



# HOW TO HELP FIRST-TIME BUYERS

MAY 2018

It is a problem faced not only in Guernsey but across the UK. Many people simply cannot afford to buy their own home. And the problem is not getting any better. There is a lack of supply of affordable housing and house prices are high – far too high for most young people to be able to afford.

It is plain to see that if there are no new buyers coming onto the property ladder, the rest of the market will stultify, which has a profound effect for the economy as a whole. A pond with no fresh water will soon become stagnant.

It is not that this problem is not recognised – the States of Guernsey commissioned KPMG to prepare a review of the Guernsey housing market in late 2016, which was published in August last year – but it is a complex issue and one without a silver bullet solution.

## Some facts and figures to start with:

According to the States' most recent Guernsey Quarterly Residential Property Prices Bulletin the mix adjusted average purchase price for Local Market properties was £423,130 in the third quarter of 2017, 1.2% higher than the previous quarter and 2.5% higher than the third quarter of 2016.

According to the most recent Population, Employment and Earnings Bulletin, median earnings as at 30th June 2017 were £31,906.

So the average house price is over 13 times the median salary, which puts the problem into perspective.

One school of thought is that any government intervention is a bad thing, and market forces should be left to self adjust. But will this work? It hasn't seemed to have done so far. And it is perhaps easy to say this when you are not one of the young families destined to be renting for the rest of their lives, never quite reaching the bottom rung of the ladder.

So if we accept that the States should assist first time buyers (FTBs), then what measures are available?

The KPMG Review recognised that FTBs act as a stimulant to the market, ensuring the onwards flow of transactions, and contained a list of recommendations of measures which could be used to help them. They included:

- States "Help to Buy" schemes;
- new partial ownership schemes through the Guernsey Housing Association (GHA);
- changes to document duty and bond fees; and
- encouragement/incentives to developers to build more affordable housing.

## Help to Buy

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This would be in the form of direct States assistance, such as a savings, loan or guarantee scheme.

Assistance with savings would entail the States giving a grant/contribution towards a FTB's savings. In the UK the government introduced Help to Buy ISAs, a tax-free savings account.

A loan scheme is an alternative. The States would loan to a FTB a certain percentage of the purchase price, to be repayable through a low cost repayment plan or upon a sale of the property. The UK has an Equity Loan scheme whereby FTBs (and those looking to move) can borrow 20% (up to 40% in London) from the government to go towards a new build property. In Jersey, following the success of a similar scheme back in 2013, the States there are intending to lend homebuyers 15% of the value of their prospective property.

A guarantee scheme, on the other hand, would mean that the States would guarantee a loan from a lender to a FTB, which loan would likely be capped at around 5% (i.e. half a deposit) leaving the buyer to save for the other 5%.

## Partial Ownership

There already exists a very successful partial ownership scheme operated by the Guernsey Housing Association. This allows a FTB to acquire, initially, as little as 40% and up to an 80% equity stake in certain properties operated by the GHA. A similar scheme exists in the UK. However, the KPMG Review suggested that new properties could be built which would allow owners to eventually own up to 100% of the property. Clearly, though, this would then remove that house from the stock for FTBs, so such a scheme would need to be carefully managed in order to ensure its continued sustainability.

## Changes to Duty

This is perhaps a quick solution and the easiest to implement. The idea would be to reduce (or ideally remove) the requirement for FTBs to pay document duty. On an average house this equates to over £10,500. In theory, if this incentivises FTBs to buy, then the increased volume should increase tax take to offset the initial loss of revenue. However, it is thought that such an incentive would not in reality lead to increased demand on its own.

In Jersey they have been doing this for a number of years. Where the purchase price is under £450,000 there are radically reduced rates of duty available for FTBs only.

## Encourage FTB development

There could be a number of ways of doing this, but the emphasis would be on encouraging developers to build new, affordable homes.

In the UK under David Cameron's government the Starter Home project was announced, which promised to build 100,000 properties and offer them to young people at a 20% discount. This was back in 2014 and to date no such homes have been built.

In Jersey there have been various starter home developments, which have proved extremely popular. A property will be purchased by a FTB for, say, 80% market value, with the housing provider being owed the remaining 20%, repayable upon a subsequent sale.

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I am informed such developments are always oversubscribed but it is difficult finding suitable sites.

## Summary

It is the author's opinion that it should not be a case of simply plucking one of the above ideas and implementing it. Rather, as expressed by Christine Whitehead, Professor Emeritus in Housing Economics at the LSE, who gave a talk in Guernsey back in 2016, a "basket of measures" is required, utilizing a number of the suggested measures to complement one other. It is disappointing, to say the least, that since that talk very little has been accomplished in real terms.

The States have yet to comment on the findings in the KPMG Review, but a Policy Letter is expected in the first quarter of this year. It is very much hoped that they will be receptive to the ideas put forward within the Review and are proactive in adopting some of the measures to give help to those who so desperately need it.

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