Article for The Negotiator

Title: How first time buyers are getting a foot on the property ladder

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by Zoë Naylor, partner specialising in residential property

Direct line 01256 854623 email znaylor@phillips-law.co.uk

'Despite the recent landslide in property prices, values are still high after the ten year boom and for many first time buyers these prices are simply out of their reach, making it impossible for them to get onto the property ladder' says Zoë Naylor, partner specialising in residential property at Phillips Solicitors.

The situation has been made worse by the global credit crunch, which has resulted in credit conditions becoming much tighter, the interest rates on mortgages being hiked up for new borrowers, the near withdrawal of 100% mortgages, which are always popular amongst first time buyers, increased demands on deposit requirements, and huge mortgage arrangement fees.

So if first time buyers still cannot afford to get onto the property ladder even though house prices are falling, and they don't want to pay high rents on rental properties with private landlords, then what options are left to them?

Going on the waiting list for housing with a council or housing association is one option but they will still be no closer to getting onto the property ladder. 'A better option for some first time buyers is shared ownership,' says Zoe 'and this is a scheme that is run in conjunction with housing associations to try and increase the provision of affordable housing in the UK. It is one of the few buoyant areas of the property market at the moment. But more interesting to estate agents are the possibilities that equity loan schemes open up.'

Equity loan scheme - what's in it for estate agents?

The Open Market HomeBuy shared equity initiative allows the qualifying buyer to choose **any property on the open market** within their price range. It is available to key public sector workers, social tenants or those on a council waiting list and other priority first time buyers including first time buyers with a household income of £60,000 or less.

With shared equity, the first time buyer does not own the property in conjunction with any other party (unlike shared ownership) but takes out more than one loan for the property: a mortgage and an 'equity loan'. You are the only person on the deeds. There is no co-owner. However, when the property is sold, the 'first time buyer' has to repay the loans AND a proportion of any increase in equity of the property to the party making the 'equity loan'. Mortgage advisers can offer advice on a shared equity mortgage and which one to choose.

There are two equity loan scheme choices:

MyChoice HomeBuy enables applicants to apply for a mortgage with any lender they choose. The scheme can provide them with up to 50% of the value of the property as an equity loan. The remainder can be funded through a conventional mortgage with a Financial Services Authority regulated lender. Applicants would pay a low rate of around 1.75% per annum on the equity loan funded by one of eight housing associations who are acting as equity loan providers. When the property is sold, the equity loan provider will be entitled to a share of any increase in the value of the property. This scheme means that a household with an income of £32,000 could afford a house of £200,000, paying £760 each month – as opposed to £1,350 without the scheme. A £1500 grant is also available to help with moving in costs for selected applicants.

The good news for estate agents is that buyers can use their equity loan scheme for any house on the market – they are not tied to housing associations' stock.

The alternative scheme is called **Ownhome** and is provided by a partnership between Places for People and The Co-operative Bank. Ownhome gives people the chance to take up to 40% of the value of the property in an equity loan from Places for People.

Another option - shared ownership

When you buy a shared ownership property, you only buy a percentage stake in the property – typically from a housing association, or the government's scheme if you are a key worker. The buyer pays the shared ownership mortgage, for the percentage of the property they will own, **and** the rent payable to the housing association for the lease on the remainder.

You can increase the proportion you are buying at any time, by adding to your mortgage or paying cash. Called 'staircasing', it fits neatly into the buyer's own financial ability to own more of the property. Later, when you can afford it, you can increase your share, at current market values, until you own the whole property.

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Often the properties offered are newly built houses and apartments, with estate agents negotiating the sales for the builders. The benefit of shared ownership is that buyers will not have to take out a huge mortgage, because they will only be purchasing a certain percentage of the property, and this means that they will not be making huge repayments on a huge loan. You can also jointly apply with someone else as long as all applicants qualify.

Industry support?

Many private house builders support shared ownership as it allows them to build small units in large developments, ideal for most shared buyers, as many are single. Many estate agents also back it as they handle the sales and it encourages first-time buyers.

ZoëNaylor comments: “As property sales have slowed and price reductions have appeared across the country, agents are naturally unhappy about anything that reduces turnover and commission. But the equity loan schemes certainly provide a more affordable and effective way for first time buyers to get onto the property ladder and they can purchase on the open market – and that must be a morsel of good news for estate agents!”

You can call Zoë on 01256 854623 or visit the website at www.phillips-law.co.uk

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For more information, contact:
Pam Whittle, marketing manager, Phillips Solicitors, Town Gate, 38 London Road, Basingstoke, Hants RG21 7NY.
www.phillips-law.co.uk t. 01256 854642, f. 01256 364333 e. pwhittle@phillips-law.co.uk