

# Help to Buy drives the widening gulf between house prices and earnings

In a recent letter to the Swindon Advertiser I quoted the price of a median house in Swindon increasing to £230,000. Since then I have found the statistics of prices for existing dwellings and new builds. The increase in Swindon for both types is extraordinary. In September 2020 the median new build house was £339,000, more than 10 times the median wage in the town. The lower quartile new build has also soared to £291,550, more than 12 times lower quartile earnings, an increase in price of nearly £109,000 in just four years. These increases mean that both new builds and existing homes are far beyond the means of more and more local people. Whilst we will have to wait for later statistics it's clear that prices have continued to rise since last September.

As you can see from Table 1 below, the median cost of new build in Swindon has more than doubled since September 2011, outpacing the median price for England overall and moved £30,000 ahead of it.

Comparing the ratios of price to earnings we see that

- A median price for a new build house in Swindon was 6.04 times median earnings in 2011, lower than the English median of 6.87 times. Yet by 2020 Swindon's was higher, 10.73 as compared to 9.60.
- A lower quartile new build in Swindon was 6.33 times lower quartile earnings in 2011, compared to 7.31 times for England. Yet by 2020 in Swindon it had soared to 12.27 times earnings compared to 9.77 for England overall.
- Only a median price for an existing property in Swindon remained below the median for England. Swindon's was 5.58 times earnings in 2011 compared to 6.79 for England. It rose to 6.90 for Swindon compared to 7.56 for England.
- A lower quartile existing property in Swindon was 5.95 times earnings compared to 6.66 times for England. Yet by 2020 it had risen to 7.28 times lower quartile earnings, higher than the 6.91 times for England.

## Help to Buy

The stats for September 2011 predate the introduction of Help to Buy. What has happened since underlines the extent to which Help to Buy has fuelled house price inflation way beyond the rise in earnings. Help to Buy is only available for new homes.

- Before the introduction of Help to Buy a newly built median house price in England was £182,000. It has since risen to £304,995. The price increase between 2011 and 2020 was more than three times the rise in earnings between 2011 and 2020.
- In Swindon a median new build was £162,500 in September 2011, 6 times median earnings. The price increase to £339,000 in 2020 was nearly six times the rise in earnings!
- The price of a lower quartile new build in Swindon rose from £122,400 to a staggering £291,000, six times the increase in earnings.

The difference between the price of a new build as compared to an existing home was not that great prior to the introduction of Help to Buy. But it has widened the gap between the two in England, and even more so in Swindon.

- In England the median price of new build homes was just over 1% higher than the median price of an existing home in 2011. By September 2020 it was 27% higher.
- In Swindon the situation was worse. A median new build was 8.35% higher than an existing home in 2011, but climbed to 55.5% higher in 2020.

With a normal mortgage you borrow a specific amount. With Help to Buy, the buyer will have to pay the government 20% of the value of the home when they sell it or at the end of the term. Moreover, if inflation rises significantly a lot of people could find themselves in difficulties because after the first five interest free years, there is an annual fee of 1.75% which then increases annually in line with RPI + 2%.

### **The worsening crisis of affordability in Swindon**

In terms of the growth of Swindon the extraordinary rise in house prices reinforces the evidence that many local people cannot afford a mortgage with prices to earnings ratios of more than 10 times earnings for both existing homes and new build. Moreover, evidence is emerging that people from other towns/cities appear to be increasingly buying homes in Swindon because they are still cheaper than places like Oxford, Reading and Slough. The emergence of home working during the pandemic has produced a trend of people buying bigger, more expensive homes in locations away from where they work. This trend is likely to continue as working from home for part of the week means that they won't have the chore of commuting for a full week.

The continuation of house price inflation in Swindon on this level is likely to drive the growth of the expensive private rented sector (see Table 2) since council house building is insufficient to compensate for right to buy sales and the waiting list is sharply rising. Today there are over 200 council homes less in the town than there were in 2011 despite population growth.

Hence the crisis of housing affordability in the town is getting worse. The continued growth of the town based on speculative private sector building by the profiteering big builders, promoted by Help to Buy, will continue to be unbalanced, promoting increasing inequality and insecure and expensive housing for those in the private rented sector.

Addressing the crisis requires both ending Help to Buy and returning to a large scale council house building programme. This requires a change in national government policy which privileges home ownership over renting. It is the absence of grant for building new council housing prevents Swindon and all councils from building on the scale which is needed.

Martin Wicks

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See Tables overleaf

**Table 1**

		Sept 2011	Sept 2020	Increase
Swindon	Median earnings	£26,869	£31,580	17.5%
	Median (existing dwellings)	£149,973	£218,000	45.4%
	Median (new build)	£162,500	£339,000	102.5%
	Median new build higher by	+ 8.35%	+55.5%	
	Ratio median price to median earnings (existing dwellings)	5.58	6.90	
	Ratio median price to median earnings (new build)	6.05	10.73	
England	Median earnings	£26,500	£31,766	19.9%
	Median (existing dwellings)	£180,000	£240,000	33.33%
	Median (new build)	£182,000	£304,995	67.6%
	Median new build higher by	+ 1.11%	+ 27%	
	Ratio median price to median earnings (existing dwellings)	6.79	7.56	
	Ratio median price to median earnings (new build)	6.87	9.60	
Swindon	Lower Quartile earnings	£19,329	£23,768	22.9%
	Lower Quartile (existing)	£115,000	£173,000	50.4%
	Lower Quartile (new build)	£122,400	£291,000	137.7%
	Lower Quartile new build higher by	+6.4%	+ 68.2%	
	Ratio Lower Quartile price to lower Quartile earnings (existing dwellings)	5.95	7.28	
	Ratio Lower Quartile price to lower Quartile earnings (new build)	6.33	12.27	
England	Lower Quartile earnings	£18,612	£22,932	23.2%
	Lower Quartile (existing dwellings)	£124,000	£158,500	27.8%
	Lower Quartile (new build)	£136,000	£223,995	64.7%
	Lower Quartile new build higher by	+ 9.7%	+41.3%	
	Ratio Lower Quartile price to lower Quartile earnings (existing dwellings)	6.66	6.91	
	Ratio Lower Quartile price to lower Quartile earnings (new build)	7.31	9.71	

**Table 2****Monthly private rental prices for Swindon, year ending 31<sup>st</sup> March 2021**

	Lower Quartile	Median
Room	£378	£425
Studio	£500	£550
1 Bed	£595	£635
2 Bed	£695	£740
3 Bed	£825	£895
4 bed +	£1,000	£1,150

Office of National Statistics: Private Rental Market Summary Statistics, England