THE SUNDAY TIMES

Homeowners stuck on first rung of property ladder as prices stagnate

The flat market is stopping people from trading up

Elizabeth Colman Published: 10 June 2012

Struggling: second-time buyers Sally Holton and her boyfriend, Nigel Hooper (Julian Andrews)

THOUSANDS of first-time homeowners are struggling to move up the property ladder after five years of volatile house prices that have sapped the equity in their homes, new figures show.

Research from Savills, the estate agent, examined the levels of house price growth over five years — the average length of time a homeowner stays in their first property.

Last week, Halifax reported prices rose 0.5% in May, but over a year growth is flat. Despite this, Savills found that today's first-time sellers have enjoyed significantly less house price growth than those trading up even a year ago.

Anyone who bought their home after 2000 and is selling before 2011 would have had at least £2,000 equity to put toward their deposit, as long as they had owned the property for at least five years, Savills said. Those selling before 2008 would have been best off, with enough equity after five years to cover the entire average deposit needed to trade up at that time — of £23,000.

However, today, anyone who had kept their home for only five years would be underwater by an average £12,000, because they bought in early 2007, closer to the market peak that year.

To make things worse, the average deposit for a mover has grown from £23,000 to about £58,000 as the mortgage drought means there are fewer deals for small deposit holders. The plight of "second-steppers" is thought to be hampering the property market recovery.

Lucian Cook at Savills, said: "Homeowners are now unable to fund their next move out of five-year house price growth. In fact, the typical home mover would need to have been in the housing market for nine-and-a-half years to fund their deposit out of house price growth, effectively excluding a substantial chunk of second-steppers."

Ian Gray of largemortgageloans, the broker, said: "Falling house prices mean you pay less for the bigger house, but your are harder hit by the fall in your own home's value."

Try a building society

The best buy two-year fix for those with a 10% deposit is from First Direct at 4.19%. However, borrowers have reported difficulties securing mortgages from HSBC, the owner of First Direct. Brokers are pointing frustrated borrowers to building societies for better deals if they have only small deposits.

Yorkshire Building Society offers a 4.49% two-year fix for those with a deposit of 10%, or a five-year fix at 4.74%.

Tap your parents . . . again

As many as eight out of 10 borrowers in London will ask for help with a second move, according to Lloyds TSB.

David Hollingworth and London & Country, the broker, said: "We're seeing borrowers who are making their second move on the property ladder seeking help from the 'Bank of Mum and Dad', despite having helped with the first home."

The Lloyds TSB "Lend a Hand" deal allows mortgages with deposits of only 5%, as long as a family member supplies at least 25% of the purchase price. It charges 4.39% for a three-year fix with a £999 fee.

Lloyds also has an equity support scheme for those with low or negative equity. This allows them to move to a property of the same value, buy a bigger home, or downsize. Customers can move without increasing existing levels of borrowing and channel any additional funds into their new home.

Aldermore bank provides a Family Guarantee Mortgage for first- and second-time buyers, offering as much as 100% of the purchase price. However, it requires a guarantee on any borrowing above 75% of the purchase price, and a collateral charge will be taken on the parental property. Two- and three-year fixes are available at 5.98%, with a fee of £1,298.

Avoid interest-only mortgages

Lenders will look favourably on second-time buyers if they apply for a mortgage with the intention of repaying the capital and interest, according to Aaron Strutt at Trinity Financial Group, the broker.

Among the interest-only deals on offer is the Woolwich's highly restrictive scheme — an interest-only mortgage to customers with a 34% deposit as long as they have £150,000 equity and the sale of the property is not used as a repayment plan.

Case study: Great barrier

Second-time buyers Sally Holton, 35, and her boyfriend Nigel Hooper, 33, who work in banking, have been frustrated by the troubled property market and cautious lenders.

The couple, from Greenwich, southeast London, hoped the deposit — from the sale of their first flat combined with savings — would be enough to secure a larger home in the southeast commuter belt but are struggling to find the property they want.