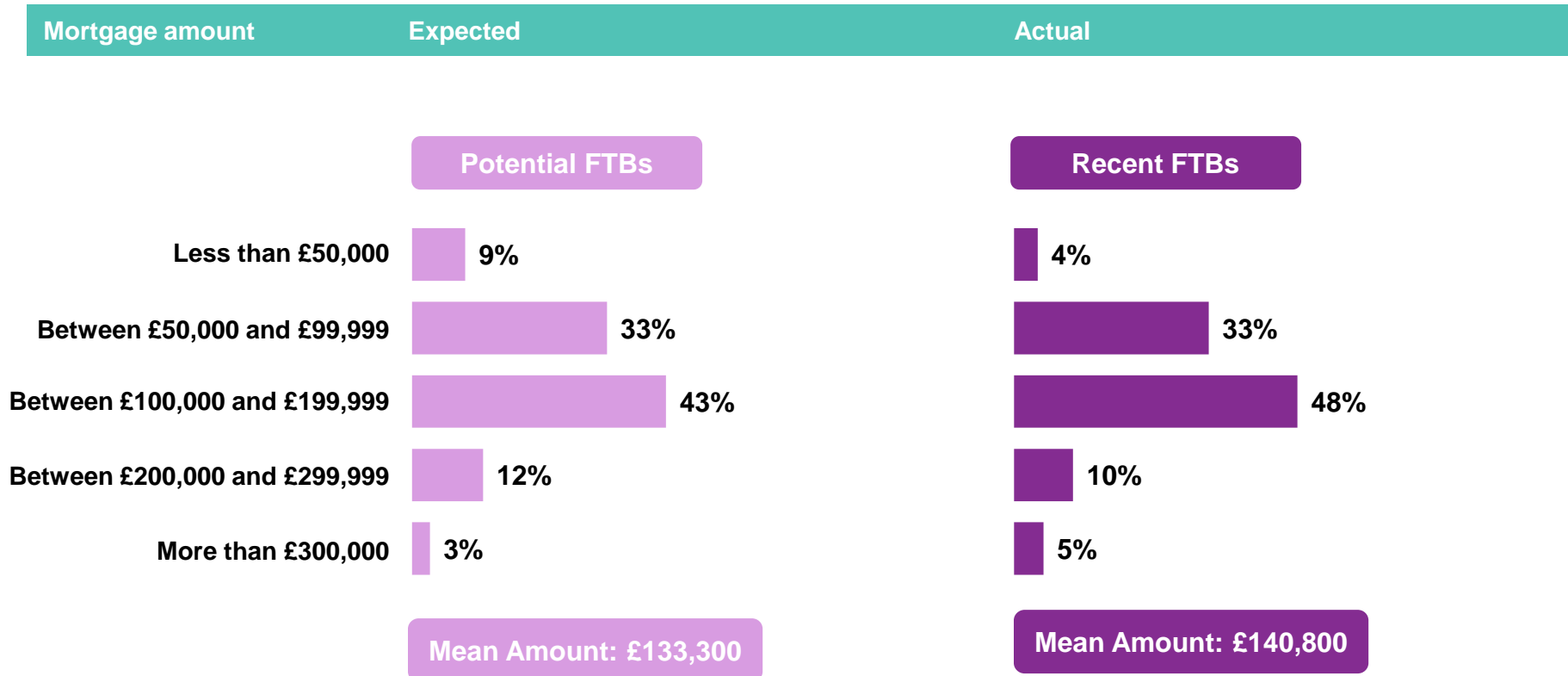
Recent FTBs who are solely responsible for the mortgage repayments are more likely to have an LTV of under 80%.

Q1c / Q1d
Base: All Recent FTBs (n=974)

Mortgage Details

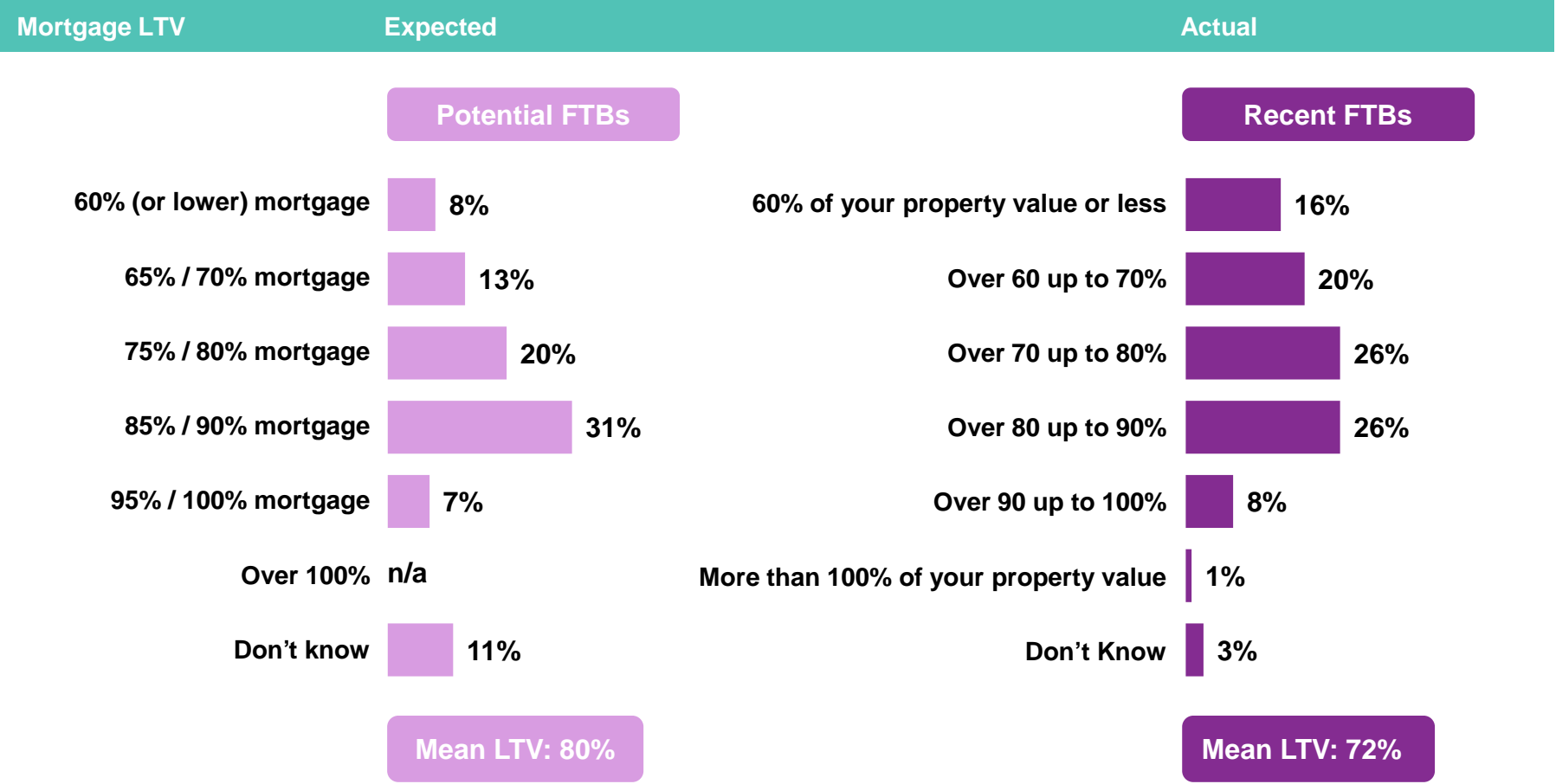


Recent FTBs borrowed an average of £7,000 more than potential FTBs expect to need



Those who bought their first property in the last 12 months required an average loan amount £15,000 higher than those who bought 12 – 24 months ago (£148,300 vs, £133,300). Similarly those looking to buy in the next 6 months, believe they will require around £12,000 less than those planning to buy in 6 – 12 months time (£124,200 vs. £136,600).

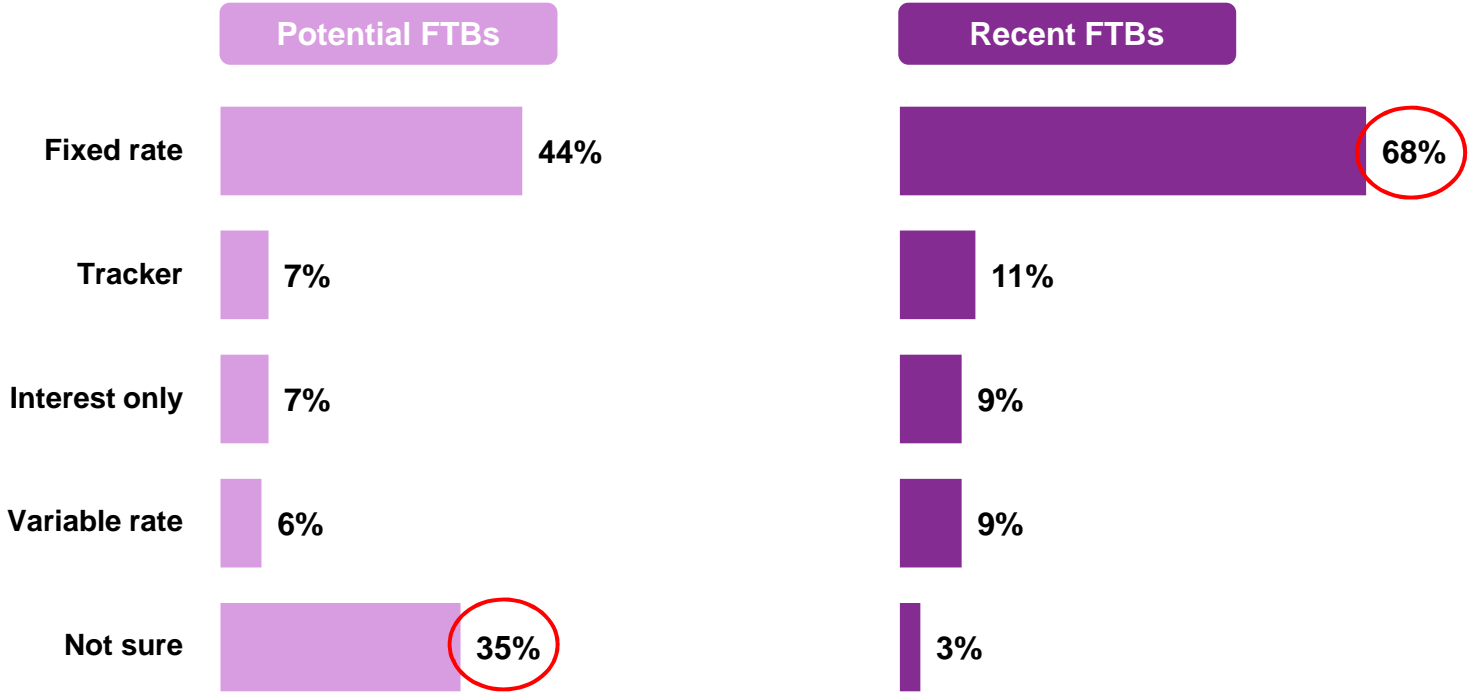
The LTV at the point of purchase for recent FTBs is lower than potential FTBs are expecting to need



Potential FTBs are looking to take a lower mortgage amount, but are expecting to need a higher LTV on the mortgage than recent FTBs. Amongst recent FTBs, those borrowing a smaller amount have a lower LTV, with those borrowing under £100,000 typically having a LTV of 66%, compared to an average LTV of 75% amongst those borrowing over £100,000.

Two thirds of recent FTBs took a fixed rate mortgage, with most potential FTBs also intending to fix

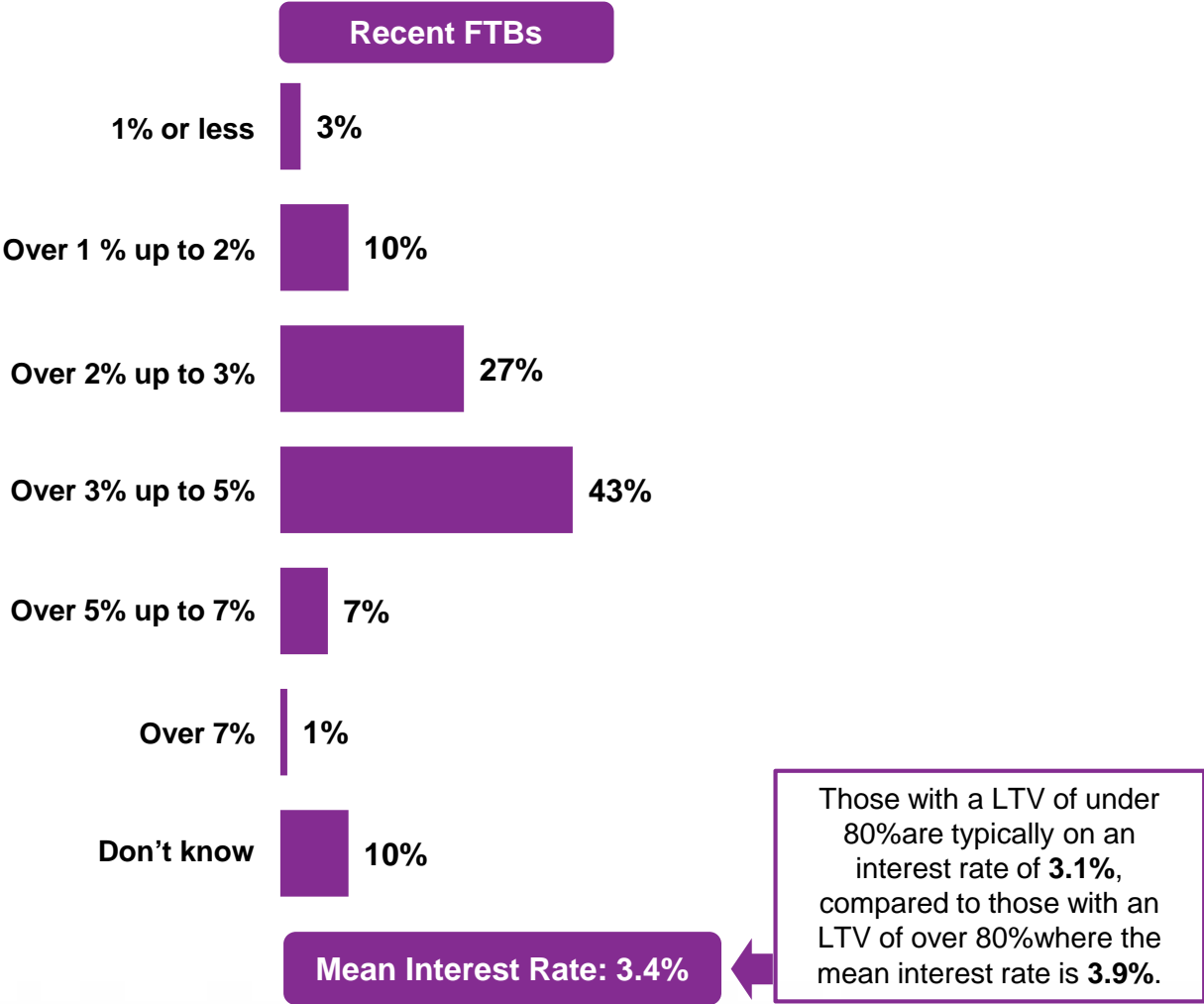
Q4d / Q5d. What type of mortgage do you have / do you think you will take?



Recent FTBs who have a LTV of 80%+ are more likely to be on a fixed rate mortgage (78%). Perhaps unsurprisingly, potential FTBs who fall into the MAS 'uncontrolled and disorganised' segment are less likely to know what type of mortgage they are likely to take, as are those not intending to purchase in the next 6 months.

On average, recent FTBs are paying interest at a rate of 3.4%

Q4e. As far as you know, what rate of interest are you currently paying on your mortgage?



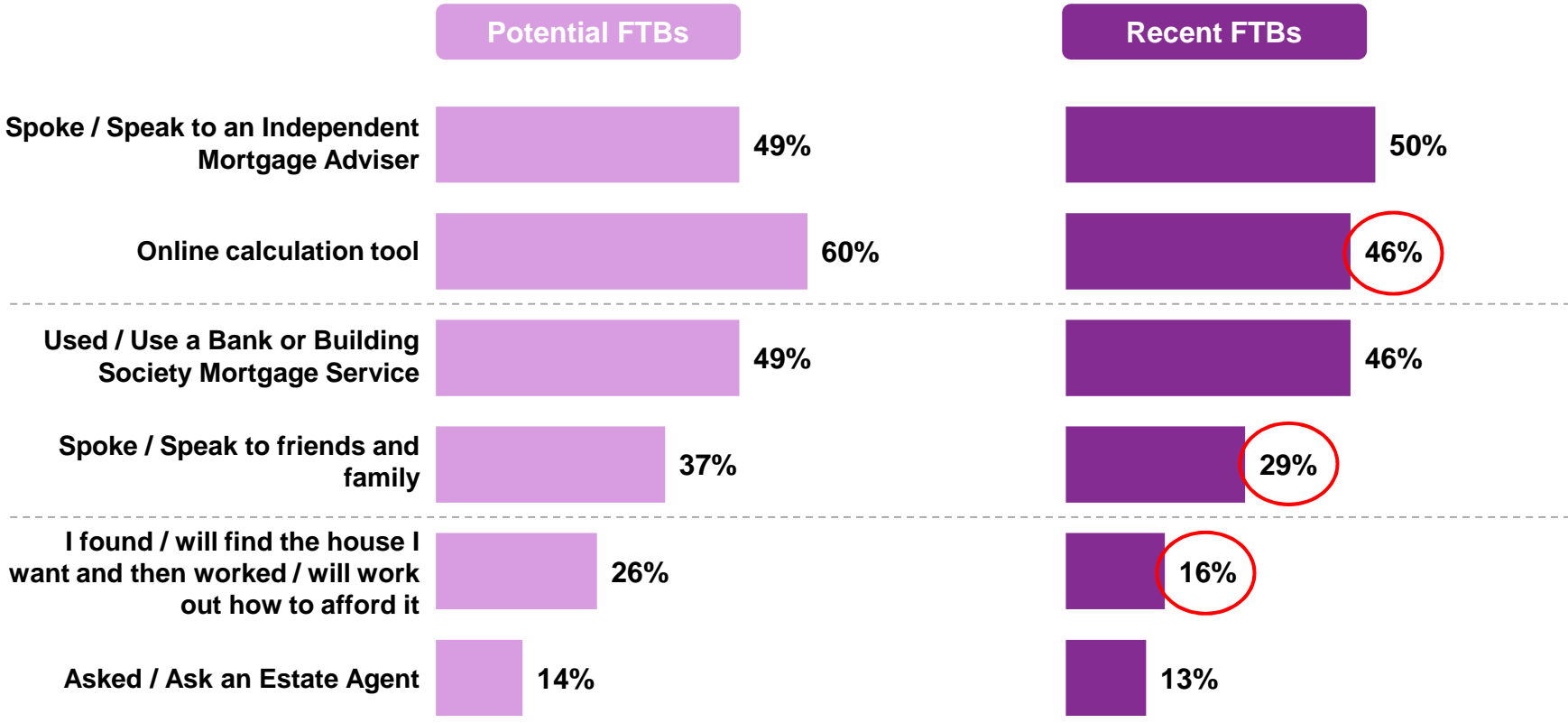
Q4e
Base: All Recent FTBs (n=974)

The Buying Process



Potential FTBs are more likely to cite multiple methods for finding out how much they can borrow

Q4. How did you / how will you work out how much you could afford to borrow as a mortgage?

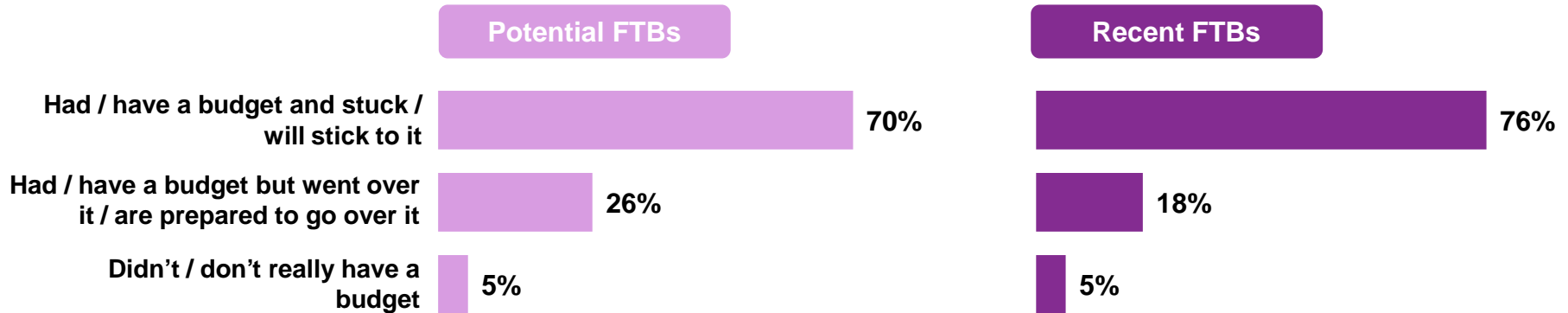


However, in reality, most recent FTB primarily rely on independent mortgage advisers, bank or building society services or online calculation tools. Those in the MAS segment ‘uncontrolled and disorganised’ are less likely to have used multiple sources to find out how much they could borrow.

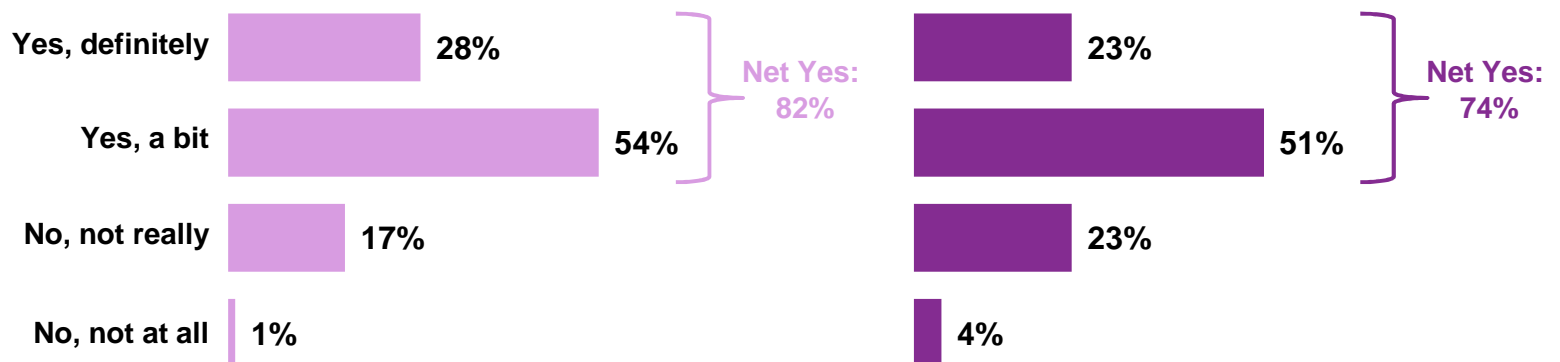
Q4
Base: All Potential FTBs (n=255); All Recent FTBs (n=974)

Most plan to and do stick to their intended budget, although two thirds of recent FTBs felt they stretched themselves financially to some extent

Q4a / Q5a. Which of these best describes what happened when you bought your property / how you are planning to look for a property to buy?



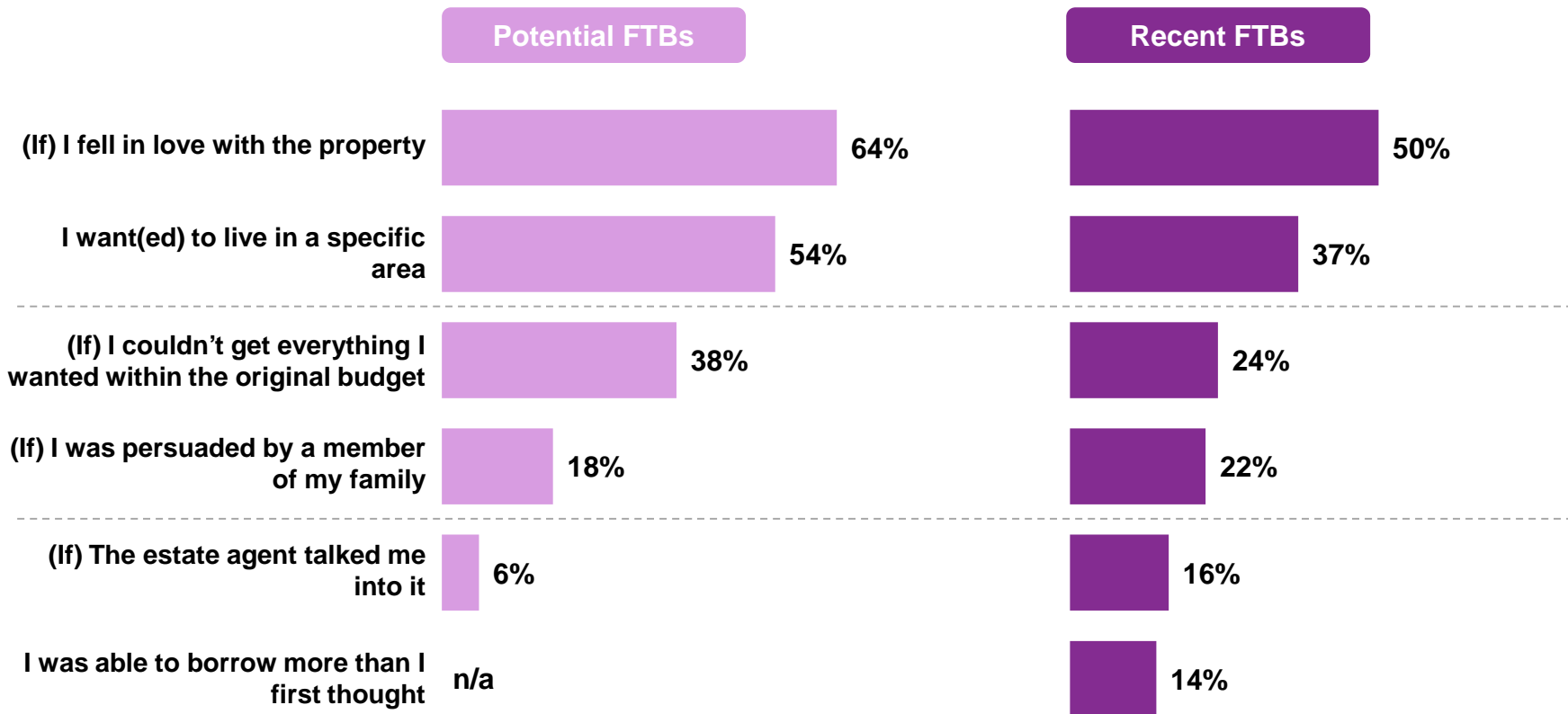
Q4c / Q5c. At the time, did it feel like you were stretching yourself financially to buy your property / are you prepared to stretch yourself financially to buy the property you want?



As would be expected, the extent to which FTBs felt financially stretched is closely linked to the mortgage amount taken, although surprisingly there is no difference between those with a LTV of over or under 80%.

Of those exceeding their budget, most did, or would do so, because they fell in love with a property

Q4b / Q5b. And why did you go over your original budget / what might cause you to go over your original budget?



Potential FTBs give a number of reasons for why they might go over their original budget, ultimately though it tends to be falling in love with a property that results in buyers exceeding their budget.

Q4b / Q5b

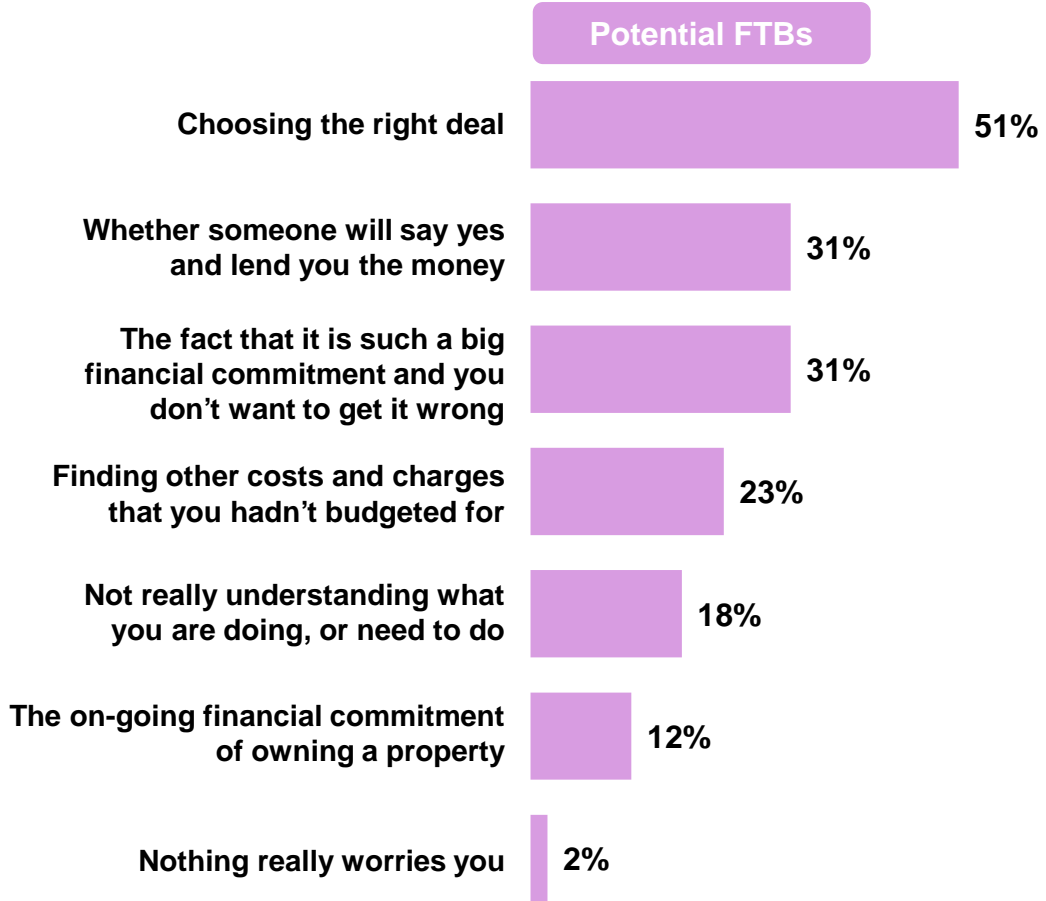
Base: All Potential FTBs (n=255); All Recent FTBs who went over original budget (n=181)

Affording the Mortgage & Associated Costs



The main concern for potential FTBs is choosing the right mortgage deal

Q5e. What, if anything, concerns you about applying for a mortgage?

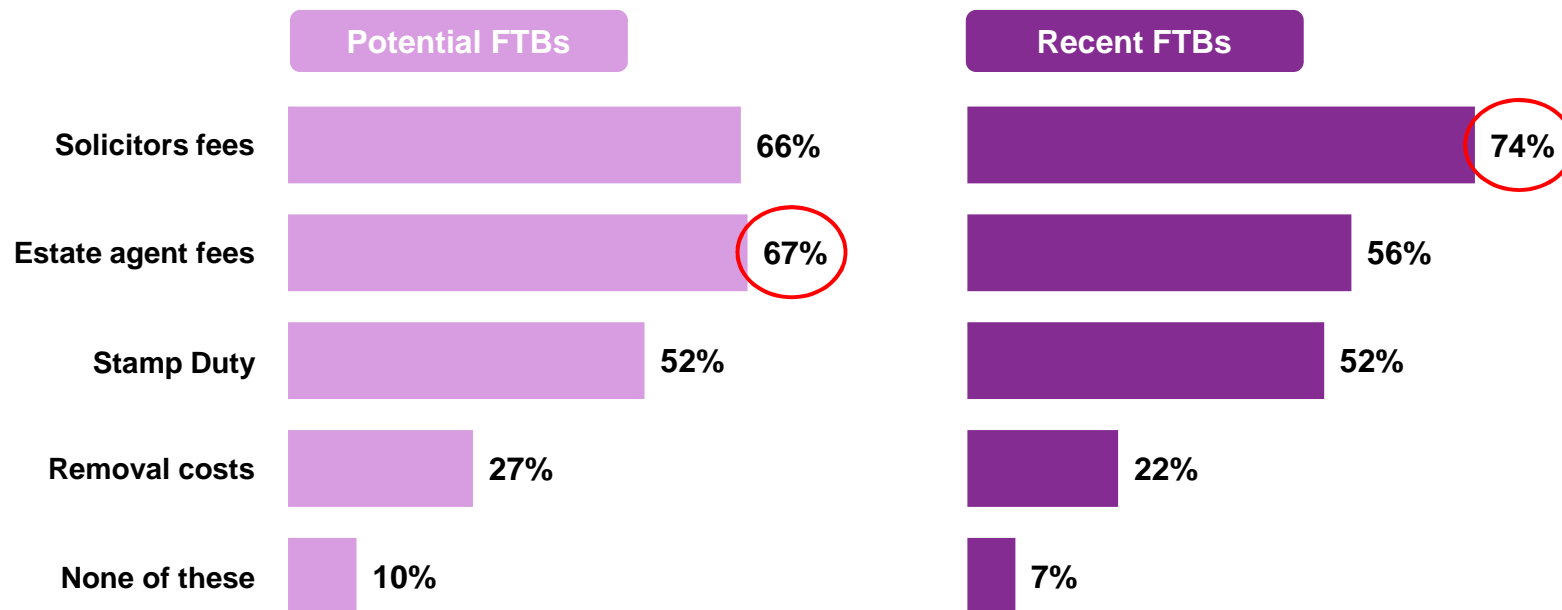


Choosing the right deal is a particularly big concern for those looking to borrow a higher amount, whilst whether someone will lend the money is more worrying to those expecting to need an LTV of over 80%.

Q5e
Base: All potential FTBs (n=255)

Most have considered at least one additional cost, with recent FTBs being more likely to have included solicitors fees in their budget

Q6. Which of the following additional costs did you also include in your budgeting and planning? / Which of the following costs associated with buying a property have you also thought about?



Half of recent FTBs and potential FTBs had considered stamp duty. This is not payable on all properties however, and those with a mortgage/potential mortgage of less than £100,000 were half as likely to have considered stamp duty (33%) as those with a larger mortgage (64%).

Over half of recent FTBs found that the costs associated with purchasing a property were higher than they expected, on average by almost £1,300

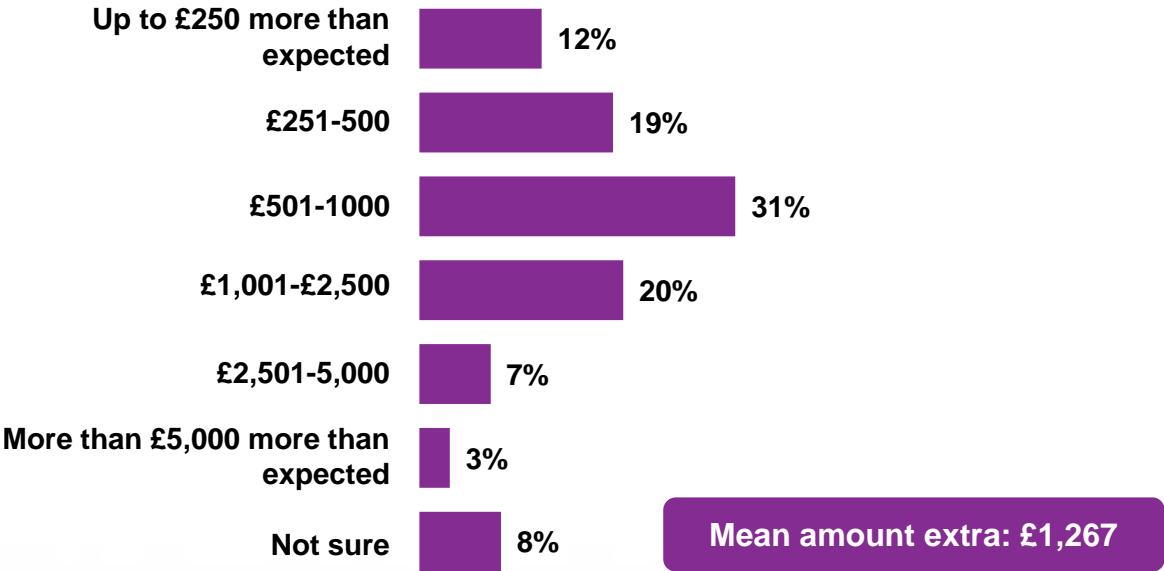
Recent FTBs

Q6a. Did you budget enough for these additional costs or were they higher than you thought?

A lot higher than expected
 A bit higher than expected
 About what was expected
 Less than expected



Q6b. How much extra were these costs?

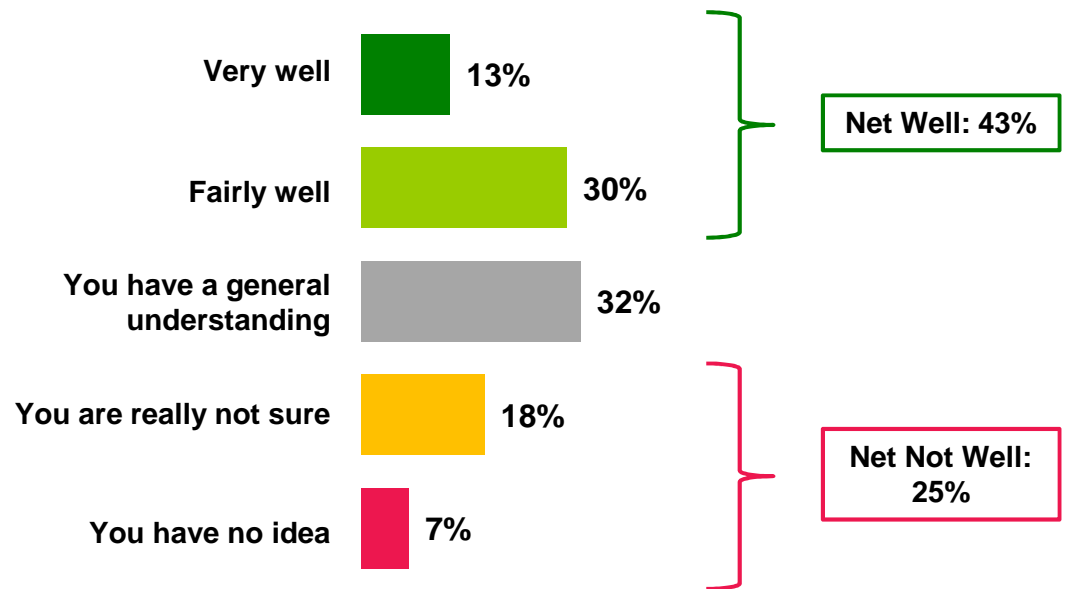


Q6a / Q6b
 Base: All Recent FTBs who considered additional costs (n=902) / All Recent FTBs who had to pay additional costs that were higher than expected (n=570)

A quarter of potential FTBs do not think they have a good understanding of the costs associated with buying a property

Potential FTBs

Q6c. How well do you think you understand how much these additional costs are likely to be when you buy a property?

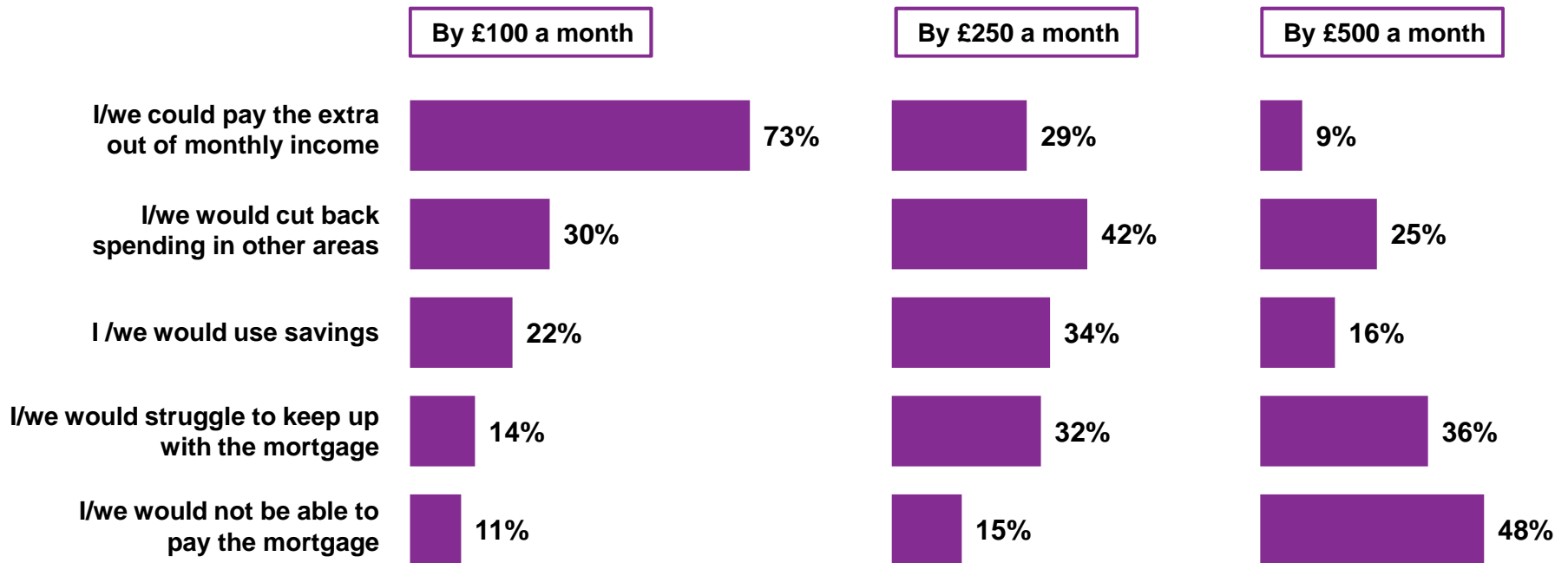


Reassuringly, those intending to purchase in the next 6 months are more likely to claim that they understand the costs associated with purchasing a property 'well' (62%), while just 16% of imminent purchasers say they do not really understand how much the additional costs are likely to be.

Most recent FTBs could cover an increase of £100 on their monthly mortgage costs, however, an increase of £500 would mean half could not afford their mortgage repayments

Recent FTBs

Q7. If your monthly mortgage repayment was to increase by any of the following amounts, what impact would it have on you?



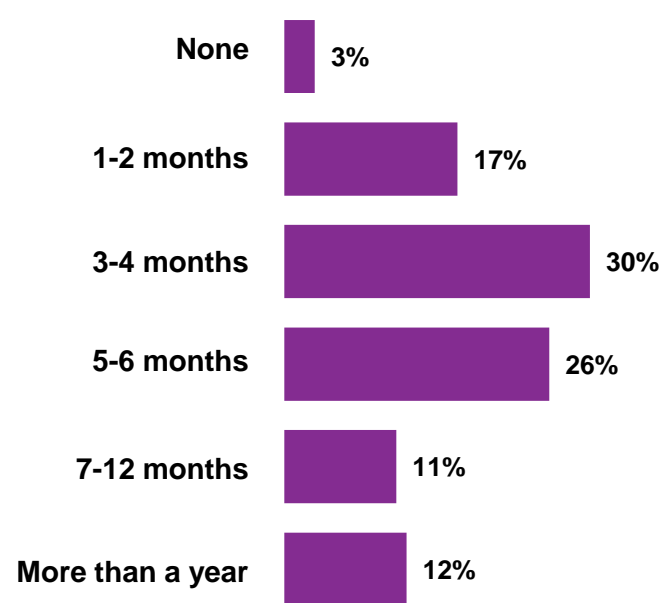
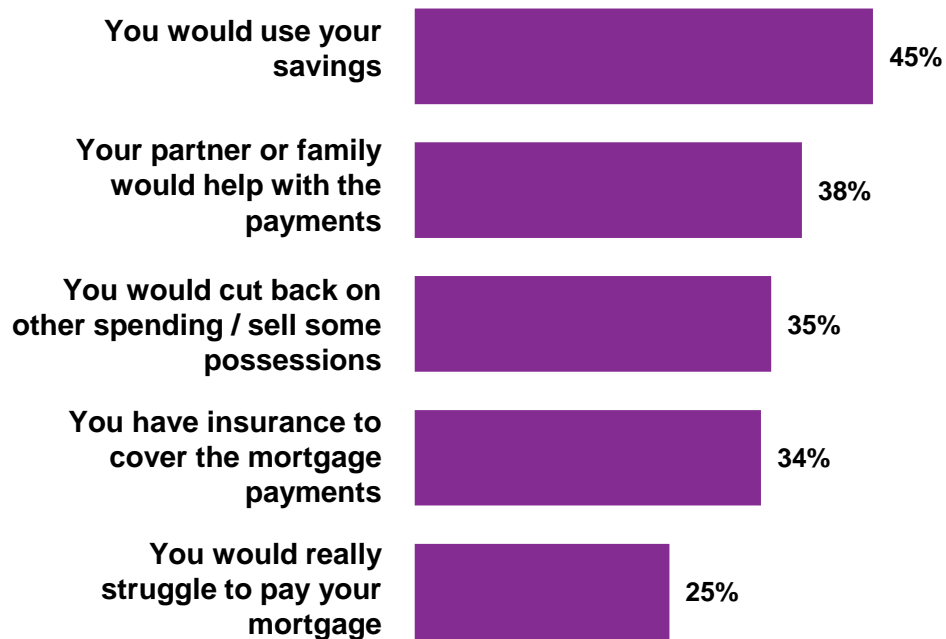
A larger mortgage will typically mean a larger monthly repayment currently. Interestingly while those with a larger mortgage were more likely to say they could pay an extra £100 a month out of income, for larger increases the proportion did not vary much by current mortgage size, and nor did the proportion who said they would not be able to pay the mortgage, suggesting that all respondents would be stretched.

Recent FTBs could cover their mortgage repayments for just under 6 months if the main breadwinner was made redundant; primarily using savings

Recent FTBs

Q8. What would happen in the short term to your mortgage repayments if the main breadwinner was made redundant?

Q9. How many months do you think you could continue to meet the mortgage payments for if the main breadwinner wasn't working?



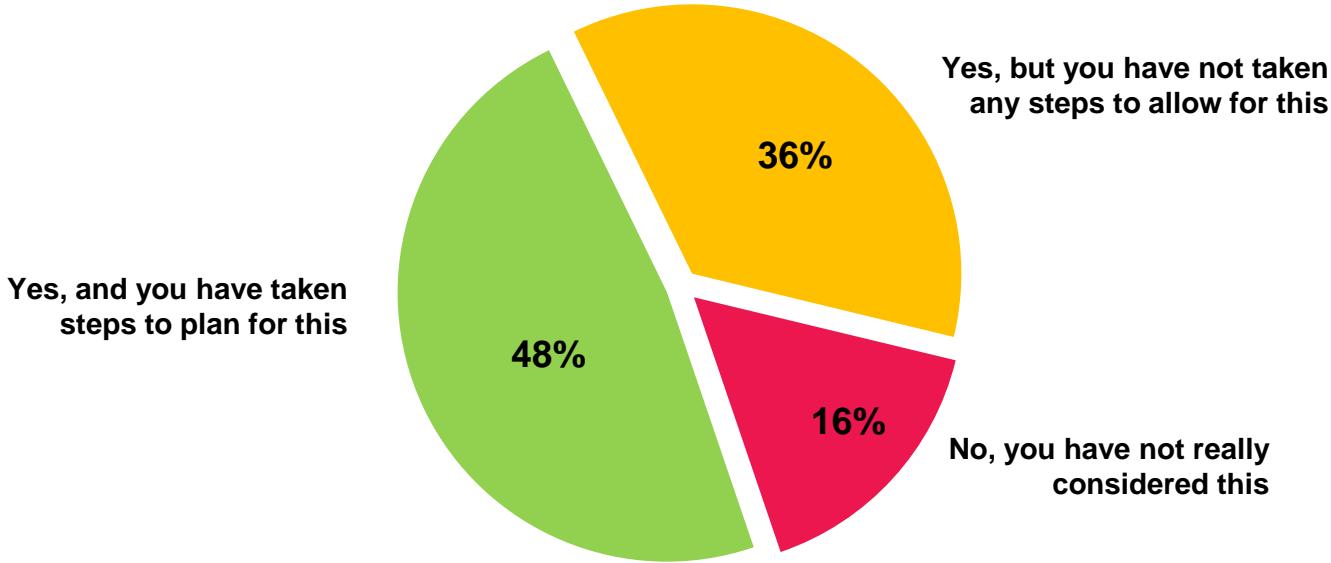
Mean number of months: 5.6

Those who felt they stretched themselves financially would only expect to be able to meet the mortgage repayments for around 5 months should the main breadwinner be made redundant, compared to 7 months for those who did not feel they stretched themselves.

Two thirds of potential FTBs have thought about what would happen in the event of an interest rate rise or redundancy, but only half have a contingency plan in place

Potential FTBs

Q9a. In planning your new mortgage have you thought about what would happen if interest rates were to increase, or you/the main breadwinner were to lose their job?

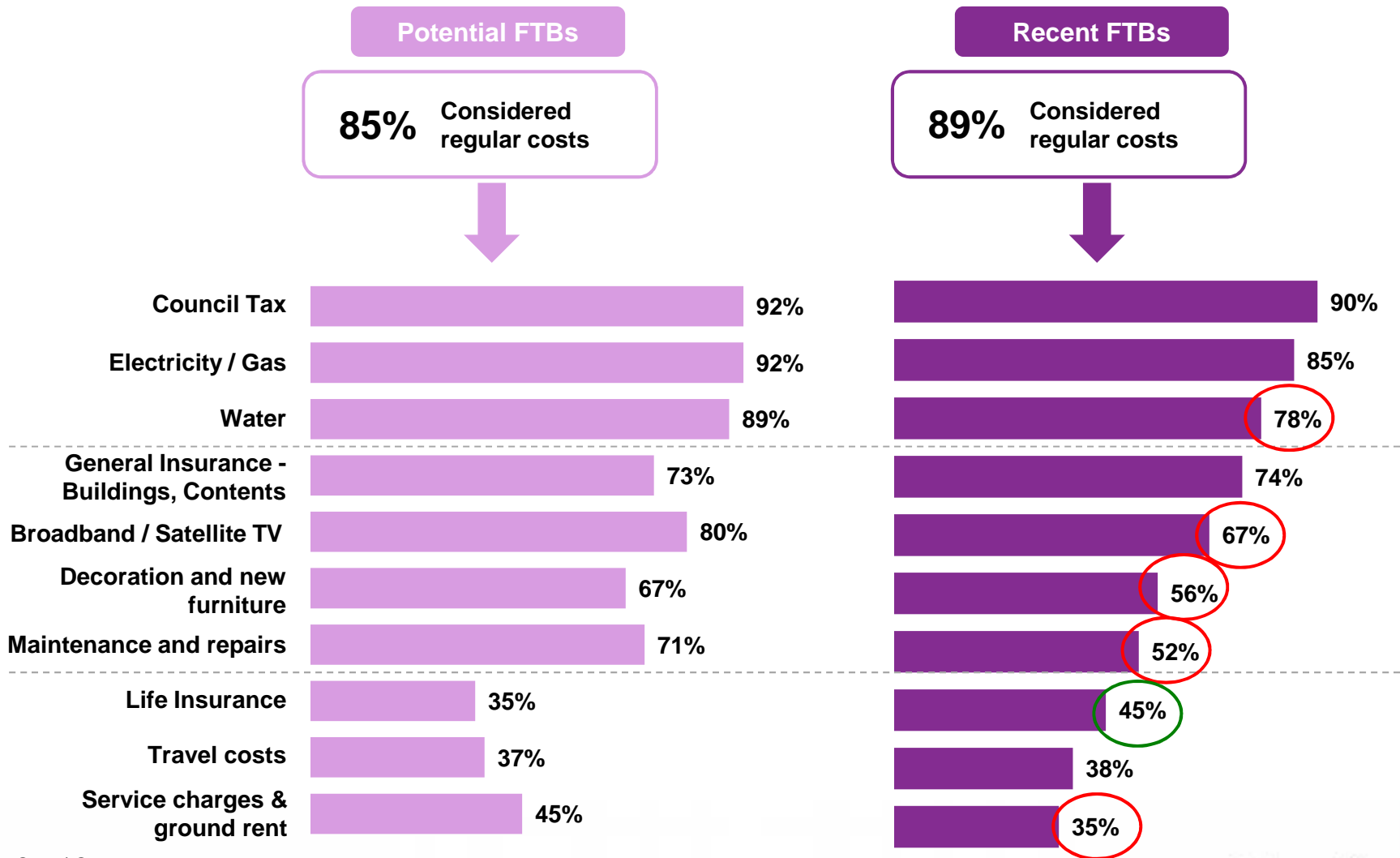


Somewhat concerningly, those wanting a higher LTV are more likely to say they have not really considered the impact an interest rate rise or the main breadwinner being made redundant would have on their ability to repay the mortgage.

Q9a
Base: All potential FTBs (n=255)

The majority have, or did, consider the on-going costs of running a property, with an average of 6 or 7 of the costs listed being mentioned by each FTB

Q10. Did you / have you considered what the on-going monthly costs of running the property might be?
 Q11. Did you consider / Have you considered the following costs?

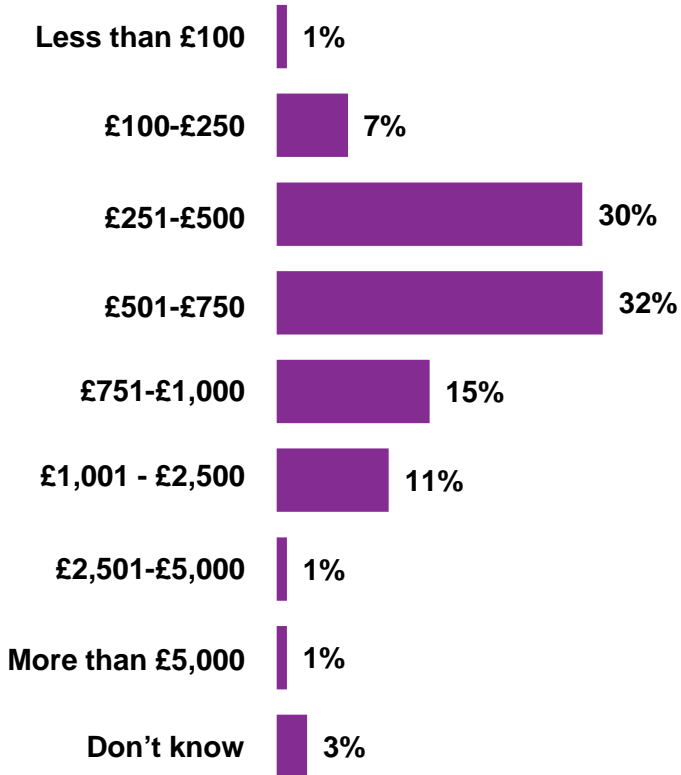


Q10 / Q11
 Base: All (n=1,229) / All considering costs (n=1,081)

Recent FTBs are typically paying £749 a month for their mortgage and £467 for bills

Recent FTBs

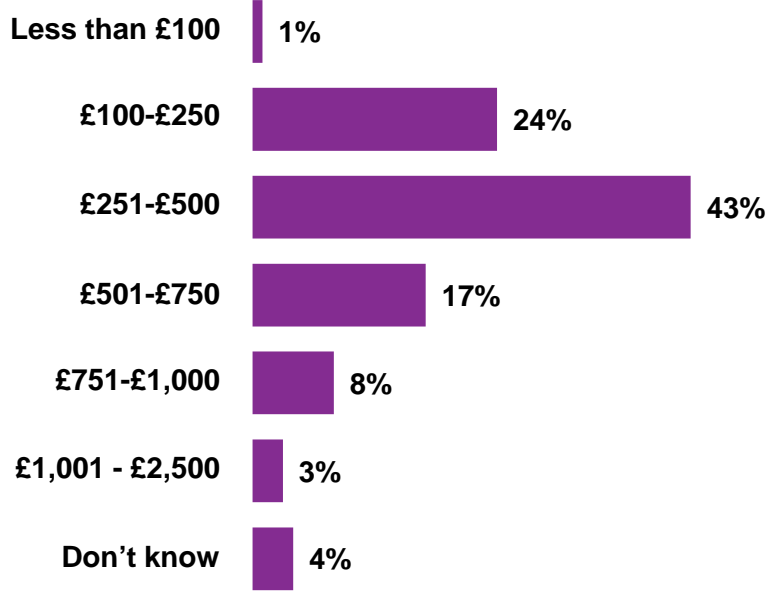
Monthly mortgage payment (%)



Mean monthly mortgage payment: £749

The monthly mortgage repayment for those with a LTV of under 80% is **£665** on average, compared to **£733** for those with an LTV of over 80%.

Monthly bills (%)



Mean monthly bills amount: £467

Half of recent FTBs found the cost of the day to day bills and maintenance to be higher than expected, with 1 in 5 of these finding it caused them a problem financially

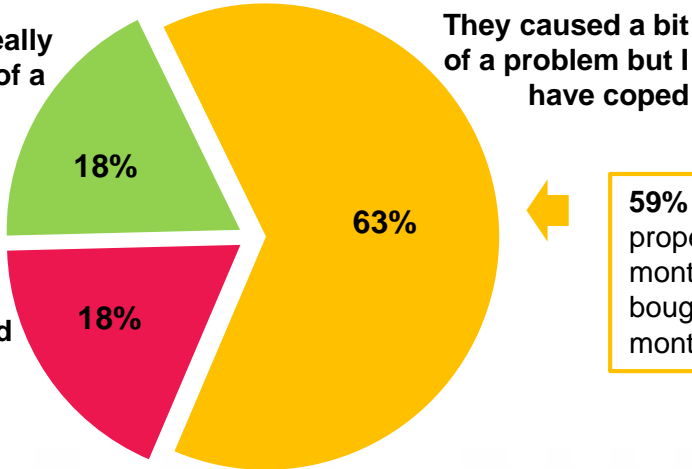
Recent FTBs

Q13. Have the day to day bills and maintenance costs been about what you thought they would be when you bought the property?

A lot more than expected A bit more than expected About the same A bit less than expected A lot less than expected



Q13a. And have these extra costs caused you financial difficulties or have you been able to afford them?



This is the equivalent of **9% of all FTBs struggling financially** due to higher day to day costs than they expected.

59% of those who bought the property within the last 12 months vs 67% of those who bought between 12 to 24 months ago.

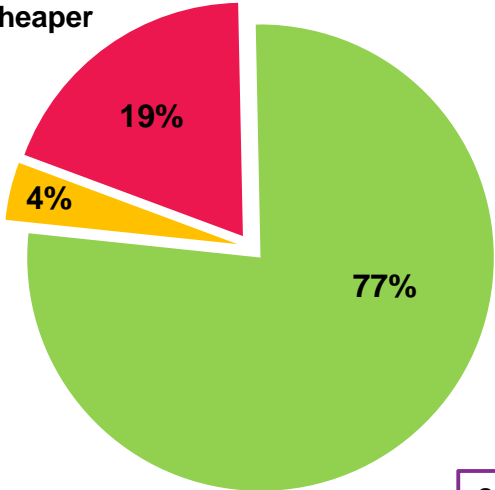
Whilst most would still have bought the same house, 1 in 5 recent FTBs would have bought a cheaper property if they could have their time again

Q15. If you had your time again, would you buy the same property, or would you choose somewhere cheaper, or indeed something that cost more?

16% of those who bought the property within the last 12 months vs. 23% of those who bought between 12 to 24 months ago

Would have chosen somewhere cheaper

Would have chosen somewhere that cost more



Would still buy the same property

81% of those who bought the property within the last 12 months vs. 73% of those who bought between 12 to 24 months ago

High agreement that FTBs should be told more up-front about the costs associated with buying a property, particularly amongst potential FTBs

Q16. How much would you agree or disagree with these statements about being a first time buyer?



Overall agreement is higher amongst Potential FTBs – (87% vs 80%). This is particularly notable with regard to the proportion of those who strongly agree (60% of Potential FTBs vs 47% of Recent FTBs)

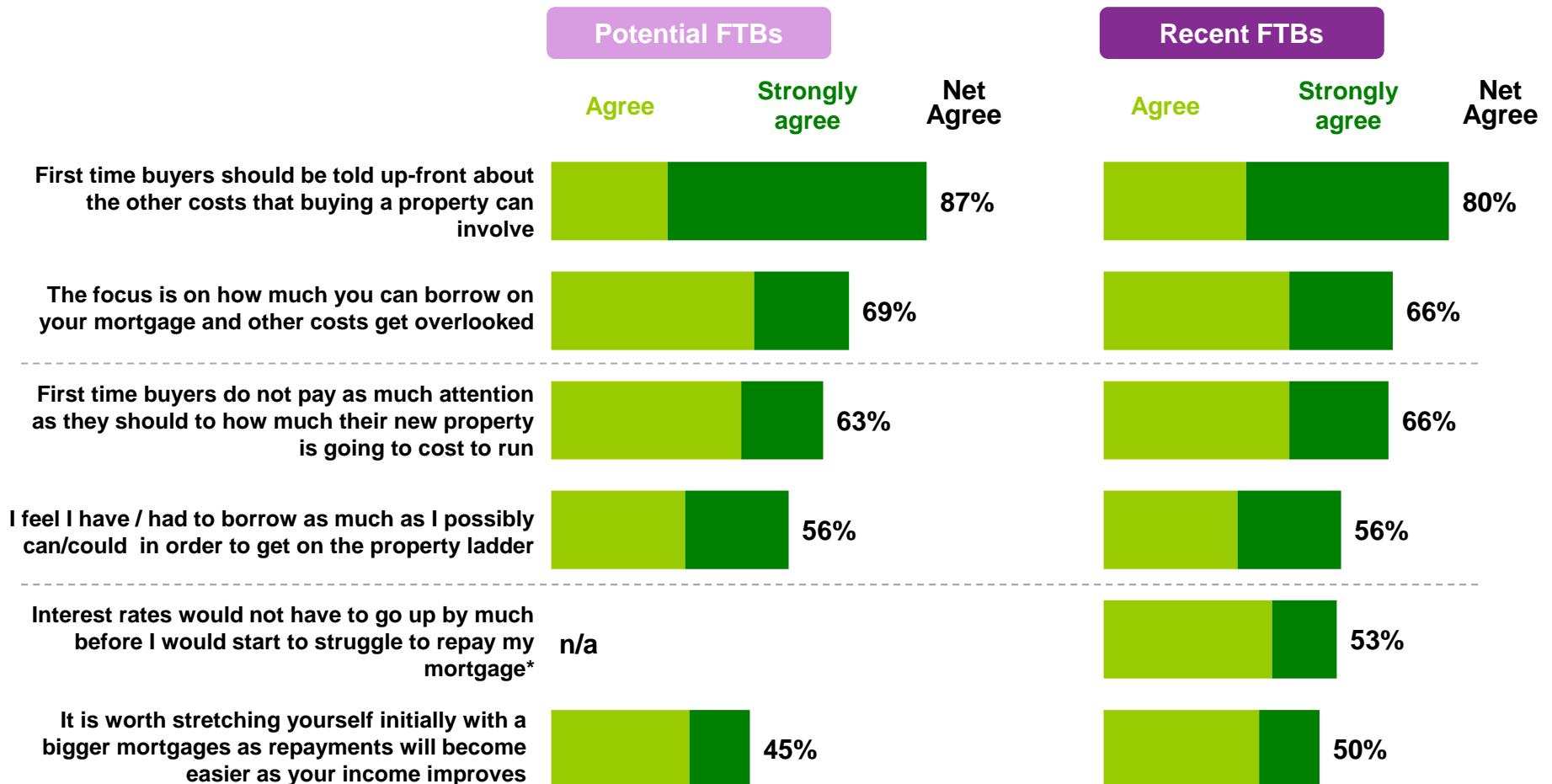
No significant difference between Recent FTBs and Potential FTBs for statements, with the exception of 'First time buyers should be told up-front about the other costs that buying a property can involve'.

Q16
Base: All (n=1,229)

* This was only asked to Recent FTBs

Little difference in level or strength of agreement with statements between potential and recent FTBs

Q16. How much would you agree or disagree with these statements about being a first time buyer?



* This was only asked to Recent FTBs

Q16

Base: All Potential FTBs (n=255); All Recent FTBs who went over original budget (n=181)

A third of recent FTBs wished they'd budgeted for something else that they hadn't originally considered

Q14. With hindsight, was there anything you wished you had thought about or budgeted for in terms of these day to day costs?

With hindsight **34%** of recent FTBs wished they'd budgeted for something else

Energy costs are a lot higher in our new home and I hadn't planned for that.

I wish we had budgeted more for **repairs**.

Joining a scheme like British Gas home care. I also wish I had budgeted more for **improvements to the houses energy efficiency**.

I wish I had known that the first month of bills might be a bit more than estimated. **When you are setting up new direct debits the first payment is usually more.**

House and Content insurance is slightly more expensive than expected. We pay in lump sum to avoid extra monthly costs.

The **estate agent costs**, definitely!

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

Saved a bit longer before buying.

Should have thought about the **shifting costs in energy**, especially between seasons.

Additional **moving costs**, and the cost of keeping a bigger home.

We wish we had **put aside more money as a 'rainy day fund'**, as an emergency fund.

Q14
Base: All Recent FTBs (n=974)

Conclusions

Conclusions

Overall, there are fewer differences than were perhaps expected between potential FTBs and those who have recently gone through the process of buying their first property, most likely due to the scale of the commitment associated with purchasing a house.

That said, while the majority have considered many of the costs associated with purchasing and maintaining a property, it is evident that there is an element of underestimation in terms of both the number and value of these costs.

Despite 93% of recent FTBs having considered additional costs related to purchasing a house, over half (55%) found them to be more than they expected, on average by £1,300. In addition, despite 6 or 7 on-going costs associated with running a property being considered by recent FTBs, half have found the day to day bills and maintenance costs to be higher than the expected, with 1 in 5 of these stating that it has caused them a problem financially.

These unanticipated costs may be particularly problematic when considering the extent to which FTBs claim they have, or would be willing to, stretch themselves financially. 82% of potential FTBs claim they would stretch themselves financially, with three quarters of recent FTBs having done so. Taking this into consideration, it is somewhat worrying that only half of recent FTBs have a plan in place to deal with an unexpected event such as the main breadwinner being made redundant.

With this in mind, there is clear scope for MAS to develop an educational piece, directed at FTBs, to help guide them through both the purchase process and the responsibilities and costs that are part of running and maintaining a property. The next slide indicates some of the areas of focus we believe would be of particular benefit to FTBs.

Potential ways to help educate FTBs

1

Help FTBs understand the purchase pathway and the costs they are likely to incur along the way

2

Provide a check list of all on-going and maintenance costs to consider when assessing affordability and devising a budget

3

Provide advice on developing a contingency plan to deal with unexpected eventualities (such as the main breadwinner being made redundant)

4

Ensure FTBs are aware of a potential interest rate rise and highlighting the impact this may have on their mortgage repayments

5

Provide guidance on the types of mortgage available of the pros and cons of each product

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