

# First Home Fund Evaluation

## Quantitative Analysis

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# 1. Executive Summary

## Introduction and Data

- 1.1 The First Home Fund (FHF) is a pilot shared equity scheme operated by the Scottish Government. Launched on 18 December 2019, the objective of the FHF is to help first-time buyers purchase a property that meets their needs and is located in an area that they want to live in. As the first year of this pilot scheme has now concluded, we need to evaluate its performance.
- 1.2 This evaluation of the FHF has been carried out in two strands, comprising quantitative and qualitative research; the results of these two strands of research are published separately, and there is also a synthesis report summarising the key findings across these two strands<sup>1</sup>. This document presents the findings from the quantitative research, which largely draws on scheme administrative data, FHF buyer survey responses, and wider housing market data, and aims to answer the following five questions:
- i. What are the characteristics of buyers using the FHF?
  - ii. What type of properties are being purchased through the FHF?
  - iii. How have properties purchased through the FHF been funded?
  - iv. Are FHF buyers satisfied with the property they have purchased and the area they will be living in?
  - v. To what extent has the FHF enabled first-time buyers to enter the housing market that otherwise would have been unable to do so?

## What are the characteristics of buyers using the FHF?

- 1.3 **FHF buyers are relatively similar to all first-time buyers across Scotland.** The average age of FHF buyers (30.4) is similar to the average age of all first-time buyers in Scotland in 2019-20 (31.0). Meanwhile, the average gross annual household income of FHF buyers (£40,900) is similar to average gross annual household income of all first-time buyers in Scotland in 2019-20 (£40,800). However, FHF buyers are not typically on low to moderate incomes when compared to the Scottish population: nearly seven in ten (68%) FHF buyers have gross annual household income equal to or greater than £30,400 – the median gross annual household income of all Scottish households in 2018-19. Some 5% of purchases through the FHF feature one buyer (out of

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<sup>1</sup> The qualitative and synthesis reports can be accessed at <https://www.gov.scot/policies/homeowners/first-home-fund/>

two) that has previously owned property (or 9% of joint purchases through the FHF).

- 1.4 **FHF buyers typically earn more than buyers through the Open Market Shared Equity scheme, and, while average FHF earnings is slightly below Help to Buy (Scotland) average earnings, there is a greater spread of earnings in the FHF.** Average gross annual household earnings<sup>2</sup> of FHF buyers (£40,400) is more than 50% higher than average earnings of buyers through the Scottish Government's main other first-time buyer scheme, Open Market Shared Equity (£26,200 in 2019-20). While average FHF buyer earnings is slightly below average Help to Buy buyer average earnings (£42,000 in 2019-20), the spread of earnings in the FHF is greater than in Help to Buy: 33% of FHF households have earnings below £30,000 compared to 16% of Help to Buy households, while 12% of FHF households have earnings over £60,000 compared to 7% for Help to Buy households.

#### **What type of properties are being purchased through the FHF?**

- 1.5 **The FHF was used widely across Scotland and across different property types.** It has been used particularly intensively in larger cities and in urban local authorities that have substantial rural areas, relative to islands and remote areas. It has also been used to buy a mix of property types. Approximately one in six, or 17%, properties purchased through the FHF are new builds. This is more than the share of new build sales in all Scottish residential property transactions in 2019-20 (12%). Flats (32%) are the most commonly purchased property type through the FHF, closely followed by semi-detached properties (30%).
- 1.6 **Properties purchased through the FHF are typically more expensive than the average first-time buyer purchase price across Scotland.** The geometric mean price of a property purchased through the FHF (£147,600) is higher than the geometric mean price of a property purchased by all first-time buyers across Scotland (£124,000), but lower than the geometric mean price of a property purchased by all buyer types across Scotland (£153,500). This conclusion is robust to geographic compositional effects, as well as adjusting for the relatively high share of new build properties purchased through the FHF. A relatively large number and proportion of new build sales purchased through the FHF had a price in excess of £200,000, which is the price cap for Help to Buy (Scotland). Just over six in ten (63%) new build properties purchased through the FHF had a price in excess of £200,000.

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<sup>2</sup> Household income data for other Scottish Government shared equity schemes relates only to earnings, therefore gross annual household earnings are used in this comparison.

## How have properties purchased through the FHF been funded?

- 1.7 **FHF buyers typically make a lower deposit contribution than the average first-time buyer across Scotland, and requested most of the funding available from the FHF.** The mean FHF buyer's deposit contribution is £14,400; this is half the average first-time buyer deposit across Scotland in the year to end September 2020, which was £28,700. The majority of FHF buyers (52.8%) requested the maximum FHF equity loan amount of £25,000, while just over three in four (76.7%) buyers requested an FHF equity loan amount equal to £20,000 or more.
- 1.8 **The mean Loan to Value (LTV) and Loan to Income (LTI) ratios of properties purchased through the FHF are broadly similar to the equivalent LTV and LTI ratios of all first-time buyers in Scotland.** The mean LTV ratio of properties purchased through the FHF is 76.5%. In comparison, in the year to end September 2020 the mean LTV ratio of all mortgages advanced to first-time buyers in Scotland was 80.8%, and in Q3 2020 was 78.3% (UK Finance). This is slightly higher than the mean LTV ratio of properties purchased through the FHF. Meanwhile, the mean loan to income (LTI) ratio of properties purchased through the FHF is 3.1 – this is the same as the mean LTI ratio for all first-time buyer mortgages advanced in Scotland in the year to end Q3 2020. These points suggest that FHF buyers are not systematically taking out mortgage products with high LTV or LTI ratios, relative to the population of first-time buyers across Scotland.

## Are FHF buyers satisfied with the property they have purchased and the area they will be living in?

- 1.9 **The vast majority of FHF buyers reported that they were able to purchase a property that met their needs and was located in an area that they want to live in.** FHF buyers were asked whether they agreed or disagreed with the following statements in Table 1.1 about the property and area it was located in, reporting high levels of satisfaction.

**Table 1.1. FHF Buyer Satisfaction**

Statement	Number of Responses	Share of Respondents That Agreed
The property is the right size for my current housing needs	6,704	98%
I have been able to buy the type of property that I was looking to purchase (e.g. new build/existing build, detached, semi-detached, terraced or flat)	6,690	97%
The property is affordable for my budget	6,707	98%
The property is in a location that I want to live in	6,722	97%

### To what extent has the FHF enabled first-time buyers to enter the housing market that otherwise would have been unable to do so?

1.10 We have estimated the rate of additionality generated by the FHF, where a buyer is defined as being additional if they could not have purchased a property that would have met their needs without the FHF. To do so, we followed a similar approach taken in the evaluation of the Scottish Government's other shared equity schemes, as well as in the UK Government's evaluation of their Help to Buy scheme. To test for additionality, FHF buyers were asked the following four questions:

- i. I would have been able to buy this property without the assistance I received from the Scottish Government's First Home Fund;
- ii. I would have been able to buy a different property that would meet my needs in the same area that I purchased a property in without assistance from the Scottish Government's First Home Fund;
- iii. I would have been able to buy a different property that would meet my needs in a different area to that which I purchased a property in without assistance from the Scottish Government's First Home Fund; and,
- iv. I could have bought a smaller property, or a property in need of more work, that would have still met my needs without assistance from the Scottish Government's First Home Fund.

1.11 FHF buyer responses to these questions show that **nearly three in ten (28.2%) buyers did not believe they could have purchased a property that would have met their needs without the FHF**. This was calculated as

the share of FHF buyers who disagreed with all four questions set out above (see paragraph 9.21 for more information).

- 1.12 **The finding that rate of additionality is less than a third is supported by other evidence.** That average income, LTV and LTI ratios of FHF buyers are similar to those of the average first-time buyer across Scotland, and the average price of a property purchased through the FHF is greater than the average price of a property purchased by all first-time buyers across Scotland, suggests that marginal first-time buyers struggling to access home ownership do not form the majority of FHF buyers. This is consistent with the finding that a majority (63.9%) of FHF buyers reported that the scheme had enabled them to buy a larger property, and that a majority (58.1%) also reported that the scheme had enabled them to use less of their savings for their deposit.
- 1.13 **The rate of additionality generated by the FHF is lower than other Scottish Government first-time buyer schemes, but higher than Help to Buy (Scotland).** The estimated rate of additionality of 28% for the FHF is below the rate of additionality of the Open Market Shared Equity scheme (47%), as well as the New Supply Shared Equity scheme (39%), but above the rate of additionality of Help to Buy (Scotland) (20%). Estimates of additionality of the other shared equity schemes are taken from a previous evaluation, which used a broadly, but not exactly, comparable approach.
- 1.14 **Wider housing market evidence does not as yet suggest that the FHF has put significant upward pressure on first-time buyer prices, but it also does not suggest that the FHF has led to a marked increase in first-time buyer activity.** The estimates of additionality set out above have the limitation that they do not capture any wider system effects, e.g. the displacement of other potential buyers by FHF buyers. Therefore trends in first-time buyer prices and transactions in Scotland were compared to trends in the home mover sector in Scotland and also to trends across the UK. These comparisons should be treated with caution due to limited data given lags in the publication of aggregate data, but at this stage do not suggest a significant impact of the FHF on either prices or activity at the Scotland level.
- 1.15 **The impact of Covid-19 may have led to a small increase in the rate of additionality of the FHF.** The impact of Covid-19 on the economy and the housing market led to a decrease in the availability of high LTV ratio mortgage products, as well as an increase in their price. These are typically more important for first-time buyers than home movers, although lending conditions are beginning to improve. This may explain an increase in the additionality rate of 25% for applications submitted to the FHF from 18 December 2019 to 31 March 2020, to 29% from 1 April 2020 to 2 October 2020, although the increase is relatively small.

## 2. Introduction

2.1 The First Home Fund (FHF) is a pilot shared equity scheme which was launched by the Scottish Government on 18 December 2019. Explaining the purpose of the FHF when it was launched, the First Minister Nicola Sturgeon said:

*“For many people, getting a deposit together is often an obstacle in buying their first home. Removing barriers and supporting people to buy the home they want is at the heart of this new fund. That is why we are acting to make the process fairer, to offer a helping hand to those buying a new home.*

*“The First Home Fund will provide first-time buyers with up to £25,000 towards the cost of buying a home that meets their needs and is located in the area where they want to live.”<sup>3</sup>*

2.2 The Scottish Government committed £200 million to the initial phase of the FHF and there has been considerable uptake: as of 1 December 2020, 9,729 applications to the FHF had either been approved or settled. To put this in context, these applications to the FHF are equivalent to nearly one-third (30%) of all new mortgages advanced to first-time buyers across Scotland in 2019-20 (31,930, UK Finance). The FHF had to close to new applications on 2 October 2020 as the budget was fully committed.

2.3 The FHF represents a significant policy intervention in the Scottish housing market and, as the first year of this pilot scheme has now concluded, we need to evaluate its performance. The evaluation of the FHF has two strands, consisting separately of quantitative and qualitative research. The quantitative research includes analysis of scheme and housing market data, while the qualitative research reports on the findings from interviews with FHF applicants, lenders, developers and independent financial advisors. The results from the qualitative analysis are published separately, and a synthesis report summarising the findings from the two research strands is also available<sup>4</sup>.

2.4 This quantitative research has been carried out by Scottish Government analysts, while the qualitative research has been produced by the external research company Craigforth.

2.5 This **quantitative** research answers the following five questions:

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<sup>3</sup> Scottish Government news release on the opening of the First Home Fund (18 December 2019). Available at <https://www.gov.scot/news/help-to-buy-a-home/>.

<sup>4</sup> The qualitative and synthesis reports can both be found on the Scottish Government’s First Home Fund website, <https://www.gov.scot/policies/homeowners/first-home-fund/>.

1. What are the characteristics of buyers using the FHF?
2. What type of properties are being purchased through the FHF?
3. How have properties purchased through the FHF been funded?
4. Are FHF buyers satisfied with the property they have purchased and the area they will be living in?
5. To what extent has the FHF enabled first-time buyers to enter the housing market that otherwise would have been unable to do so?

2.6 Separately, the **qualitative** research answers the following six questions:

6. What are stakeholders' experiences and views about the FHF?
7. Why are buyers using the FHF?
8. What are the barriers, if any, to using the FHF for purchasing a home?
9. What effect, if any, has the £550 application fee had on applications?
10. What effect, if any, has the FHF had on stakeholders' business?
11. In what way, if any, has the FHF affected the other shared equity schemes?

2.7 This quantitative strand of the evaluation proceeds with the following seven sections. A brief description of the contents of each section is contained below:

**Section 3. Overview of the First Home Fund.** Explains how the FHF works, its objectives, and how it compares to other Scottish Government shared equity schemes.

**Section 4. Data.** Explains what the different data sources used in this research are and the limitations attached to this data.

**Section 5. Characteristics of FHF Buyers.** Describes the type of people that have used the FHF, including information on: the number of purchasers, their age, income and previous housing tenure.

**Section 6. Characteristics of FHF Properties.** Describes the type of properties that have been purchased through the FHF, including information on: price, type of property, size of property and location.

**Section 7. Funding Arrangements.** Explains how buyers that have used the FHF have funded their property purchase. This includes information on:

purchasers' deposits, FHF equity loan amounts, mortgage loans and purchasing over valuation.

**Section 8. Buyer Satisfaction.** Explores whether people who have purchased a property through the FHF believe their new home meets their needs and is located in an area that they want to live in. It also explores their reasons for moving.

**Section 9. Market Effects of FHF.** Explores the extent to which buyers needed funding from the FHF to purchase the property they bought, or to enter the housing market at all. It also looks at the effect the scheme may have had on the Scottish Government's other shared equity schemes and the wider Scottish housing market.

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This report was produced by Richard Keatinge (Scottish Government – Communities Analysis Division), with support from Bruce Teubes (Scottish Government – Communities Analysis Division).

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### **3. Overview of the First Home Fund**

#### **Objective of the First Home Fund**

- 3.1 As outlined in the statement by the First Minister Nicola Sturgeon (see paragraph 2.1), the primary objective of the FHF is to help first-time buyers purchase a property that meets their needs and is located in the area where they want to live.
- 3.2 The FHF was launched in recognition of the difficulty that some aspiring first-time buyers can face in raising funds for a deposit, and with the intention of removing barriers to accessing the housing market.

#### **How the First Home Fund Works**

- 3.3 The FHF is a pilot shared equity scheme operated by the Scottish Government. It is open to first-time buyers in Scotland, where a first-time buyer is defined as someone who does not own, or has not previously owned, a property in Scotland or anywhere else in the world. The definition of a first-time buyer is different to that of a first-time buyer for Land and Buildings Transaction Tax (LBTT) first-time buyer relief. For joint applications to the FHF, only one applicant needs to be a first-time buyer (provided neither applicant still owns a property by the date of completion of the property being purchased through the FHF). For joint purchasers to be eligible for LBTT first-time buyer relief, both purchasers must be first-time buyers.
- 3.4 The FHF enables first-time buyers to split the cost of purchasing a home with the Scottish Government. The buyer funds their share of the purchase with at least a 5% deposit (although their lender may require more) and a mortgage, while the Scottish Government provides an interest-free equity loan worth up to £25,000. This monetary amount is converted into a percentage equity stake by dividing the value of the equity loan by the property valuation or the price, whichever is lowest. There are no monthly payments or interest payments to the Scottish Government, and the Scottish Government's equity stake is repaid at the time of sale or earlier, if the buyer wishes.
- 3.5 First-time buyers can use the FHF to purchase a new or existing build property, and there is no cap on the price of a property that can be purchased using the FHF. Applicants to the FHF are allowed to apply if their offer is higher than the valuation; however, any amount over the valuation must be cash funded. The FHF cannot be used in conjunction with another Scottish Government shared equity scheme.
- 3.6 An example of how the FHF works is included in Box 3.1, below.

### Box 3.1. Example of Buying a Property With the First Home Fund

John is a first-time buyer and identifies a property that he wants to buy in Dundee. The property has a valuation of £160,000 and John decides to bid £8,000 over this. This offer is accepted and John applies to the First Home Fund for an interest-free equity loan of £16,000.

Property valuation:	£160,000
Mortgage amount:	£136,000 (85% loan to value (LTV))
Buyer contribution:	£16,000 (5% deposit and £8,000 bid over valuation)
SG contribution:	£16,000
Purchase price:	£168,000
Buyer stake:	90%
SG stake:	10%

The Scottish Government's equity loan is converted into a percentage equity stake by dividing the equity loan amount by the property valuation. In this case it is 10%. John owns the property and the value of his equity stake is 90%.

In ten years' time, John decides to sell his property which is bought for £200,000. John hasn't increased his equity share so he receives £180,000 (90% of the sale price) and the Scottish Government receives £20,000 (10% of the sale price).

## Comparison With Other Scottish Government Shared Equity Schemes

- 3.7 The Scottish Government operates three other shared equity schemes, namely: Help to Buy (Scotland), Open Market Shared Equity (OMSE) and New Supply Share Equity (NSSE).
- 3.8 Help to Buy (Scotland) was launched in 2013 and helps households purchase a new build property. This scheme was launched to support the new build housing industry in the aftermath of the 2008 financial crisis and to help homebuyers with limited funds for a deposit. The scheme was initially launched with a £400,000 property price cap and households could apply for an equity loan worth up to 20% of the price of the property. The price cap has been progressively lowered since the scheme launched and has been set at £200,000 since 2017/18. The maximum equity loan amount has been set at 15% of the property price since 2016/17. Help to Buy (Scotland) has helped over 17,000 households purchase a new build home since 2013.

- 3.9 OMSE and NSSE comprise the Scottish Government's Low-cost Initiative for First Time Buyers (LIFT). This scheme originated as 'Homestake' in 2005, before changing to LIFT in 2007. LIFT is aimed at first-time buyers on low to moderate incomes and helps them buy a home where it is sensible and sustainable for them to do so. Various priority access groups are also able to use LIFT. OMSE is targeted at open market sales, while NSSE is used to buy new build properties from a council or housing association. There are regional price caps for OMSE and through both schemes the maximum amount of funding available is 40% of the price of the property. Since 2007, these LIFT schemes have helped over 18,000 households purchase a home.
- 3.10 Help to Buy (Scotland), OMSE and NSSE have varying degrees of means testing. To purchase a property through Help to Buy (Scotland), an applicant's mortgage amount must not be less than the rule of thumb level of 3.5 times gross income for a joint application and 4.5 times gross income for a sole applicant (there is some flexibility around this if an applicant wishes to borrow slightly below this amount). OMSE and NSSE similarly require that the applicant takes out the maximum mortgage they can reasonably obtain and afford. Until December 2020, they also imposed a condition that the applicant could only purchase a home with one room more than they currently need.
- 3.11 A table comparing the Scottish Government's four shared equity schemes is included below.

**Table 3.1. Comparison of Scottish Government Shared Equity Schemes**

	<b>Help to Buy (Scotland)</b>	<b>Open Market Shared Equity</b>	<b>New Supply Shared Equity</b>	<b>First Home Fund</b>
Open to First-Time Buyers	Yes	Yes	Yes	Yes
Open to Non First-Time Buyer Priority Access Groups <sup>5</sup>	Yes	Yes	Yes	No
Open to Other Non-First-Time Buyers	Yes	No	No	No*
Price Cap	Yes, national cap of £200K	Yes, varies by region	No	No
Means Testing**	Yes	Yes	Yes	No
Maximum Equity Loan	Up to 15% of property price	Up to 40% of property price	Up to 40% of property price	£25,000
Able To Purchase New Build Property	Yes	Yes***	Yes	Yes
Able To Purchase Existing Build Property	No	Yes	No	Yes

\* However, in the case of joint applications only one purchaser has to be a first-time buyer.

\*\* An applicant must purchase the maximum amount of equity that they can reasonably afford.

\*\*\* While new build properties can be bought through OMSE, almost all purchases are existing build.

3.12 An external evaluation of the Scottish Government's three existing shared equity schemes was published on 11 June 2020. It can be accessed at <https://www.gov.scot/publications/evaluation-scottish-government-shared-equity-schemes/>.

3.13 Links to further information about the Scottish Government's shared equity schemes can be found in Table 3.2.

<sup>5</sup> Priority access groups include: people aged 60 or over, social renters, disabled people, members of the armed forces, veterans who have left the armed forces within the past two years, and widows, widowers and other partners of service personnel for up to two years after their partner lost their life while serving.

**Table 3.2. Further Information on Scottish Government Shared Equity Schemes**

Help to Buy (Scotland)	<a href="https://www.gov.scot/policies/homeowners/help-to-buy/">https://www.gov.scot/policies/homeowners/help-to-buy/</a>
Open Market Shared Equity	<a href="https://www.mygov.scot/open-market-shared-equity-scheme/">https://www.mygov.scot/open-market-shared-equity-scheme/</a>
New Supply Shared Equity	<a href="https://www.mygov.scot/new-supply-shared-equity-scheme/">https://www.mygov.scot/new-supply-shared-equity-scheme/</a>
First Home Fund	<a href="https://www.gov.scot/policies/homeowners/first-home-fund/">https://www.gov.scot/policies/homeowners/first-home-fund/</a>

## 4. Data

- 4.1 This section explains what data was used in this quantitative analysis, how it was collected, as well as any limitations associated with the data.

### Description of Data Sources

- 4.2 If a buyer wishes to use the FHF to purchase a property, they must complete an application form after they have had their offer on a property accepted. The application form contains a range of information pertinent to the applicant and the property the applicant is purchasing. This application form is reviewed by Link, the scheme administrator, who will either approve or decline the application. Data drawn from the application form is referred to as “application data” in the following sections.
- 4.3 If an application is approved by Link, the applicant will be invited to complete a questionnaire called the “sales log form”. This is optional to complete. The sales log form contains questions that elicit more information about who is using the FHF, what type of property they are purchasing and why they are using the FHF. Data drawn from the sales log form is referred to as “sales log form data” in the following sections.
- 4.4 For this evaluation, the Scottish Government received application and sales log form data from Link that was extracted from their database on 1 December 2020. This data consists of all FHF applications made where the application has settled, or where the application has been approved but not yet settled (as of 1 December 2020). It covers the entire duration that the FHF was open to applications in its initial phase (i.e. from 18 December 2019 to 2 October 2020). If an application has been denied, or the applicant withdrew at any point up to 1 December 2020, they are not included in this data.
- 4.5 We expect the vast majority of applications that have been approved but not yet settled will settle, but a small number may not proceed to settlement. To give a fuller picture of who is using the FHF, and also to ensure that new build sales are properly reflected in this analysis – given they typically take longer to settle than exiting builds – we have included all applications that have settled or been approved but not yet settled in this analysis. However, it should be noted that a small number of applications included in this analysis may not settle and claim funds from the FHF. This also means that figures contained in this evaluation may differ to subsequent monitoring information on settled sales published by the Scottish Government. In the following sections, “buyers” or “sales” will refer to those applications that have either settled or been approved but not yet settled (unless purposefully differentiated). Only sales log form returns from buyers are included in this data.

4.6 Table 4.1 outlines the number of buyers and sales log form returns, as well as a breakdown between those that have settled and those that have been approved but not yet settled. This shows that, on 1 December 2020, there had been 9,729 applications to the FHF, 38% of which had settled. There is also a high response rate for the optional sales log form of 70%.

**Table 4.1. Number of FHF Buyers and Sales Log Form Returns**

	Number	Percent, of Sub-Total	Percent, of Applications
<b>FHF Buyers (Applications)</b>			
Total	9,729	100%	100%
Settled	3,661	38%	38%
Approved, not yet settled	6,068	62%	62%
<b>Sales Log Form Returns</b>			
Total	6,778	100%	70%
Settled	2,946	43%	80%
Approved, not yet settled	3,832	57%	63%

4.7 For a very small number of applications (<1%), some data from the application form is incomplete or requires further verification. These are being investigated by scheme administrators and, where necessary, will be picked up prior to settlement. As such, for some parts of the analysis making use of application form data, the total number of cases may not total 9,729. This will be noted when relevant.

4.8 While the proportion of applications which have a sales log form is high (70%), we have undertaken checks to see whether there is any significant difference between applications where the buyer has or hasn't completed a sales log form, in case this might bias the analysis. To test for this, Table 4.2 compares the price, income, age and share of properties that are new builds in each group. This shows that the average price of properties purchased through the FHF is slightly lower in the sample where a sales log form has been submitted. This is likely due to the lower share of new build properties in the sample with sales log form submissions. As it typically takes longer for a new build property to settle than an existing build property<sup>6</sup>, it might also take longer for a buyer purchasing a new build property to complete their sales log

<sup>6</sup> As of 1 December 2020, 40% of approved applications to the FHF that are existing build properties had settled, relative to 24% for new build properties.

form. This should be kept in mind when reading analysis in this evaluation that relates to the sales log form.

**Table 4.2. Characteristics of Purchases With/Without Sales Log Form Data**

	<b>Sales Log Form Submitted</b>	<b>No Sales Log Form Submitted</b>
Number	6,778	2,951
Percentage	70%	30%
<b>Characteristics</b>		
Mean Price	£154,828	£167,598
Mean Gross Annual Household Income	£40,193	£42,532
Mean Age	30.3	30.6
New Build Share	13%	26%

4.9 The evaluation also makes use of other housing market and economic data, which is referenced when used.

## 5. Characteristics of FHF Buyers

### Key Points

The average age of FHF buyers (30.4) is similar to the average age of all first-time buyers in Scotland in 2019-20 (31.0).

Average gross annual household income of FHF buyers (£40,900) is similar to that of all first-time buyers in Scotland in 2019-20 (£40,800).

FHF buyers typically have higher gross annual household income relative to the Scottish population.

FHF buyers typically have significantly higher household earnings than OMSE buyers.

Average FHF household earnings are similar to average Help to Buy (Scotland) household earnings, but there is a greater spread of earnings through the FHF.

Some FHF buyers (5%) have previously owned property (the FHF only requires one buyer in a joint purchase to have been a first-time buyer), and these households tend to have higher household income, purchase more expensive properties, and claim more funding through the FHF.

Approximately half of FHF buyers were previously living in rented accommodation. Of those, just over three quarters (77%) were living in the private rented sector and just over one-fifth (22%) were living in the social rented sector.

A small proportion (6%) of FHF buyers were on a social housing waiting list prior to purchasing their home through the FHF.

### Number of Purchasers

5.1 As outlined in Table 4.1, there have been 9,729 sales through the FHF as of 1 December 2020. There is an approximately even split of sales by joint and sole purchasers. 49.8% (4,843) of sales involve sole purchasers while 50.2% (4,886) involve joint purchasers. By way of comparison, data from the Financial Conduct Authority's Mortgage Lending and Administrative Return shows that in Q3 2020, just over one third (34.4%) of new mortgages advanced across the UK were to sole purchasers<sup>7</sup>. However, this data includes home movers, and the greater share of sole purchasers through the FHF could be the result of the scheme being targeted at first-time buyers.

### Age of Purchasers<sup>8</sup>

5.2 To calculate the age of buyers using the FHF, the age of the sole or first named buyer (for joint purchases) at the time their application to the FHF was submitted has been calculated. The mean age of an FHF buyer is 30.4. This is similar to the mean age of first-time buyers across Scotland in 2019-20, which was 31.0 (UK Finance). Chart 5.1 shows the age distribution of FHF

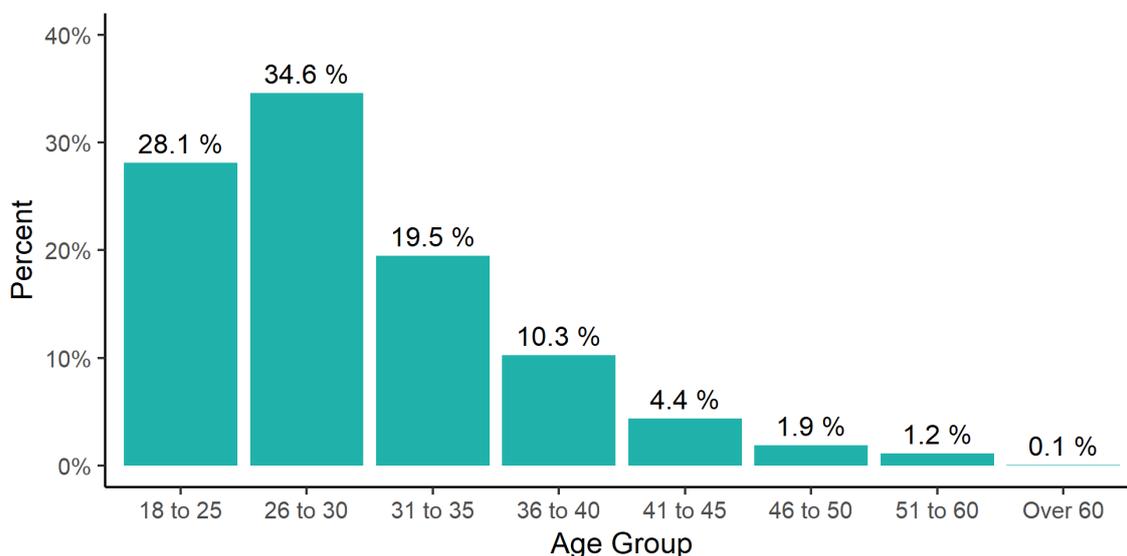
<sup>7</sup> <https://www.fca.org.uk/data/mortgage-lending-statistics>.

<sup>8</sup> Age data for the sole of first named buyer is available in 9,718 (99%) cases.

buyers. This shows that just over six in ten (63%) FHF buyers are aged 30 or younger, while less than one in ten (8%) are aged 41 or older.

**Chart 5.1: Just over six in ten (63%) FHF buyers are 30 or younger, while less than one in ten (8%) are 41 or older**

Age of sole or first named FHF buyer



## Income

- 5.3 Income of FHF buyers is expressed gross and on an annual basis. It includes all sources of income, including: salary, overtime, bonuses, commission, benefits and any other sources of income. This aligns with industry data on first-time buyer income. Income is also expressed on a per household basis. The mean gross annual household income of FHF buyers is £40,900, while the median is slightly lower, at £37,900. The mean gross annual household income of FHF buyers is similar to the mean gross annual household income of all first-time buyers in Scotland in 2019-20, of £40,800 (UK Finance).
- 5.4 Chart 5.2 plots the distribution of FHF buyers' gross annual household income by decile (which splits households into ten equal sized groups, in order of their income), alongside gross annual household income of all Scottish households and all Scottish households that own their home with a mortgage<sup>9</sup>. This chart shows that there is a considerable degree of variation in FHF buyers' gross annual household income: at the 90<sup>th</sup> percentile (£63,577), gross annual household income is nearly three times the value at the 10<sup>th</sup> percentile (£21,500).
- 5.5 Relative to Scottish households that own their home with a mortgage, FHF buyers typically have lower levels of income. At each decile in the distribution,

<sup>9</sup> Data for Scottish households is for 2018-19 and is based on Scottish Government analysis of the Family Resources Survey Households Below Average Income dataset, available at <https://www.gov.scot/publications/additional-poverty-analysis-2021/>.

FHF buyers' gross annual household income is below the equivalent value for all Scottish households who own with a mortgage. Furthermore, the median value of gross annual household income of FHF buyers is 20% below the median value of Scottish households that own their home with a mortgage. This is to be expected, as FHF buyers are just at the stage of purchasing their first home<sup>10</sup>, while the majority of households that comprise the comparator group will have already lived in their first home for a number of years or have purchased another home with a mortgage. They will, typically, be older, have advanced further in their careers and be more likely to command a higher level of income, on average.

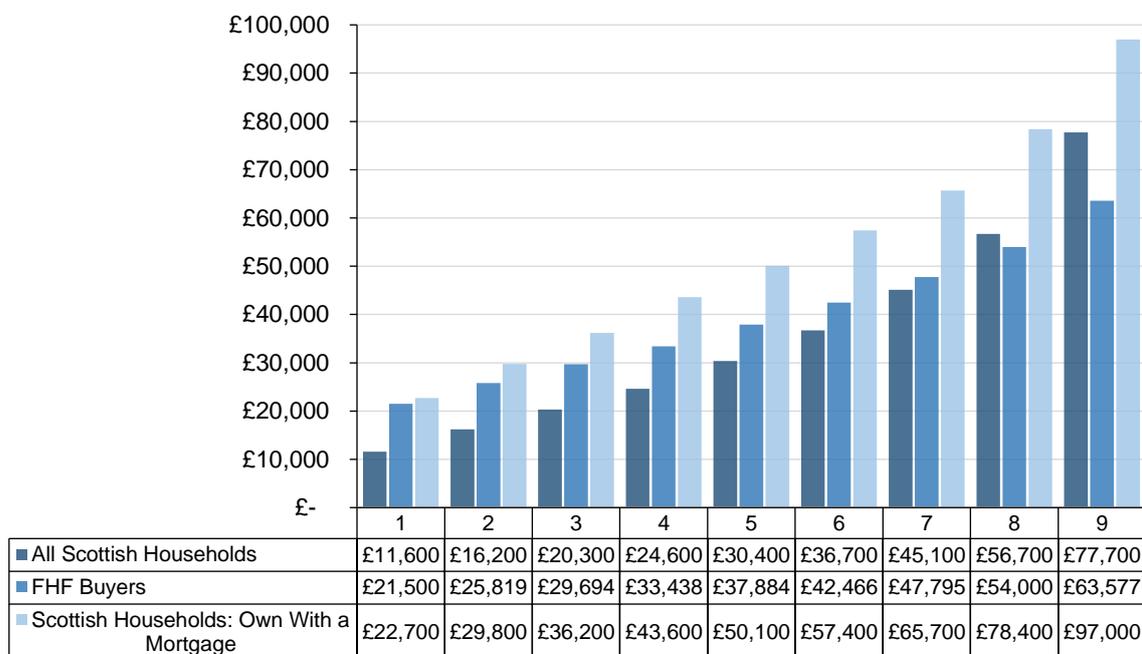
- 5.6 While FHF buyers typically have lower levels of income relative to Scottish households that own their home with a mortgage, they typically have higher levels of income than all Scottish households. The median value of FHF buyers' gross annual household income is nearly one-third (32%) higher than the median value for all Scottish households. Furthermore, 68% of FHF buyers have gross annual household income greater than or equal to the median value for all Scottish households. This suggests that most households receiving assistance through the FHF are not on low to moderate incomes, relative to all Scottish households, and should be relatively more able to afford to purchase a property with a mortgage than the rest of the Scottish population. This is because they should be able to obtain a larger mortgage loan (relative to another person with lower income, all else equal), as well as have greater capacity to save more of their disposable income for the purpose of a deposit.

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<sup>10</sup> In the year to end Q3 2020, the mean price of a home bought with a mortgage by a former owner occupier in Scotland was £245,571, 55% greater than the mean price of properties purchased through the FHF.

**Chart 5.2: The median value of FHF Buyers' Gross Annual Household Income is higher than the median for all Scottish households (+32%), but lower than the median for all Scottish households who own their home with a mortgage (-20%).**

Distribution of gross annual household income, by decile. Income data for all Scottish households and all Scottish households who own their home with a mortgage is for 2018-19, and is taken from Scottish Government analysis of data from the Family Resources Survey Households Below Average Income dataset (rounded to the nearest £100).



5.7 Income of FHF buyers can also be compared to the income of buyers through other Scottish Government shared equity schemes. Household income data for the other Scottish Government shared equity schemes relates only to earnings, therefore gross annual household earnings are used in this comparison. However, the difference between household earnings and household income is small, with only 1.3% of total FHF buyer household income coming from benefits, guaranteed maintenance income and other non-employment sources. There is also a slight difference in timing, with earnings data from the other schemes relating to 2019-20, while FHF data relates to the period of the pilot scheme (December 2019 to October 2020).

5.8 Gross annual household earnings of FHF buyers are significantly higher than OMSE buyers, with the average earnings of FHF buyers (£40,400) more than 50% higher than average earnings of OMSE buyers (£26,200 in 2019-20)<sup>11</sup>. While average FHF buyer earnings is slightly below average Help to Buy (Scotland) buyer average earnings (£42,000 in 2019-20), Chart 5.3 shows

<sup>11</sup> It should be noted that OMSE forms part of the Scottish Government's Affordable Housing Supply Programme, which is why it is more focussed on low to moderate income households, unlike the FHF, which is not part of the Affordable Housing Supply Programme.

that the spread of earnings in the FHF is greater than in Help to Buy (Scotland): 33% of FHF households have earnings below £30,000 compared to 16% of Help to Buy (Scotland) households, while 12% of FHF households have earnings over £60,000 compared to 7% for Help to Buy (Scotland) households.

**Chart 5.3: Gross annual household earnings of FHF buyers are significantly above OMSE buyers, and, while FHF average earnings is similar to Help to Buy (Scotland) average earnings, there is a greater spread of FHF earnings than Help to Buy (Scotland) earnings.**

Distribution of gross annual household earnings, by income band. Earnings data for FHF relates to applications received from 18 December 2019 to 2 October 2020. Earnings data for OMSE and Help to Buy (Scotland) are taken from log form data relating to applications received in 2019-20<sup>12</sup>.



## Previously Owned Property

5.9 Data on whether one buyer in a joint purchase has previously owned a property is available from FHF application data<sup>13</sup>. The proportion of FHF buyers that feature one buyer (out of two) that has previously owned property is 5% (438 cases), or 9% of joint purchases through the FHF. These buyers, relative to those where neither buyer, nor the sole purchaser, has previously owned property typically have: higher levels of gross annual household income, purchase more expensive properties, and claim more funding through the FHF. This is summarised in Table 5.1, below.

<sup>12</sup> For OMSE data, see <https://www.gov.scot/publications/open-market-shared-equity-monitoring-characteristics-of-households-report-2019-2020/>; for Help to Buy (Scotland) data, see <https://www.gov.scot/publications/help-to-buy-scotland-monitoring-characteristics-of-households-report-2019-2020/>.

<sup>13</sup> There are 9,658 cases with information on whether one buyer in a joint purchase has previously owned a property (99%).

**Table 5.1. Previously Owned Property**

	One buyer in a joint purchase has previously owned property?	
	Yes	No
Number	438	9,220
Share, of Total	4.5%	95.5%
Mean Age	32.9	30.3
Mean Gross Annual Household Income	£59,520	£40,003
Mean Property Price	£218,878	£155,770
Mean FHF Equity Loan	£23,727	£21,802

### Previous Housing Tenure

- 5.10 Previous housing tenure data is available from the optional sales log form, of which there were 6,668 responses to the relevant question. Responses are taken from the sole or first named purchaser. Approximately half (50.4%) of FHF buyers were previously living in rented accommodation, while a slightly smaller proportion (46.0%) were living with parents or relatives. Only a small share (2.1%) were living in a house of flat they owned or were paying a mortgage on. The remainder (1.5%) were living with friends (where they were not renting).
- 5.11 With regard to those living in rented accommodation, just over three quarters (76.9%) of FHF buyers previously living in rented accommodation were living in the private rented sector. Meanwhile, just over one-fifth (22.4%) of FHF buyers that were previously living in rented accommodation were living in the social rented sector (with the landlord being either a housing association/co-operative or the council). The remainder (0.8%) were living in accommodation provided by an employer.

### Social Housing Waiting List

- 5.12 Information on whether a buyer was on a social housing waiting list prior to purchasing their home through the FHF is available from the optional sales log form, of which there were 6,585 responses to the relevant question. Responses are taken from the sole or first named purchaser. The vast majority of FHF buyers were not on a social housing waiting list prior to purchasing their home through the FHF. A small proportion (6%) were on a social housing waiting list and more than six in ten (63%) of those buyers had been on a list for more than one year.

## Household Size

5.13 FHF buyers were asked in the optional sales log form who else, other than the purchasers, would be living in the property purchased through the FHF. There were 6,778 responses to this question, and the responses are summarised in Table 5.2. This shows that in just over three quarters of cases (76%), the household size is up to two people. This is 9 percentage points greater than the share of all owner occupier households in Scotland with up to two people in 2019, of 67%<sup>14</sup>. This likely reflects the younger age profile of buyers using the FHF relative to the owner-occupied population. Most of the remaining households comprise 3 or 4 person households.

**Table 5.2. Size of FHF Buyers' Households**

Household Size (People)	Number	Percent
1	2,097	31%
2	3,055	45%
3	830	12%
4	600	9%
5	145	2%
6 +	51	1%
<b>Total</b>	<b>6,778</b>	<b>100%</b>

## Employment Status

5.14 Employment data is available from the optional sales log form, of which there were 6,767 responses to the relevant question. The vast majority of the sole or first named purchasers were in full-time employment (30 hours a week or more) (90.9%), while 8.3% were either in part-time employment or self-employed. The sales log form was designed and issued prior to Covid-19, so it is not possible to tell if these respondents are, or were, at the time of completing the sales log form, furloughed or in any other way unable to work because of Covid-19. With that in mind, a very small number (<1%) were not working (including those not seeking employment).

## Health

5.15 Buyers were asked about the health of household members in the optional sales log form. Specifically, FHF buyers were asked "Does any member of

<sup>14</sup> Scottish Household Survey (2019)

your household (that will be living in the property you are purchasing) have a physical or mental health condition or illness lasting or expected to last 12 months or more?”. There were 6,521 answers to this question and 371 (6%) buyers responded that this was the case. This compares to 24% of Scottish households in 2019, according to the Scottish Household Survey. However, we may expect a lower share of FHF households to report that this is the case given the younger age profile of FHF buyers.

## **Armed Forces**

5.16 Information about whether an FHF buyer has ever served in the UK armed forces is available from the optional sales log form. FHF buyers were asked whether they had ever served in the UK armed forces be that: currently serving, previously served (regular armed forces) or previously served (reserve armed forces). There were 10,089 responses to this question – including responses for both purchaser 1 and purchaser 2, but excluding those that chose ‘prefer not to answer’ – and 197 (2%) answered that they had previously served, or were currently serving, in the UK armed forces.

## 6. Characteristics of FHF Properties

### Key Points

Half of all properties purchased through the FHF are located in six local authorities: City of Glasgow (13.5%), City of Edinburgh (9.4%), South Lanarkshire (7.8%), North Lanarkshire (7.8%), Fife (6.8%) and West Lothian (5.0%).

Relative to all residential property sales in Scotland in 2019-20, the FHF was used more than twice as much in larger cities and in urban local authorities that have substantial rural areas as in islands and remote areas.

The average price of a property purchased through the FHF is typically more expensive than the average price of a property purchased by all first-time buyers across Scotland, but less expensive than the average price of a property purchased by all buyer types across Scotland. This finding is robust to geographic and new build compositional effects.

Approximately one in six, or 17%, properties purchased through the FHF are new builds. This is more than the share of new build sales in all Scottish residential property transactions in 2019-20, of 12%.

Flats (32%) are the most commonly purchased property type through the FHF, closely followed by semi-detached properties (30%).

A relatively large number and proportion of new build sales purchased through the FHF were in excess of £200,000 – the price cap for Help to Buy (Scotland). Just over six in ten (63%, or 1,026) new build properties had a purchase price in excess of £200,000.

Properties purchased through the FHF appear to be slightly more energy efficient, on average, than the Scottish housing stock. The proportion of properties purchased through the FHF that have an Energy Performance Certificate (EPC) rating C or greater is 64%; this is greater than the share of the Scottish housing stock, which was 51% in 2019.

### Location<sup>15</sup>

- 6.1 The FHF has been widely used across Scotland. City of Glasgow accounted for the largest proportion of FHF sales (13.5%), followed by City of Edinburgh (9.4%) and South Lanarkshire (7.8%). Approximately half (50.4%) of all properties purchased through the FHF were in six local authorities: the three aforementioned local authorities, as well as North Lanarkshire (7.8%), Fife (6.8%) and West Lothian (5.0%).
- 6.2 To understand where the FHF has been used more intensively – relative to all residential property sales in Scotland – we can look at the number of properties purchased through the FHF as a share of all residential property sales in 2019-20 by local authority. There have been 9,729 sales through the FHF as of 1 December 2020, which is equivalent to 9.6% of all residential property sales across Scotland in 2019-20. Using this metric, the FHF was

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<sup>15</sup> Local authority data is available for 9,714 cases (99%)

used the most intensively in Midlothian, where properties purchased through the FHF were equivalent to 16.4% of all residential property sales in Midlothian in 2019-20. This is followed by West Lothian (15.2%) and City of Dundee (13.8%). The FHF was used the least relative to all residential property sales in Scotland in: Orkney Islands (3.1%), Argyll and Bute (4.4%) and Na h-Eileanan Siar (4.7%).

6.3 Using the fourfold Rural & Environment Science & Analytical Services (RESAS) classification<sup>16</sup> to distinguish the level of rurality of a local authority, we can understand the extent to which usage of the FHF has varied by the rurality of local authorities. Table 6.1 includes: the number of properties purchased through the FHF by in each local authority category (a); the number of properties purchased through the FHF in each local authority category as a share of all properties purchased through the FHF (b), and the number of properties purchased through the FHF in each local authority category, as a share of all residential properties purchased in that local authority category in 2019-20 (c).

**Table 6.1. FHF Usage by Rurality of Area**

Local Authority Category	Number of FHF Sales (a)	Share of FHF Sales (b)	Share of All Sales in category in 2019-20 (c)
Larger Cities	2,972	30.6%	10.2%
Urban with Substantial Rural Areas	4,432	45.6%	10.5%
Mainly Rural	2,184	22.5%	8.0%
Islands & Remote	126	1.3%	4.4%
<b>All</b>	<b>9,714</b>	<b>100%</b>	<b>9.6%</b>

6.4 Table 6.1 column (c) shows that, relative to all residential property sales in Scotland in 2019-20, the FHF was used more than twice as much in larger cities and in urban local authorities that have substantial rural areas than in islands and remote areas. The FHF was also used to a relatively greater extent in mainly rural areas than across islands and remote areas.

## Price

6.5 House price averages are commonly reported in three different ways in official house price statistics. An overview of how these averages are calculated is

<sup>16</sup> More information can be found at <https://www.gov.scot/publications/understanding-scottish-rural-economy/pages/13/>. RESAS is a department within the Scottish Government.

included in Box 6.1. The UK House Price Index (HPI) includes a geometric mean, as well as an arithmetic mean based on data from the Regulated Mortgage Survey, while Registers of Scotland house price statistics feature an arithmetic mean and the median.

### Box 6.1. The Arithmetic & Geometric Mean and the Median

Throughout this document, reference is made to two types of mean (an arithmetic and geometric mean), as well as the median. This box explains what these terms mean:

- **Arithmetic mean** – this is the most commonly used mean, or average, and is sometimes referred to as a simple mean. It is calculated by adding up a series of numbers and dividing this sum by the count of the numbers in the series. This is simple to calculate and intuitive to understand, but can be distorted by a small number of particularly large or small values (outliers).
- **Geometric mean** – this is used less frequently than the arithmetic mean, and is used when dealing with house prices as it is typically less distorted by high values (compared to the arithmetic mean). It is calculated as the  $n$ th root of the product of  $n$  numbers.
- **Median** – this is the middle number in a series of numbers, sorted in ascending or descending order. This is simple to calculate and intuitive to understand, and is also less susceptible to being distorted by outliers.

#### Example

Suppose we have the following set of numbers: 1, 2, 3, 5 and 30. The means and median are calculated as follows:

- **Arithmetic mean** –  $(1+2+3+5+30)/5 = 8.2$
- **Geometric mean** –  $(1*2*3*5*30)^{(1/5)} = 3.9$
- **Median** – the middle number in this sequence, in ascending or descending order = 3.

6.6 Table 6.2 features the geometric mean, arithmetic mean and median price of properties purchased through the FHF, as well as the corresponding value for all first-time buyers and all properties in Scotland. To aid interpretation, the arithmetic mean will simply be referred to as the 'mean' in this document and only the 'arithmetic mean' if being used to distinguish it from the geometric mean. If a geometric mean is used, it will always be explicitly referred to as a geometric mean.

**Table 6.2. Average Price of Properties Purchased Through the FHF Compared to the Wider Scottish Housing Market**

Type	FHF	All First-Time Buyers	All Properties
Geometric Mean	£147,588	£124,066 <sup>17</sup>	£153,451 <sup>17</sup>
Median	£150,000	N/A <sup>18</sup>	£156,625 <sup>19</sup>
Arithmetic Mean	£158,701	£149,625 <sup>20</sup>	£197,315 <sup>20</sup>

- 6.7 Table 6.2 shows that both the geometric and arithmetic mean price of properties purchased through the FHF is higher than the corresponding average for all Scottish first-time buyers. However, the average price of properties purchased through the FHF is lower than the average price of all properties in Scotland across both types of mean, as well as the median.
- 6.8 Using the arithmetic mean, the average price of a property purchased through the FHF (£158,701) is 5.8% higher than the average price of a property purchased by all first-time buyers across Scotland (£149,625). Meanwhile, using the geometric mean, the average price of a property purchased through the FHF (£147,588) is 19.0% higher than the average price of a property purchased by all first-time buyers across Scotland (£124,066).
- 6.9 In comparing the average price of a property purchased through the FHF with the average price of a property purchased by all first-time buyers across Scotland, we need to account for geographic compositional factors. Not doing so could bias this comparison. For example, if the FHF was used to a greater extent in local authorities where property prices are typically more expensive, this could cause the average FHF price to be higher than the average first-time buyer price across Scotland even if FHF buyers were not using the scheme to buy more expensive properties, relative to all first-time buyers, within a local authority.
- 6.10 To test for the effect of geographical composition factors on this comparison of averages, we can weight the average local authority first-time buyer price in

<sup>17</sup> UK HPI, simple average of the monthly geometric mean over 12 months to September 2020. Note that this will include cash sales as well as mortgage sales (although it is likely that only a small share of first-time buyer sales are cash sales).

<sup>18</sup> The Scottish median first-time buyer price is not published in official statistics or by UK Finance.

<sup>19</sup> Registers of Scotland quarterly house price statistics, simple average of the quarterly median over four quarters to September 2020.

<sup>20</sup> UK HPI – based on a sample of the Regulated Mortgage Survey, simple average of quarterly arithmetic mean over four quarters to September 2020. Note that this relates only to sales with a mortgage, i.e. excludes cash sales. FHF sales similarly all involve a mortgage. For reference, the mean Scottish house price (all sales types) in the four quarters to Q3 2020 was £183,082, according to Registers of Scotland.

each local authority by the share of properties purchased through the FHF in that local authority. Due to the availability of data, this comparison can only be undertaken for the geometric mean price<sup>21</sup>. While the average price paid by all first-time buyers in Scotland using FHF transactions as weights (£127,802) is slightly higher than the published ONS HPI average first-time buyer price (£124,066), the average price of properties purchased through the FHF<sup>22</sup> is still significantly (15.4%) higher than this. This shows that FHF buyers are typically purchasing properties that are more expensive than those a typical first-time buyer purchases in the same local authority<sup>23</sup>.

- 6.11 In comparing the average price of a property purchased through the FHF with the average price of a property purchased by all first-time buyers across Scotland, we also need to account for the share of new build sales through the FHF relative to all Scottish residential property sales. Not doing so could also bias this comparison of averages, as new build properties are typically more expensive than existing build properties (this is evident in Table 6.4). Table 6.3 shows that 17% of sales through the FHF are new builds, while 12% of residential property sales across Scotland in 2019-20 were private new build sales<sup>24</sup>.
- 6.12 To test this, ideally we would like to compare the average price paid by FHF buyers for existing build with the average price paid by all first-time buyers in Scotland for existing build, and similarly for new build. Unfortunately, the published HPI data on first-time buyer prices is not broken down by new and existing build. We therefore make use of the fact that new build tends to be more expensive than existing build to argue that if the average price paid by FHF buyers for existing build is higher the average price paid by all first-time buyers in Scotland for all (both existing and new) build types, then it is very likely that the average price paid by FHF buyers for existing build is higher than the average price paid by all first-time buyers for existing build.
- 6.13 The geometric mean price of existing build properties purchased through the FHF is £136,973 (see Table 6.4). When calculating the average price paid by all first-time buyers, we again control for geographical compositional effects by following a similar approach to that discussed in paragraph 6.9, except this time we weight the geometric mean first-time buyer price (for both new and

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<sup>21</sup> Only the UK HPI has data on first-time buyer prices by local authority, and this data is only available as a geometric mean.

<sup>22</sup> The geometric mean price of properties purchased through the FHF where local authority data is available is £147,528, which is very close to the £147,588 for all FHF purchases given in Table 6.2.

<sup>23</sup> Following the same approach, the average price (UK HPI) of all properties in Scotland (all buyer types), weighted by the number of FHF sales by local authority, is £156,704. This is slightly higher than the average price across Scotland presented in Table 6.2, which is £153,451. This shows that after accounting for geographic compositional effects, the average price of properties purchased through the FHF remains below the average Scottish property price.

<sup>24</sup> UK HPI data.

existing build) in each local authority by the share of FHF sales of existing build in that local authority, rather than all FHF sales. This calculation yields a weighted average first-time buyer price of £127,473<sup>25</sup>. The geometric mean FHF price for existing build is therefore 7% higher than the geometric mean first-time buyer price for all build, and this gap would likely be even larger if we could compare it to the average first-time buyer price for existing build.

- 6.14 From these two tests, we can conclude that the average price of a property purchased through the FHF is typically more expensive than the average price of a property purchased by all first-time buyers across Scotland, even after taking into account geographical composition and the higher share of new build in the FHF. However, it is less expensive than the average price of a property purchased by all buyer types in Scotland.
- 6.15 Chart 6.1 illustrates the extent to which properties purchased through the FHF differ from the average first-time buyer price (in the same local authority). It plots the difference between the price of the property purchased through the FHF and the geometric mean price of properties purchased by all first-time buyers in the same local authority in the year to end September 2020. Nearly two thirds (66%) of properties purchased through the FHF were more expensive than the geometric mean first-time buyer property price in the same local authority in the year to end September 2020, while just over one third (34%) of properties were less expensive<sup>26</sup>.

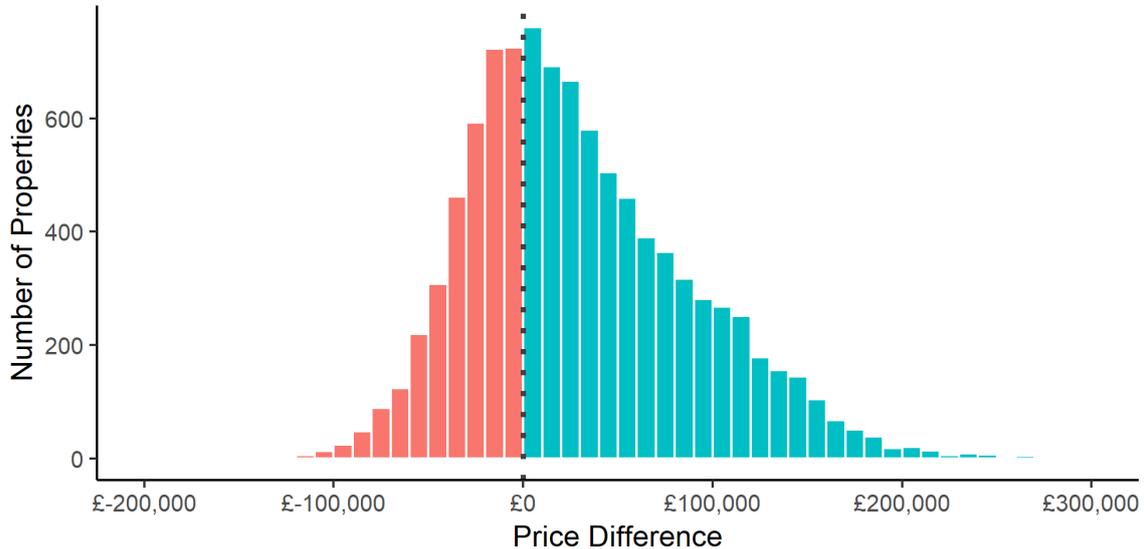
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<sup>25</sup> This is very close to the weighted average of £127,802 in paragraph 6.9, i.e. weighting by existing build FHF sales, rather than all FHF sales, makes little difference.

<sup>26</sup> Since the geometric mean of house prices tends to be close to the median (see Table 6.2), it is likely that around half of all first-time buyer sales will be above the geometric mean first-time buyer price, whereas a larger proportion of FHF sales – 66% – was above this price.

**Chart 6.1: Nearly two-thirds (66%) of properties purchased through the FHF were more expensive than the geometric mean first-time buyer price in the same local authority**

Histogram of the difference between FHF property price and geometric mean first-time buyer price in the same local authority (in the year to end September 2020). Source: UK HPI.



6.16 To better understand how the price of properties purchased through the FHF is distributed, Chart 6.2 features a histogram of the price of properties purchased through the FHF. This histogram is differentiated by the type of property – whether it is a new or existing build. Table 6.3 also includes the number and share of properties purchased through the FHF by £50,000 price bins. Chart 6.2 illustrates that the price of properties purchased through the FHF has a considerable degree of variation. Nearly two in ten (17.0%) properties purchased through the FHF are priced less than £100,000; however, just under one quarter (24.2%) are priced greater than or equal to £200,000. Chart 6.2 also shows that new build properties account for a disproportionate share of the upper half of the price distribution. More than nine in ten (92.6%) new build properties are more expensive than the median price of all properties purchased through the FHF. Also, a relatively large number and proportion of new build sales purchased through the FHF were in excess of £200,000 – the price cap for Help to Buy (Scotland). Just over six in ten (63%, or 1,026) new build properties had a purchase price in excess of £200,000.

**Chart 6.2: New build properties are typically more expensive than existing build properties purchased through the FHF**

Histogram of the price of properties purchased through the FHF, split by whether the property is a new or existing build



**Table 6.3. Price of Properties Purchased Through the FHF**

Price Band	Existing Build		New Build		All	
	Number	Percent	Number	Percent	Number	Percent
£0 to £49,999	14	0.2%	0	0.0%	14	0.1%
£50,000 to £99,999	1,640	20.3%	2	0.1%	1,642	16.9%
£100,000 to £149,999	2,978	36.8%	119	7.3%	3,097	31.8%
£150,000 to £199,999	2,155	26.6%	471	28.7%	2,626	27.0%
£200,000 to £249,999	950	11.7%	685	41.7%	1,635	16.8%
£250,000 to £299,999	252	3.1%	279	17.0%	531	5.5%
£300,000 to £349,999	64	0.8%	59	3.6%	123	1.3%
£350,000 or more	35	0.4%	26	1.6%	61	0.6%
<b>Total</b>	<b>8,088</b>	<b>100%</b>	<b>1,641</b>	<b>100%</b>	<b>9,729</b>	<b>100%</b>

6.17 That properties purchased through the FHF are typically more expensive than the average first-time buyer price in the same local authority could be explained by some purchasers using the scheme to buy a property that is larger than they otherwise would have been able to afford – but which may

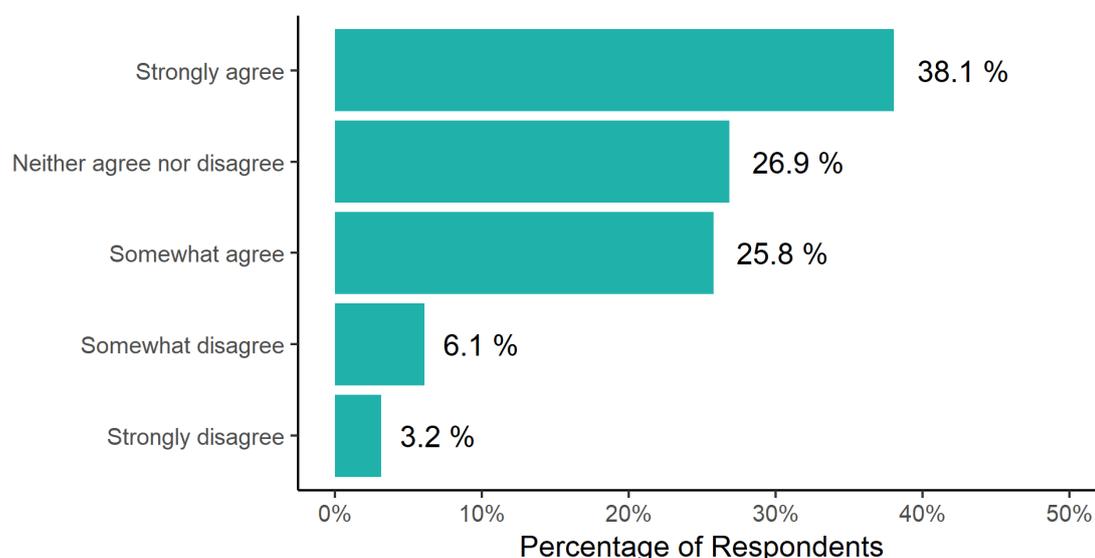
suit their needs better – than they could have without the FHF. Buyers were asked in the optional sales log form whether they agreed or disagreed with the following statement:

*“The Scottish Government’s First Home Fund has enabled me to buy a larger property, for example, one with more rooms, than would have been possible without the assistance”*

6.18 There were 6,439 responses to this question, which are summarised in Chart 6.3. Just over six in ten (63.9%) respondents agreed that the FHF had enabled them to buy a larger property than would have been possible without the assistance, while just over one quarter (26.9%) neither agreed nor disagreed. Less than one in ten (9.3%) did not agree that the FHF had enabled them to buy a larger property than would have been possible without the assistance from the FHF.

**Chart 6.3: Just over six in ten (63.9%) respondents agreed that the FHF had enabled them to buy a larger property than would have been possible without the assistance**

FHF buyers’ responses to the statement: “The Scottish Government’s First Home Fund has enabled me to buy a larger property, for example, one with more rooms, than would have been possible without the assistance”



### **New and Existing Build Properties**

6.19 Table 6.4 outlines the difference in price of new and existing build properties purchased through the FHF. This shows that the geometric mean price of new build properties is £213,210, which is 55.7% greater than the geometric mean price of existing build properties purchased through the FHF, of £136,973. Table 6.4 also shows that just more than one in six (16.9%) properties purchased through the FHF were new build properties. In comparison, in

2019-20 private new build sales accounted for just less than one in eight (12.0%) residential property sales across Scotland<sup>27</sup>.

**Table 6.4. Price of Properties Purchased Through the FHF by Build Type**

	<b>New</b>	<b>Existing</b>	<b>All</b>
Number	1,641	8,088	9,729
Share of Total (Percent)	16.9%	83.1%	100%
Geometric Mean Price	£213,210	£136,973	£147,588
Median Price	£215,000	£140,000	£150,000
Arithmetic Mean Price	£218,892	£146,489	£158,701
Arithmetic Mean FHF Equity Loan	£24,052	£21,468	£21,904

6.20 Table 6.4 also shows that buyers purchasing a new build property typically request a larger FHF equity loan than those buyers purchasing an existing build property – a difference of 12.0% (£2,584).

### Property Type

6.21 Information on the property type (i.e. whether the property is a flat, detached, semi-detached or terraced) is available from the optional sales log form, and there were 6,736 responses to the relevant question. Table 6.5 outlines the number and share of properties purchased through the FHF by property type, as well as information on the average price.

6.22 Table 6.5 shows that flats were the most commonly purchased type of property through the FHF, accounting for nearly one-third of sales (31.9%). This is 4.3 percentage points less than the share of all residential property sales across Scotland that were flats in 2019-20. The geometric mean price of flats purchased through the FHF is somewhat higher than the geometric mean price of all flats purchased in Scotland in the year to end September 2020 (+13.3%); this is the largest positive price differential across property types. That flats represent a smaller proportion of sales through the FHF than across all Scottish sales in 2019-20, as well as have the largest positive price differential, could reflect FHF buyers purchasing larger properties than they would have been able to without the FHF (see Chart 6.3).

6.23 Semi-detached properties purchased through the FHF accounted for the second largest share of properties purchased through the FHF, at 29.6%. This

<sup>27</sup> UK HPI.

is significantly more (11.4 percentage points) than the share of all residential property sales that were semi-detached in 2019-20. The geometric mean price of semi-detached properties purchased through the FHF is lower than the geometric mean price of all semi-detached properties purchased in Scotland in the year to end September 2020 (-4.5%).

- 6.24 Terraced properties accounted for approximately one quarter (24.6%) of properties purchased through the FHF and had a similar geometric mean price to that of all terraced properties purchased across Scotland in the year to end September 2020. Meanwhile, detached properties were the least commonly purchased property type, with just more than one in seven properties (13.9%) purchased through the FHF being detached. These properties were the most expensive property type purchased through the FHF, with a geometric mean price of £216,747, but were significantly less expensive than the geometric mean price of all detached properties purchased in Scotland in the year to end September 2020 (a difference of -18.1% - the largest differential across the different property types). It is worth noting the point made at paragraph 4.8, that new build sales account for a relatively smaller proportion of completed sales log forms than sales through the FHF. This could slightly distort the true proportion of property types purchased through the FHF, as new build properties are more likely to be detached than existing build properties.

**Table 6.5. Price of Properties Purchased Through the FHF by Property Type**

	Flat	Semi-Detached	Terraced	Detached
<b>First Home Fund</b>				
Number	2,149	1,997	1,656	934
Share of Total (%)	31.9%	29.6%	24.6%	13.9%
Geometric Mean Price	£124,417	£153,718	£129,507	£216,747
<b>Scotland</b>				
Sales Registered <sup>28</sup>	36,813	18,561	21,308	24,981
Share of Total (%)	36.2%	18.3%	21.0%	24.6%
Geometric Mean Price <sup>29</sup>	£109,779	£161,028	£128,418	£264,683
<b>Comparison</b>				
Difference in Sales (% points)	- 4.3	11.4	3.6	- 10.7
Difference in Geometric Mean Price (%)	13.3%	- 4.5%	0.8%	- 18.1%

## Property Size

6.25 Information on the size of properties purchased through the FHF is available from the optional sales log form, and there were 6,760 responses to this question. Table 6.6 outlines the distribution of properties purchased through the FHF by property size, as measured by the number of bedrooms.

<sup>28</sup> Registers of Scotland property market report 2019-20.

<sup>29</sup> UK HPI, simple average of monthly geometric mean price by property type across Scotland, up to and including September 2020.

**Table 6.6. Property Size (Number of Bedrooms)**

Property Size (Number of Bedrooms)	Number	Percent	Geometric Mean Price
1	559	8.3%	£111,468
2	2,667	39.5%	£126,364
3	2,833	41.9%	£154,943
4	632	9.3%	£218,601
5 +	69	1.0%	£239,099
<b>Total</b>	<b>6,760</b>	<b>100%</b>	

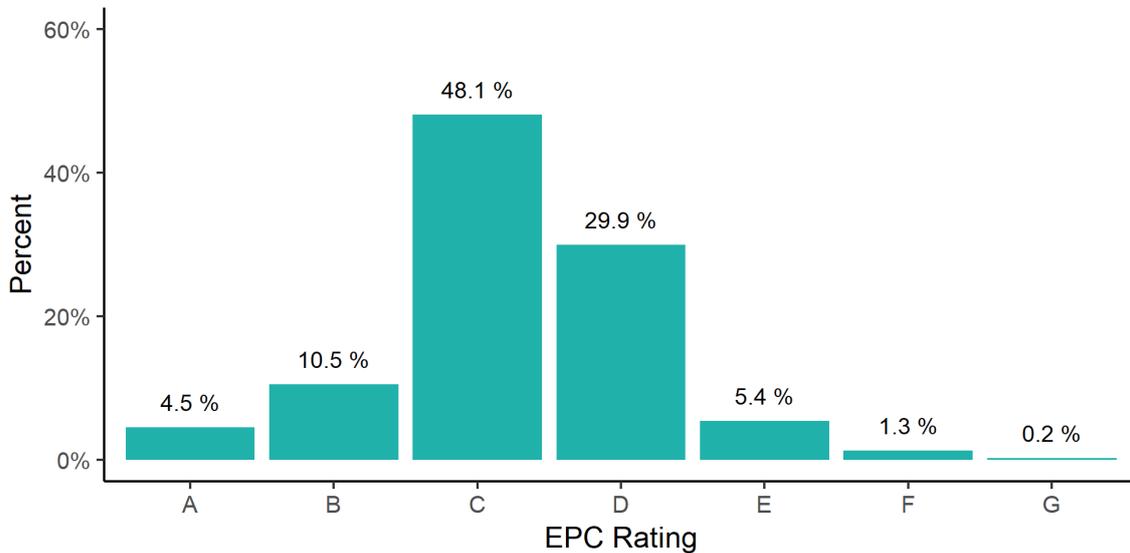
6.26 Table 6.6 shows that 2 and 3 bedroom properties accounted for just over eight in ten (81.4%) properties purchased through the FHF. Relative to all Scottish owner-occupied properties, it would appear that properties purchased through the FHF typically have fewer bedrooms. Data from the Scottish Household Survey for 2019 show that one third of Scottish owner-occupied properties have either one or two bedrooms, while nearly half (48%) of properties purchased through the FHF have either one or two bedrooms. Meanwhile, one in ten properties purchased through the FHF have four or more bedrooms, in comparison to nearly one quarter (24%) of Scottish owner-occupied properties. This is likely explained by first-time buyers being less able to afford larger, more expensive properties than home-movers, and also having relatively smaller households (see paragraph 5.13).

### Energy Efficiency

6.27 Information on the energy efficiency of the property (based on its Energy Performance Certificate (EPC) rating) is available from the optional sales log form, of which there were 4,877 responses. The reason for this being lower than other sales log form responses is that a considerable number of respondents did not know what the EPC rating was, or what it was for the property they were purchasing. The distribution of the EPC rating of properties purchased through the FHF is summarised in Chart 6.4, below.

### Chart 6.4: The most common EPC rating of properties purchased through the FHF is C

Energy Performance Certificate (EPC) rating of properties purchased through the FHF. A is the most energy efficient category, whilst G is the least.



- 6.28 The most commonly purchased type of property through the FHF by EPC rating is C; nearly half (48%) of properties purchased through the FHF have this rating. Despite new build properties only accounting for 16.9% of all properties purchased through the FHF, they account for a much greater proportion of EPC A rated properties; 43% of EPC A properties are new builds.
- 6.29 Properties purchased through the FHF appear to be slightly more energy efficient, on average, than the Scottish housing stock. The proportion of properties purchased through the FHF that are EPC C or greater is 63%; this is greater than the share of the Scottish housing stock, which was 51% in 2019<sup>30</sup>. This should be interpreted with some degree of caution given the relatively low sample size (4,877 sales log form responses to this question, equating to 50.1% of the 9,729 sales through the FHF).

<sup>30</sup> Scottish House Condition Survey - [Scottish house condition survey: 2019 key findings - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/scottish-house-condition-survey-2019-key-findings/pages/100_to_109.aspx)

## 7. Funding Arrangements

### Key Points

The majority (52.8%) of FHF buyers requested an FHF equity loan equal to £25,000 (the maximum amount available), while just over three quarters (76.7%) of buyers requested an FHF equity loan equal to £20,000 or more. The mean FHF equity loan percentage stake is 15.6%.

The mean FHF buyer's deposit contribution is £14,361; this is half the value of the average first-time buyer deposit across Scotland in the year to end September 2020.

The mean loan to value (LTV) ratio of properties purchased through the FHF is 76.5%, while the mean loan to income (LTI) ratio is 3.1. These are broadly similar to the equivalent LTV and LTI ratios of all first-time buyers in Scotland. This implies that FHF buyers are not systematically taking out mortgage products with high LTV or LTI ratios, relative to the population of first-time buyers across Scotland.

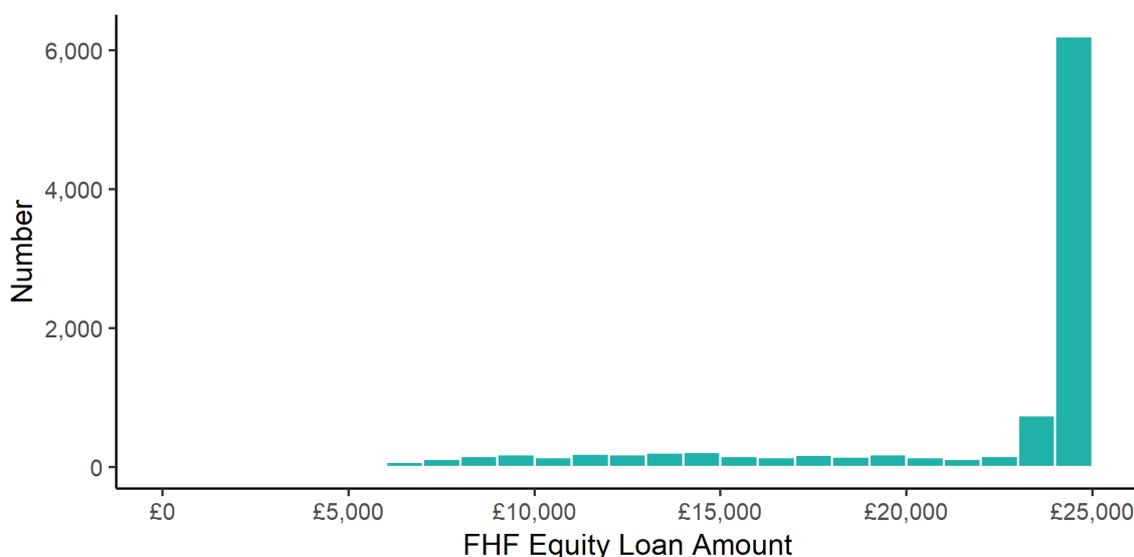
The average price of a property purchased through the FHF was 0.6% above valuation.

### FHF Equity Loan Amount

7.1 First-time buyers are able to apply to the FHF for an interest-free equity loan worth up to £25,000 to help them purchase their first home. The majority of FHF buyers (52.8%, or 5,135 buyers) requested the maximum FHF equity loan amount of £25,000, while just over three in four (76.7%) buyers requested an FHF equity loan equal to £20,000 or more. This is illustrated in Chart 7.1 and also summarised in Table 7.1.

#### Chart 7.1: More than half (52.8%) of FHF buyers requested the maximum FHF equity loan amount, of £25,000

Histogram of FHF equity loan amount requested



**Table 7.1. FHF Equity Loan Amount**

<b>FHF Equity Loan Amount</b>	<b>Number</b>	<b>Percent</b>
£0 to £9,999	493	5.1%
£10,000 to £14,999	935	9.6%
£15,000 to £19,999	838	8.6%
£20,000 to £24,999	2,328	23.9%
£25,000 (Maximum amount)	5,135	52.8%
<b>Total</b>	<b>9,729</b>	<b>100%</b>

7.2 While the FHF buyer owns their home, the Scottish Government holds an equity share in the property. This is calculated as the FHF equity loan amount divided by the lower of i) the value of the property or ii) the price of the property. The median FHF equity loan percentage stake is 14.3%, while the mean is 15.6%. The distribution of the FHF equity loan percentage stake size is summarised in Table 7.2, below.

**Table 7.2. FHF Equity Loan – Percentage Stake Size**

<b>FHF Equity Loan – Percentage Stake Size</b>	<b>Number</b>	<b>Percent</b>
0 to 4.99%	14	0.1%
5% to 9.99%	772	7.9%
10% to 14.99%	4,338	44.6%
15% to 19.99%	2,486	25.6%
20% to 24.99%	1,123	11.5%
25% to 49%	996	10.2%
<b>Total</b>	<b>9,729</b>	<b>100%</b>

7.3 Table 7.2 shows that approximately seven in ten (70.1%) purchases through the FHF have an equity loan expressed as a percentage equity stake between 10% and 19.99%. A relatively small proportion – less than one in ten (8.1%) – have an FHF equity loan expressed as a percentage equity stake under 10%.

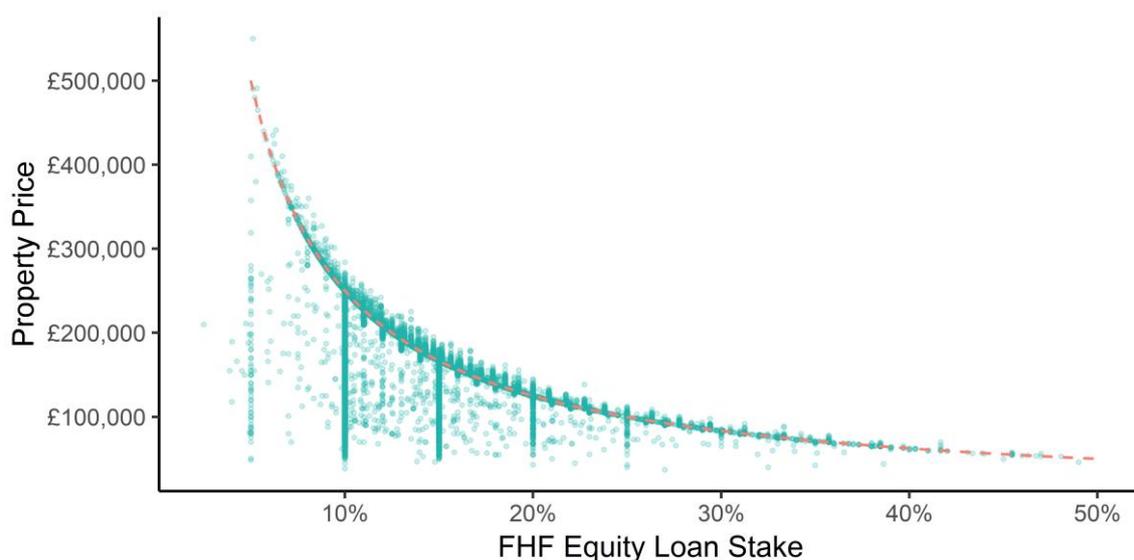
7.4 Chart 7.2 plots the distribution of the FHF equity stake percentage against the price of the property purchased through the FHF. The orange dotted line

represents £25,000 divided by the price of the property from £50,000 to £500,000. This shows the maximum FHF equity stake at each purchase price, subject to the consideration that the equity stake could be slightly above this in cases where the valuation is lower than the purchase price. This chart shows that the variation in the FHF equity stake amount is largely a function of the property price, given the majority (52.8%) of FHF buyers requested the maximum FHF equity loan amount of £25,000.

- 7.5 Chart 7.2 also shows that in cases where the buyer hasn't requested the maximum amount of funding through the FHF, a large number of buyers have chosen an amount of funding equal to that of a percentage of the property price or value in multiples of 5%. This strategy is not necessarily consistent with a buyer maximising their mortgage loan amount and deposit contribution to purchase a property that meets their needs. This is because we would expect the amount of FHF funding required for buyers at the margin of being able to afford to purchase a property that meets their needs to be somewhat evenly distributed, rather than being bunched in 5% multiples. In the same manner, we would not expect the majority of FHF buyers at the margin of being able to afford to purchase a property that meets their needs with a mortgage to be clustered at the maximum FHF equity loan amount, of £25,000. This is prima facie evidence that some FHF buyers had the ability to increase their mortgage loan amount and/or their deposit contribution and so use less funding from the FHF to purchase a property that meets their needs – this is discussed further in section 9.

**Chart 7.2:** In cases where buyers do not request the maximum FHF equity loan amount, the FHF percentage stake held by the Scottish Government is often grouped into 5% multiples

The FHF percentage stake is calculated as the FHF equity loan divided by the lower of the purchase price or property valuation. A darker shade of green dot represents a greater density of observations at that point. The orange dotted line represents £25,000 divided by the price of the property from £50,000 to £500,000. This shows the maximum FHF equity stake at each purchase price, subject to the consideration that the equity stake could be slightly above this where the valuation is lower than the purchase price.



### FHF Buyers' Deposit Contribution & LTV

7.6 A buyer must make at least a 5% deposit contribution to purchase a property through the FHF, subject to their mortgage lender's requirements. The mean FHF buyer deposit contribution is £14,361; this is half the average first-time buyer deposit across Scotland in the year to end September 2020, which was £28,708<sup>31</sup>. Given the similarity in gross household income and age between the average FHF buyer and all first-time buyers across Scotland, this difference in deposit contribution is unlikely to be explained by FHF buyers having lower levels of income from which they could save for a deposit, or less time to save. Rather, it is likely explained either by FHF buyers being able to save a lower share of their disposable income or having less access to other sources of funding (e.g. a gift or loan from relatives). It also could be explained by FHF buyers preferring to substitute some of their savings for funding from an FHF equity loan to reduce their exposure to risk or increase current consumption<sup>32</sup>.

<sup>31</sup> UK HPI, based on Regulated Mortgage Survey data

<sup>32</sup> There are multiple reasons why a buyer may prefer to substitute a portion of their savings that they could have used for their deposit with funding from an FHF equity loan. Dependent on their risk preferences, a buyer may do this to increase the amount of savings held in assets that are more liquid

- 7.7 If we combine the mean FHF buyer's deposit contribution with the mean FHF equity loan amount, which is £21,904, then the mean non-mortgage loan component of the purchase price of a property purchased through the FHF is £36,265, or 22.9%. This is higher in absolute and percentage terms than the average non-mortgage loan component of the purchase price of a property purchased by all first-time buyers across Scotland in the year to end September 2020 (19.2%, UK Finance).
- 7.8 Turning to the mortgage loan component of the property purchase, Table 7.3 summarises the Loan-to-Value (LTV)<sup>33</sup> ratio of properties purchased through the FHF. The mean LTV ratio of properties purchased through the FHF was 76.5%, while the median LTV ratio was 78.9%. Just over one in ten (13.2%) purchases had an LTV ratio of 85% or higher; however, just over four in ten (43.4%) properties purchased through the FHF had an LTV ratio greater than or equal to 80%. To put this in context, the mean LTV ratio of all mortgages advanced to first-time buyers in Scotland was 80.8% in the year to end September 2020, and 78.3% in Q3 2020 (UK Finance). This is slightly higher than the mean LTV ratio of properties purchased through the FHF (of 76.5%). While we do not have data on the distribution of first-time buyer LTV ratios in Scotland, we can at least infer from the fact that the mean LTV ratio is broadly similar across both groups that FHF buyers have not systematically taken out mortgages with relatively high LTV ratios (relative to the population of first-time buyers across Scotland).

**Table 7.3. LTV Ratio of Properties Purchased Through the FHF**

LTV Ratio	Number	Percent
0 – 69%	1,622	16.7%
70% - 74%	1,360	14.0%
75% - 79%	2,520	25.9%
80% to 84%	2,945	30.3%
85% or higher	1,282	13.2%
<b>Total</b>	<b>9,729</b>	<b>100%</b>

than housing equity (e.g. in a savings account or other investment). Also, dependent on the buyer's expectations of house price growth/macroeconomic conditions, and given interest is not charged on an FHF equity loan, the buyer may view the FHF equity loan as a cost-effective alternative of raising credit, relative to taking out an unsecured loan. More broadly, it could help them increase their current level of consumption.

<sup>33</sup> Calculated as the mortgage loan as a percentage of the property valuation.

7.9 It is noteworthy that the mean LTV ratio has remained relatively constant over the period of time that the FHF has been open to applications. The mean LTV ratio for applications to the FHF submitted from 18 December 2019 to 31 March 2020 was 75.2%, and 76.7% from 1 April 2020 to the beginning of October 2020, when the scheme was paused.

### **FHF Buyers' Loan-to-Income (LTI) Ratio**

7.10 The ratio of FHF buyers' mortgage loan to their gross household income is summarised in Table 7.4. This shows that across all FHF purchasers, the majority (54.1%) had an LTI ratio of 3 or more, while just more than one in nine (10.9%) had an LTI ratio less than 2. The mean and median LTI ratios for all purchasers were both 3.1. This is the same as the mean LTI ratio for all first-time buyers in Scotland in the year to end September 2020 (UK Finance). While we do not have data on the distribution of first-time buyer LTI ratios in Scotland, we can at least infer from the fact that the mean LTI ratio is the same across both groups that FHF buyers have not systematically taken out mortgages with relatively high LTI ratios (relative to the population of first-time buyers across Scotland).

7.11 Table 7.4 also shows that sole purchasers typically had higher LTI ratios than joint purchasers. Just over one quarter (25.1%) of sole purchasers had an LTI ratio of 4 or higher, compared to 10.1% of joint purchasers.

**Table 7.4. LTI Ratio of Properties Purchased Through the FHF**

LTI Ratio	Number	Percent	Percent, of Total
<b>6.4. All Purchasers</b>			
0 to 0.99	30	0.3%	0.3%
1 to 1.99	1,029	10.6%	10.6%
2 to 2.99	3,409	35.0%	35.0%
3 to 3.99	3,551	36.5%	36.5%
4 or higher	1,710	17.6%	17.6%
<b>Total</b>	<b>9,729</b>	<b>100%</b>	<b>100%</b>
<b>6.5. Sole Purchasers</b>			
0 to 0.99	10	0.2%	0.1%
1 to 1.99	367	7.6%	3.8%
2 to 2.99	1,420	29.3%	14.6%
3 to 3.99	1,831	37.8%	18.8%
4 or higher	1,215	25.1%	12.5%
<b>Total</b>	<b>4,843</b>	<b>100%</b>	<b>49.8%</b>
<b>6.6. Joint Purchasers</b>			
0 to 0.99	20	0.4%	0.2%
1 to 1.99	662	13.5%	6.8%
2 to 2.99	1,989	40.7%	20.4%
3 to 3.99	1,720	35.2%	17.7%
4 or higher	495	10.1%	5.1%
<b>Total</b>	<b>4,886</b>	<b>100%</b>	<b>50.2%</b>

7.12 Other Scottish Government shared equity schemes require purchasers to maximise the mortgage loan amount that is affordable for them. For instance, a condition of Help to Buy (Scotland) is that the applicant is expected to take out a mortgage that is at least 4.5 times gross household income for sole purchasers, and 3.5 times gross household income for joint purchasers. 151 sole purchasers (3.1% of all FHF sole purchasers) had an LTI ratio at or greater than 4.5, while 1,200 joint purchasers (24.6% of all FHF joint

purchasers) had an LTI ratio at or greater than 3.5. In total, just over one in seven (13.9%) FHF buyers took out a mortgage loan that was equal to or greater than the amount required to meet the Help to Buy (Scotland) mortgage condition.

- 7.13 That the mean LTV and LTI ratios are broadly similar between FHF buyers and first-time buyers across Scotland is prima facie evidence that a significant number of buyers using the FHF are not on the margin of being able to afford to purchase a property with a mortgage, and/or could have requested less funding from the FHF to purchase the same property. If most FHF buyers were marginal buyers, we'd expect to see a greater concentration of FHF buyers taking out mortgages with high LTV and LTI ratios than is the case, pushing the mean FHF LTV and LTI ratios above those of the average first-time buyer in Scotland.

### **Purchasing Over Valuation**

- 7.14 FHF buyers are able to pay above valuation on a property; however, any amount over the valuation of the property must be cash funded. Table 7.5 summarises the number of FHF buyers that paid over, at, or below valuation, and the extent to which this was the case. Nearly four in ten (39.0%) FHF buyers purchased a property at a price above valuation and, on average, paid 4.2% above the valuation of the property. A similar proportion (37.9%) purchased a property at valuation. Meanwhile, just under one quarter (23.1%) of FHF buyers purchased a property at a price below valuation and, on average, paid 4.5% less than the valuation. On aggregate, the average price of a property purchased through the FHF was 0.6%, or £952, above valuation.
- 7.15 This suggests the FHF has not been used systematically by buyers to bid significantly over valuation, which implies that the FHF rules strike a good balance: the qualitative evaluation shows that the flexibility to bid over valuation in cases where that makes sense is appreciated by buyers, while the requirement that any amount over valuation is cash funded, and that the Scottish Government equity share is calculated relative to the valuation rather than the purchase price, acts as a disincentive to buyers using the FHF as a means to outbid other potential buyers. This helps decrease the risk to the public purse.

**Table 7.5. FHF Properties Purchased Above, at, or Below Valuation**

<b>Purchase price is...</b>	<b>Number</b>	<b>Percent</b>	<b>Average Difference (£)</b>	<b>Average Difference (%)</b>
Below valuation	2,243	23.1%	-£6,467	-4.5%
At valuation	3,690	37.9%	-	-
Above valuation	3,796	39.0%	£6,258	4.2%
<b>Total</b>	<b>9,729</b>	<b>100%</b>	<b>£952</b>	<b>0.6%</b>

## 8. FHF Buyer Satisfaction

### Key Points

FHF buyers were asked to what extent they agreed with the following statements about the property they purchased through the FHF. These statements, and the share of respondents that agreed with them, are as follows:

- The property is the right size for my current housing needs – 98% agreed;
- I have been able to buy the type of property that I was looking to purchase (e.g. new build/existing build, detached, semi-detached, terraced or flat) – 97% agreed;
- The property is affordable for my budget – 98% agreed; and,
- The property is in a location that I want to live in – 97% agreed

### FHF Buyer Satisfaction

8.1 To elicit FHF buyers' views on whether they have been able to purchase a property that meets their needs and is located in an area that they want to live in – the primary objective of the FHF – buyers were asked to what extent they agreed with the following statements<sup>34</sup>:

- The property is the right size for my current housing needs (6,704 responses);
- I have been able to buy the type of property that I was looking to purchase (e.g. new build/existing build, detached, semi-detached, terraced or flat) (6,690 responses);
- The property is affordable for my budget (6,707 responses); and,
- The property is in a location that I want to live in (6,722 responses)

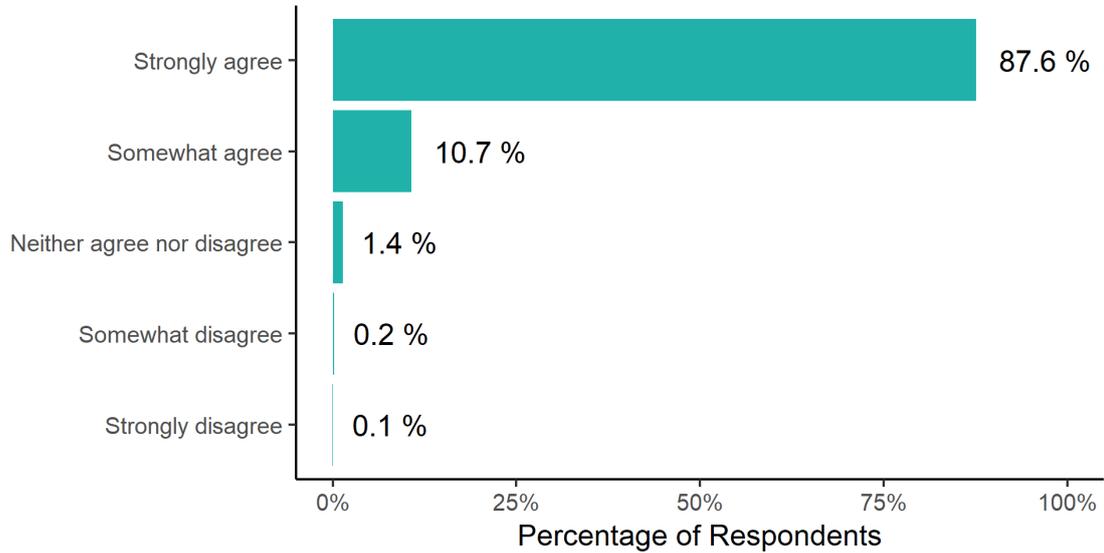
8.2 Chart 8.1 to Chart 8.4 summarise FHF buyers' responses to these statements.

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<sup>34</sup> These questions were asked in the optional sales log form, hence the number of responses is lower than the number of sales through the FHF.

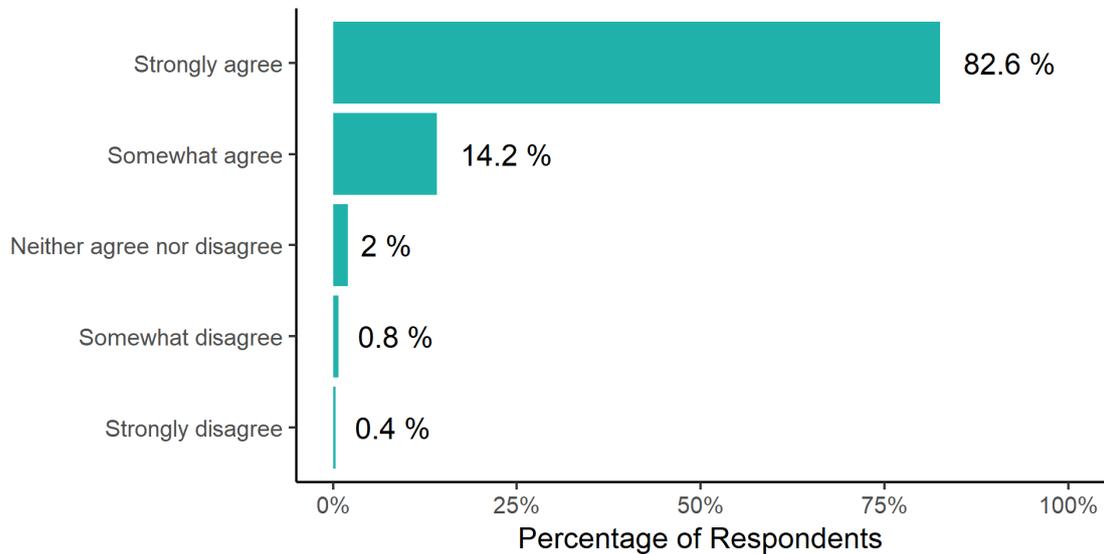
**Chart 8.1: 98% of respondents agreed that the property is the right size for their current housing needs**

FHF buyers' responses to the statement: "The property is the right size for my current housing needs"



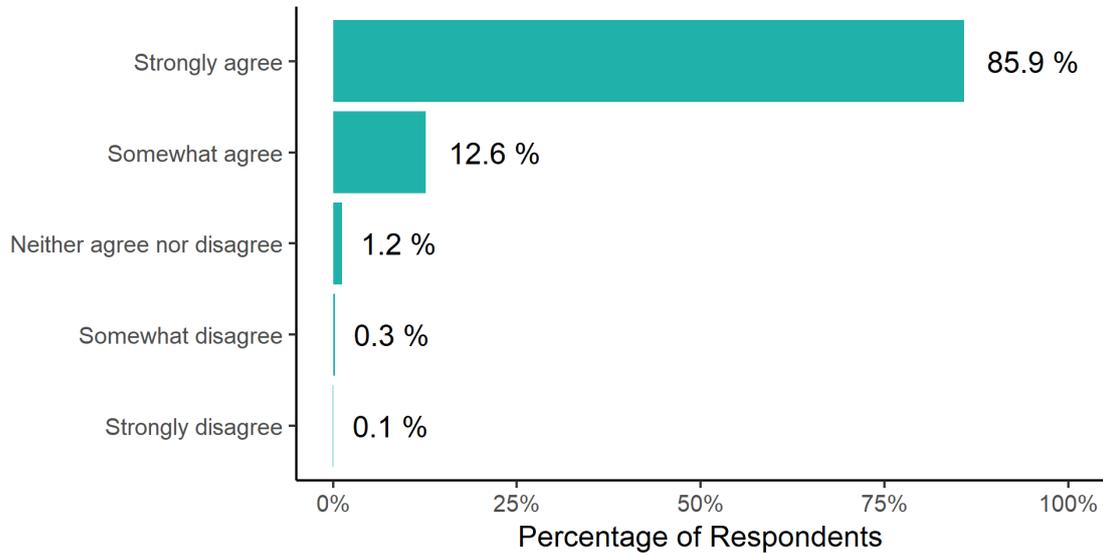
**Chart 8.2: 97% of respondents agreed that they have been able to buy the type of property they were looking to purchase**

FHF buyers' responses to the statement: "I have been able to buy the type of property that I was looking to purchase (e.g. new build/existing build, detached, semi-detached, terraced or flat)"



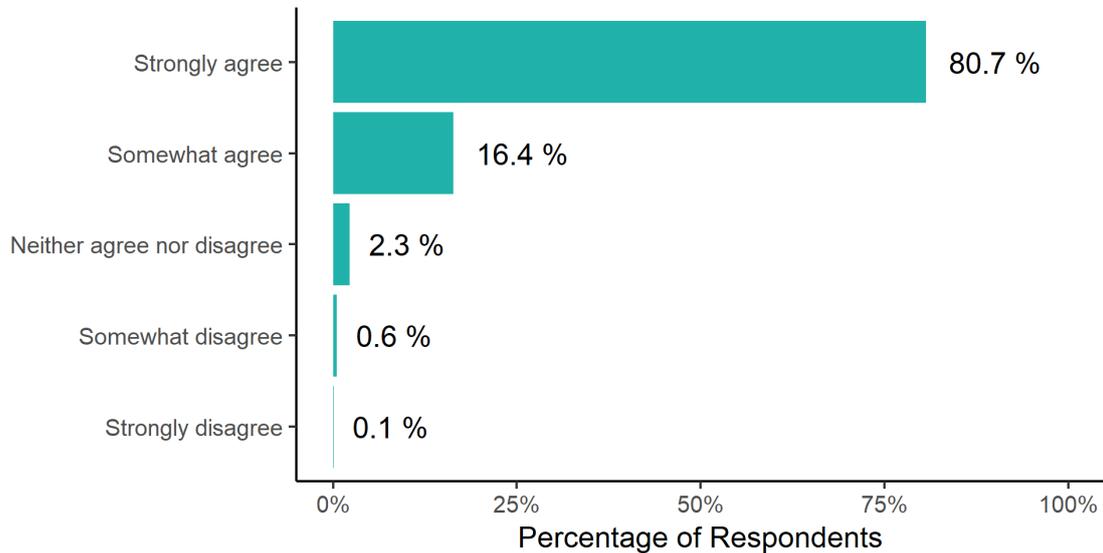
**Chart 8.3: 98% of respondents agreed that the property is affordable for their budget**

FHF buyers' responses to the statement: "The property is affordable for my budget"



**Chart 8.4: 97% of respondents agreed that the property they have purchased is in a location that they want to live in**

FHF buyers' responses to the statement: "The property is in a location that I want to live in"



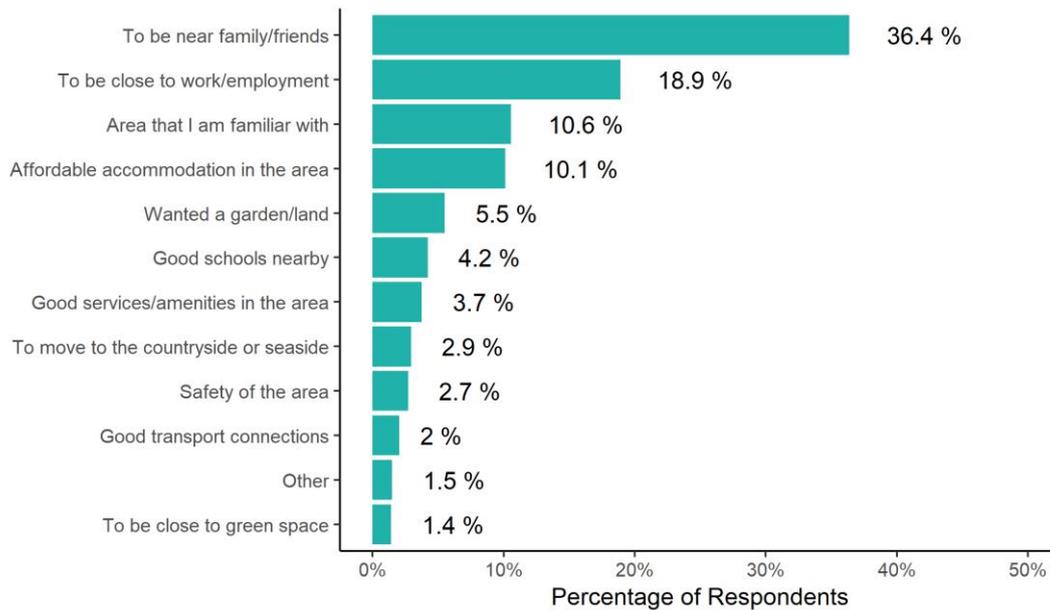
8.3 The responses to the questions illustrated in Chart 8.1 to Chart 8.3 suggest that the vast majority of FHF buyers have been able to purchase a property that is the right size and type for their current housing needs, and that that property is affordable for their budget. Chart 8.4 would also suggest that the vast majority of FHF buyers have been able to purchase a property that is located in an area that they want to live in. Taken together, the responses to

these statements would imply that FHF buyers have been able to purchase a home that meets their needs and is located in the area they want to live in.

8.4 FHF buyers were also asked for the most relevant reason for moving to the area that they've purchased a property in, with information available from the optional sales log form (6,597 responses). Responses to this question are summarised in Chart 8.5. Just over one third of respondents (36.4%) stated that the most relevant reason for moving to the area that they've purchased a property in through the FHF was to be near family/friends. Meanwhile, nearly two in ten respondents cited being close to work/employment as the most relevant reason for moving to the area. Together, these two answers accounted for nearly six in ten (55.3%) responses.

**Chart 8.5: More than one third (36.4%) of respondents cited being near family/friends as the most relevant reason for moving to the area**

FHF buyers' responses to being asked for the most relevant reason for moving to the area



## 9. Market Effect of FHF

### Key Points

The majority (58.1%) of FHF buyers believed the scheme had enabled them to use less of their savings for their deposit.

The additionality rate (defined as the share of FHF buyers who did not believe they could have purchased any property that would have met their needs without the FHF) is nearly three in ten (28.2%).

This is lower than OMSE (47%) and NSSE (39%), the other Scottish Government first-time buyer schemes, but higher than Help to Buy (Scotland) (20%).

Approximately half (50.9%) of FHF buyers believed it would have taken them at least two more years to have purchased the same property without the FHF.

The limited evidence available at this stage does not suggest that the FHF has had a significant impact on average first-time buyer prices or on total first-time buyer transactions in the Scottish housing market.

The FHF is likely to have diverted some sales from other Scottish Government shared equity schemes.

- 9.1 Section 8 showed that the vast majority of FHF buyers believed they had been able to purchase a property that meets their needs and is located in an area that they want to live in. We now turn our attention to what extent the financial support provided by the FHF was actually needed to enable FHF buyers to purchase a property that meets their needs and is located in an area that they want to live in. Furthermore, we look at whether these buyers could have purchased a property that would have met their needs without, or with less, financial support from the FHF. We also consider the effect of the FHF on the wider Scottish housing market.

### Use of FHF Equity Loan

- 9.2 The FHF was launched in recognition of the difficulty that some first-time buyers can face in terms of getting a deposit together to purchase their first home with a mortgage. To put this in context, data from the UK HPI shows that in the year to end Q3 2020, the mean first-time buyer deposit in Scotland was £28,708, or 70% of average gross annual household income first-time buyers in Scotland. To understand the extent to which raising funds for a deposit was a binding constraint, and whether the full amount of the FHF equity loan requested by buyers was required to purchase the property, FHF buyers were asked in the optional sales log form whether they agreed or disagreed with the following statement:

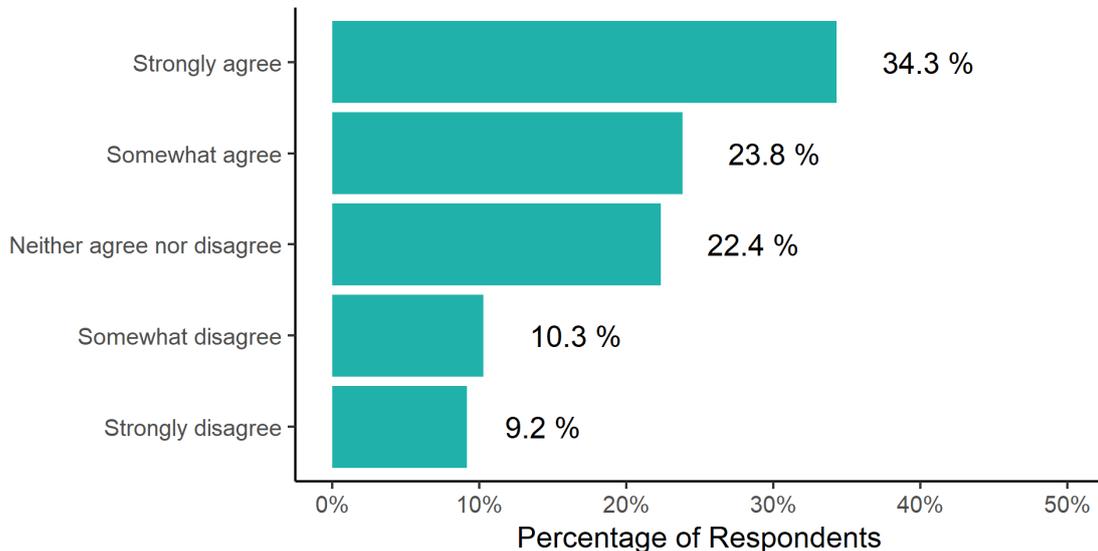
*“The assistance I have received from the Scottish Government’s First Home Fund has enabled me to use less of my savings for my deposit”*

9.3 We would expect that if FHF buyers faced a binding deposit constraint which was preventing them from being able to purchase a property with a mortgage, and the FHF equity loan was used for the sole purpose of alleviating this constraint, then FHF buyers should disagree with this statement, and perhaps strongly so. This is because an FHF buyer facing a binding deposit constraint would be facing a shortfall between the mortgage loan they could obtain and the funds they have for their deposit, preventing them from being able to purchase the property. The FHF equity loan would just bridge this gap to resolve this constraint; hence, it follows that they would disagree with this statement. If, however, an FHF buyer agrees with this statement, it does not necessarily imply that they did not originally face a binding deposit constraint. It does mean though that if they did face a binding deposit constraint, the FHF equity loan amount requested was greater than the shortfall they faced<sup>35</sup>. They could have used more of their own resources and requested a smaller FHF equity loan to purchase the same property.

9.4 The 6,425 responses to this statement are summarised in Chart 9.1, below.

**Chart 9.1: The majority (58.1%) of respondents believed the FHF had enabled them to use less of their savings for their deposit**

FHF buyers' response to the statement: "The assistance I have received from the Scottish Government's First Home Fund has enabled me to use less of my savings for my deposit"



9.5 Chart 9.1 shows that of the 6,425 responses, just under two in ten (19.5%) – disagreed with this statement. Furthermore, just under one in ten (9.2%) respondents strongly disagreed with this statement. This would suggest that only a minority of FHF buyers faced a binding deposit constraint and requested an FHF equity loan amount that was just sufficient to resolve this

<sup>35</sup> For reasons why this might be the case, see discussion at footnote 32.

constraint. This point is supported by the evidence presented in section 7, which showed that the majority of FHF buyers requested the maximum FHF equity loan amount or an amount that was clustered in 5% multiples of the price or valuation of the property. We explained in that section why this is not necessarily the behaviour we would expect to see from buyers facing binding deposit constraints and using the FHF purely to alleviate this constraint. Meanwhile, just over one-third (34.3%) of respondents strongly agreed that the assistance they received from the FHF had enabled them to use less of their savings for their deposit. When these responses are combined with those that somewhat agreed with the statement, then nearly six in ten (58.1%) respondents – the majority – agreed that the FHF had enabled them to use less of their savings for their deposit. Put differently, nearly six in ten FHF buyers said they could have purchased the same property with less financial support from the FHF.

- 9.6 Having distinguished that the majority (58.1%) of FHF buyers could have purchased the same property with *less* (but not necessarily no) funding from the FHF, we now turn to whether FHF buyers believed they could have purchased a property that would meet their needs *without* the FHF.

### **Ability to Buy the Same Property Without the FHF**

- 9.7 To understand whether FHF buyers believed they could have purchased the same property without the FHF, they were asked in the optional sales log form whether they agreed or disagreed with the following statement<sup>36</sup>:

*“I would have been able to buy this property without the assistance I received from the Scottish Government’s First Home Fund”*

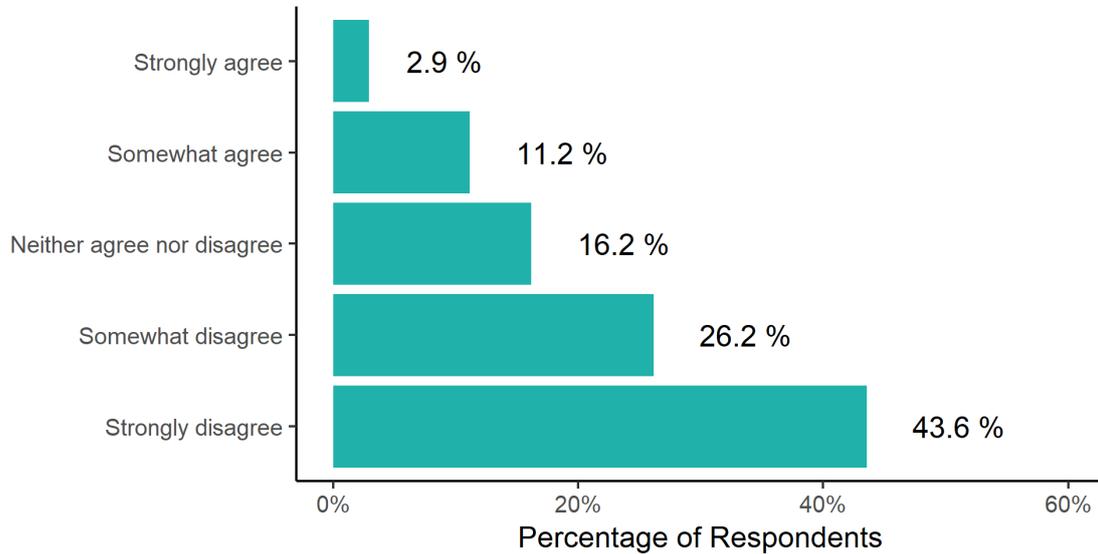
- 9.8 The 6,197 responses to this statement are included in Chart 9.2, below.

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<sup>36</sup> A series of four questions are used to assess additionality, and only those buyers that answered each of these questions are included in this analysis. There were 6,197 (91%) responses to all four questions – this compares with 6,778 buyers that completed the sales log form. The small number of sales log form respondents that did not answer these questions (i.e. either ignored them or selected ‘Prefer not to answer’) are discounted from this analysis.

**Chart 9.2: Just under seven in ten (69.7%) respondents believed they could not have purchased the same property without the FHF, but just over one in seven (14.1%) FHF buyers believed they could have**

FHF buyers' response to the statement: "I would have been able to buy this property without the assistance I received from the Scottish Government's First Home Fund"



9.9 Chart 9.2 shows that just over one in seven (14.1%) FHF buyers believed they could have purchased the same property without the FHF. If this is combined with those that neither agreed nor disagreed, then we can say that approximately three in ten (30.3%) respondents did not disagree with the statement that they could have purchased the same property without the FHF. This results in approximately seven in ten (69.7%) respondents who believed they could not have purchased the same property without the financial assistance they received through the FHF.

**Ability to Buy a Different Property in Same Area Without the FHF**

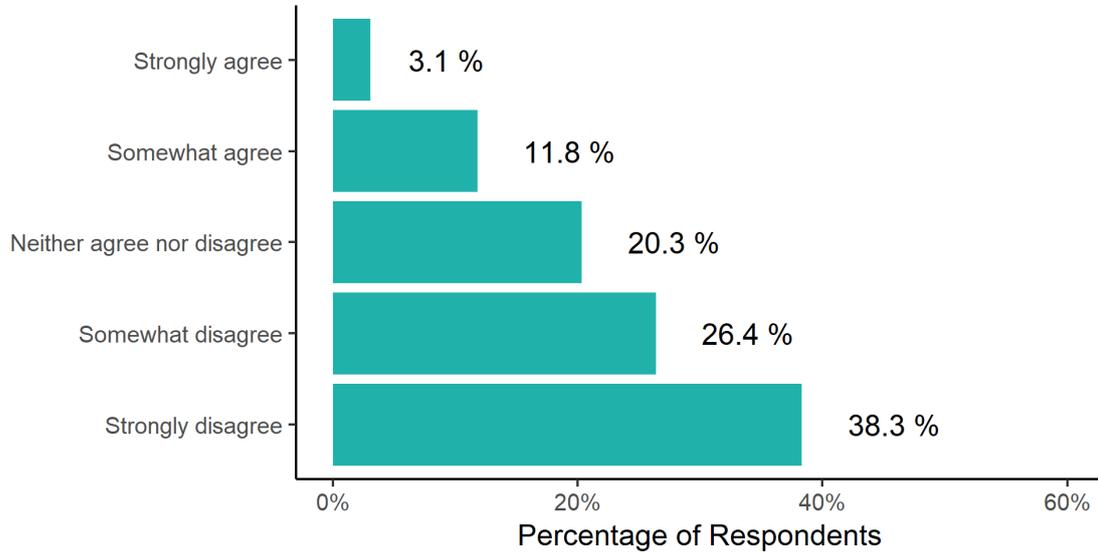
9.10 To understand whether FHF buyers believed they could have purchased a *different* property in the *same area* that would still have met their needs without the FHF, buyers were asked in the sales log form whether they agreed or disagreed with the following statement:

*"I would have been able to buy a **different property** that would meet my needs in the **same area** that I purchased a property in without assistance from the Scottish Government's First Home Fund"*

9.11 The 6,197 responses to this statement are included in Chart 9.3, below.

**Chart 9.3: Just less than two thirds (64.7%) of respondents believed they could not have purchased a different property in the same area that would still have met their needs without the FHF**

FHF buyers' response to the statement: "I would have been able to buy a different property that would meet my needs in the same area that I purchased a property in without assistance from the Scottish Government's First Home Fund"



9.12 Chart 9.3 shows that just under one in seven (14.9%) respondents believed they could have purchased a different property that would still have met their needs in the same area without the FHF. This is a similar proportion to the share of respondents that believed they could have purchased the same property without the FHF (14.1%). If this share (14.9%) is combined with those respondents that neither agreed nor disagreed, then we can say that just over one third (35.3%) of respondents did not disagree with the statement that they could have purchased a different property in the same area that would still have met their needs without the FHF. This results in just less than two thirds (64.7%) of respondents who believed they could not have purchased a different property in the same area that would still have met their needs without the FHF.

**Ability to Buy a Different Property in Different Area Without the FHF**

9.13 The objective of the FHF is to help first-time buyers purchase a property that meets their needs and is located in an area which they want to live in. However, in evaluating the degree to which the FHF was needed to purchase a home that would meet a buyer's needs more broadly, we must consider whether an FHF buyer could have purchased a property that would have still met their needs but was located in a different area.

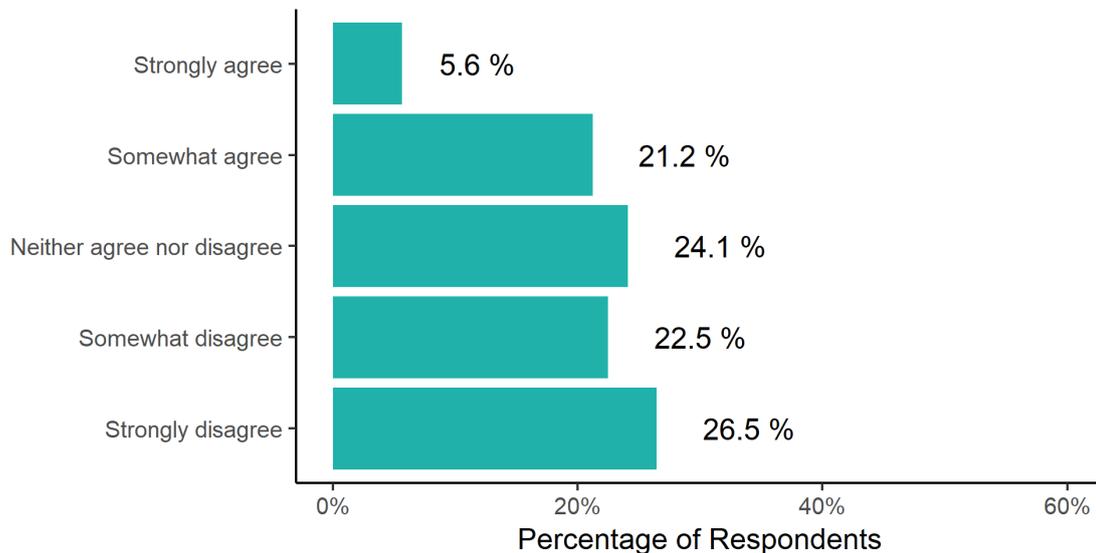
9.14 To understand whether FHF buyers believed they could have purchased a different property in a different area that would still have met their needs without the FHF, they were asked in the sales log form whether they agreed or disagreed with the following statement:

*“I would have been able to buy a **different property** that would meet my needs in a **different area** to that which I purchased a property in without assistance from the Scottish Government’s First Home Fund”*

9.15 The 6,197 responses to this statement are included in Chart 9.4, below.

**Chart 9.4:** Approximately half (49.0%) of respondents believed they could not have purchased a different property that would still have met their needs in a different area without the FHF

FHF buyers’ response to the statement: “I would have been able to buy a different property that would meet my needs in a different area to that which I purchased a property in without assistance from the Scottish Government’s First Home Fund”



9.16 Chart 9.4 shows that just over one quarter (26.9%) of respondents believed they could have purchased a different property that would still have met their needs in a different area without the FHF. If this is combined with those respondents that neither agreed nor disagreed, then we can say that approximately half (51.0%) of respondents did not disagree with the statement that they could have purchased a different property that would still have met their needs in a different area without the FHF. This results in approximately half (49.0%) of respondents stating that they could not have purchased a different property that would still have met their needs in a different area without the FHF.

## Purchased a Smaller Property, or a Property in Need of More Work

9.17 We finally turn to whether FHF buyers believed they could have purchased a smaller property, or a property in need of more work, that would still have met their needs without the FHF. That just over six in ten (63.9%) respondents agreed that the FHF had enabled them to buy a larger property than would have been possible without the assistance from the FHF (see Chart 6.3) is germane to this question. On the one hand, it is possible that some of these FHF buyers that answered positively to the statement in Chart 6.3 may have been able to afford to purchase a smaller property without assistance from the FHF, but that property may not have been large enough for their current housing needs. On the other hand, some of these buyers may have used the FHF to ‘jump’ a step on the housing ladder, purchasing a property that is larger than what they currently need.

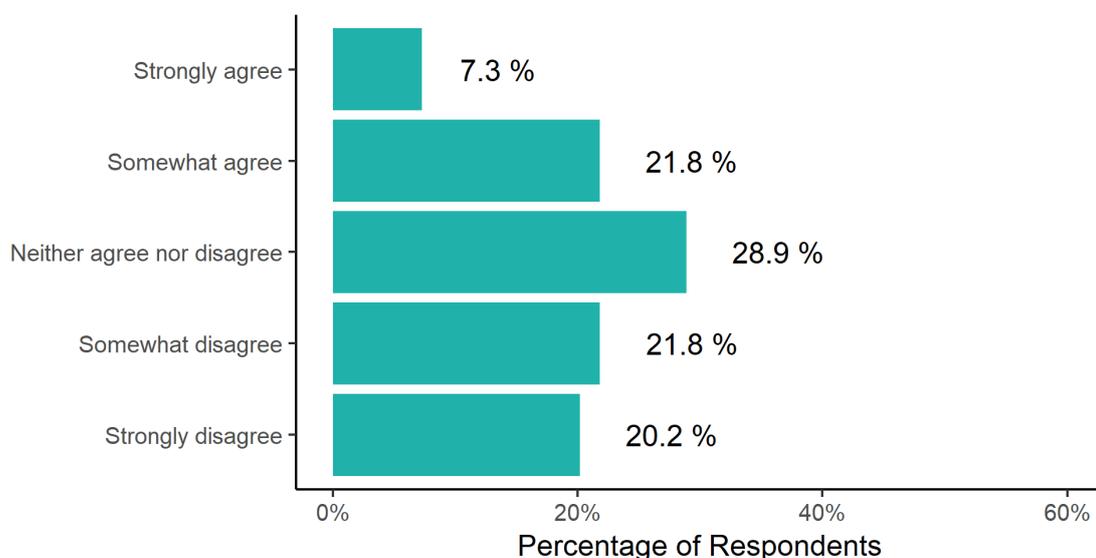
9.18 To answer this question, FHF buyers were asked in the optional sales log form whether they agreed or disagreed with the following statement:

*“I could have bought a smaller property, or a property in need of more work, that would have still met my needs without assistance from the Scottish Government’s First Home Fund”*

9.19 The 6,197 responses to this statement are summarised in Chart 9.5, below.

**Chart 9.5:** Just over four in ten (42.0%) respondents believed they could not have purchased a smaller property, or a property in need of more work, that would have still met their needs without the FHF

FHF buyers’ responses to the statement: “I could have bought a smaller property, or a property in need of more work, that would have still met my needs without assistance from the Scottish Government’s First Home Fund”



9.20 Chart 9.5 shows that just under three in ten (29.1%) respondents believed they could have purchased a smaller property, or a property in need of more work, that would have still met their needs without the FHF. If this is combined with those respondents that neither agreed nor disagreed, then we can say that nearly six in ten (58.0%) respondents did not disagree with the statement that they could have purchased a smaller property, or a property in need of more work, that would have still met their needs without the FHF. This results in just over four in ten (42.0%) respondents who believed they could not have purchased a smaller property, or a property in need of more work, that would have still met their needs without the FHF.

### **Additionality**

9.21 In paragraphs 9.7 to 9.20, we explored FHF buyers' responses to four statements regarding their ability to purchase: the same property, a different property in the same area, a different property in a different area, and, lastly, a smaller property or a property in need of more work. We can use these responses to derive an estimate of additionality generated by the FHF. A buyer is defined as being additional if they could not have purchased a property that would have met their needs without the FHF. They are deemed to be additional if they **disagree** (either somewhat or strongly) with **all** of the following four statements:

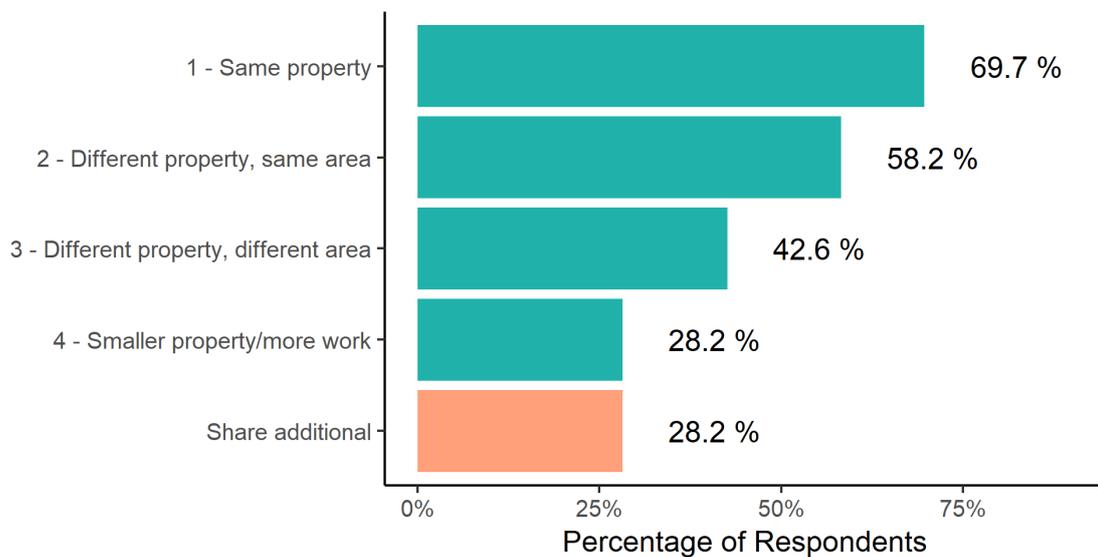
1. "I would have been able to buy **this property** without the assistance I received from the Scottish Government's First Home Fund";
2. "I would have been able to buy a **different property** that would meet my needs in the **same area** that I purchased a property in without assistance from the Scottish Government's First Home Fund";
3. "I would have been able to buy a **different property** that would meet my needs in a **different area** to that which I purchased a property in without assistance from the Scottish Government's First Home Fund"; and,
4. "I could have bought a **smaller property**, or a **property in need of more work**, that would have still met my needs without assistance from the Scottish Government's First Home Fund"

9.22 To visualise the process of calculating the share of FHF buyers that are deemed to be additional in accordance with the steps outlined above, Chart 9.6 iteratively filters out respondents that did not disagree with each statement. For example, the chart shows that nearly seven in ten (69.7%)

respondents did not believe they could have purchased the same property without the FHF. However, a smaller proportion (just under six in ten, 58.2%) of respondents did not believe they could have purchased the same property without the FHF **and** did not believe they could have purchased a different property in the same area that would have still met their needs without the FHF. This process is continued until we are left with the share of respondents that disagreed with each of the four statements (28.2%).

**Chart 9.6: Just less than three in ten (28.2%) respondents did not believe they could have purchased a property that would have met their needs without the FHF**

FHF buyers that either strongly disagreed or somewhat disagreed with all four statements, applied iteratively (see discussion in paragraph 9.22)



9.23 Looking at responses to the four questions in total:

- Just less than **three in ten** (28.2%) respondents believed they **could not have purchased a property** that would have met their needs **without the FHF**;
- Just over **four in ten** (44.6%) respondents believed they **could have purchased a property** that would have met their needs **without the FHF** (i.e. agreed with at least one of the four statements); and,
- The remainder, nearly **three in ten** (27.2%) respondents, **neither agreed nor disagreed** that they could have purchased a property that would have met their needs without the FHF.

9.24 As per the external evaluation of the Scottish Government’s other shared equity schemes, as well as the UK Government evaluation of Help to Buy in

England<sup>37</sup>, only those that declared that they did not believe they could have purchased a property that would have met their needs without the FHF are deemed to be additional<sup>38</sup>. It is important to caveat this calculation of additionality with the point that this is a subjective view of the buyer of whether they could have purchased a property that would have met their needs without the FHF. There are limitations attached to this method of calculating additionality. For instance, a buyer might have limited information about the range of mortgage products available to them, or limited information about what properties are available for purchase, not only in the same area but particularly in other areas. This could affect their ability to accurately determine whether they could, realistically, have purchased another property that would have met their needs without the FHF. In addition, similarly sized households may have quite different views on whether or not a property meets their needs, in turn affecting their response to these statements. In particular, a household with a higher income may have a higher expectation of what property will meet their needs than a similarly sized household on a lower income.

- 9.25 We can though check that, given the subjectivity with which different households assess their needs, households do at least answer the various additionality questions in a consistent manner. As the additionality questions progressively broaden the set of properties to consider in the counterfactual (from the same property, to a different property in the same area, to a different property in a different area, to a smaller property), we would expect a greater share of buyers to answer that they could have purchased a property without the FHF, which is what we see in Chart 9.2 through Chart 9.5.
- 9.26 We can also check whether evidence presented earlier in this report is consistent with the conclusion that the rate of additionality is less than a third. First, we would expect a typical first-time buyer on the margin of being able to enter home-ownership to purchase a property that is below the average first-time buyer price. Doing otherwise could imply that there were less expensive properties that the buyer could have purchased without support from the FHF. However, section 6 showed that the average price of a property purchased through the FHF is higher than the average Scottish first-time buyer price.
- 9.27 Second, we would expect a typical marginal first-time buyer to have lower gross annual household income than the average Scottish first-time buyer. This is because the size of mortgage loan advanced (and, to a large degree, a buyer's deposit<sup>39</sup>) is largely a function of income. It follows that households

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<sup>37</sup> Available at <https://www.gov.uk/government/publications/evaluation-of-the-help-to-buy-equity-loan-scheme>

<sup>38</sup> Although see the discussion in paragraph 9.32 as to treatment of neutral responses in the evaluation of the other Scottish Government shared equity schemes.

<sup>39</sup> Since a larger income would offer more opportunity for the household to save up for a deposit.

with higher incomes should, all else equal, be able to take out a larger mortgage loan and put down a greater deposit relative to households with lower incomes, and be relatively more able to afford to enter home-ownership. However, section 5 showed that the average gross annual household income of FHF buyers is similar to that of all first-time buyers across Scotland.

- 9.28 Third, if a buyer is using the FHF purely to alleviate a binding deposit constraint, then we would expect them to take out a mortgage with a relatively high LTV ratio. This is because the FHF equity loan would be used just to bridge the gap between the buyer's deposit and the maximum LTV mortgage product they could afford. However, section 7 showed that the average LTV ratio on mortgages taken out by FHF buyers is slightly lower than that of all first-time buyers across Scotland. This implies that FHF buyers are not systematically taking out mortgages with high LTV ratios, relative to the population of first-time buyers across Scotland.
- 9.29 Finally, other evidence presented above is also consistent with the conclusion that many FHF buyers could have bought a different property that would meet their needs without, or with less, FHF assistance: Chart 9.1 showed that the majority of FHF buyers reported that the FHF had enabled them to use less of their savings for their deposit, while Chart 7.2 showed that FHF buyers often took a share of SG equity funding in multiples of 5%<sup>40</sup>. These both suggest that many FHF buyers did not face a binding financing constraint on the property they purchased, and could have bought it with less or no FHF assistance (or could have bought a cheaper property without help from the FHF).
- 9.30 To put the rate of additionality of the FHF (28%) in perspective, it is lower than the rate of additionality calculated for the Scottish Government's other first-time buyer shared equity schemes: the 2019 evaluation found that additionality was 47% in OMSE and 39% in NSSE. This can likely be explained by these schemes being targeted at buyers on low to moderate incomes, with means testing and property price caps<sup>41</sup>. These measures limit the degree to which these schemes can be used by buyers that could otherwise afford to enter home-ownership. The rate of additionality through the FHF is somewhat higher than the additionality rate estimated for Help to Buy (Scotland) of 20%; however, this scheme can only be used for new build properties, which are typically more expensive than existing build properties, and it is also open to home movers, who are more likely to be able to fund a deposit due to the equity stake they have accrued in their previous home.

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<sup>40</sup> See discussion at paragraph 7.5.

<sup>41</sup> Or properties that are priced at a relatively low level, in the case of NSSE.

- 9.31 When comparing the rate of additionality generated by each shared equity scheme, some caution should be exercised. The statements used to determine additionality are not identical – the statements used in this evaluation of the FHF are tailored to the specific objectives of the FHF. Furthermore, the timing of these questions being asked differs. The estimate of additionality contained in the Scottish Government’s evaluation of its other shared equity schemes considered additionality over the schemes’ lifetimes (dating back to 2007 for the LIFT schemes, when mortgage conditions were more restrictive). Furthermore, as the buyer survey in that evaluation was retrospective, it asked for buyers’ views *after* they had purchased their property. In contrast, FHF buyers could respond to these questions *prior* to settlement or when they had only lived in the property for less than a year.
- 9.32 A priori, it is not demonstrable that this timing difference biases responses in a particular direction, but it will have some bearing at least on recall ability and, in turn, a buyer’s ability to accurately respond to the set of additionality questions. The evaluation of the other Scottish Government shared equity schemes included neutral answers in the central estimate of additionality on the grounds that due to the length of time between the purchase decision and survey, buyers may have been more likely to reply in a neutral manner due to recall difficulties rather than because the purchase was not additional. But even if neutral answers are excluded, while the rate of additionality is somewhat reduced for the other schemes, the overall pattern and relationship with FHF additionality is similar, with the 28% additionality for the FHF comparing to 16% for Help to Buy (Scotland), 31% for New Supply Shared Equity and 40% for Open Market Shared Equity<sup>42</sup>.

### **Characteristics of Those Deemed Additional**

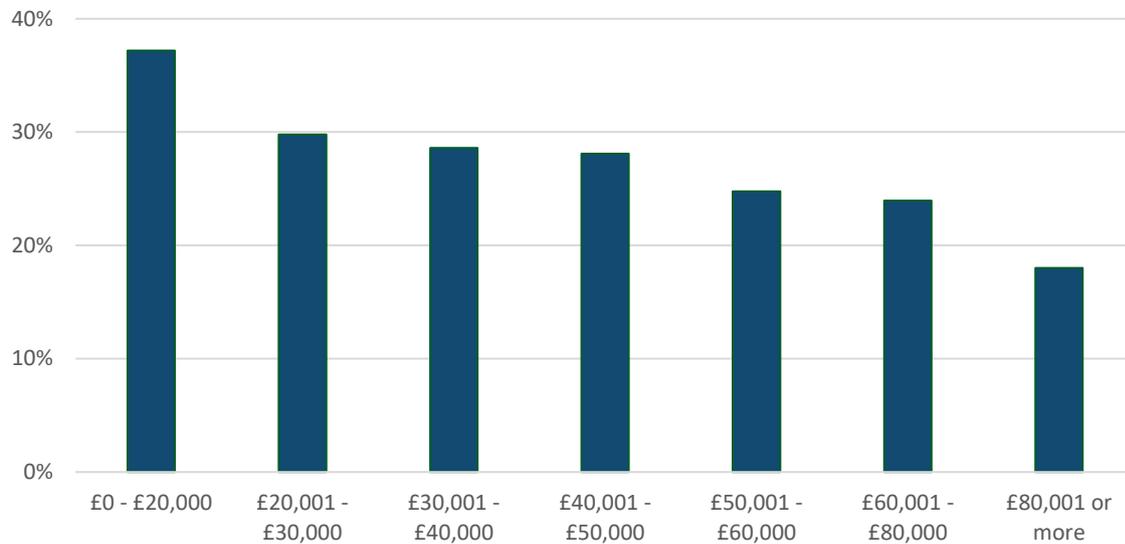
- 9.33 Chart 9.7 shows that the additionality rate declines as the purchase price increases, from 35% for purchase prices up to £100,000 to 19% for purchase prices over £250,000.

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<sup>42</sup> See Table 9 on P83, and surrounding discussion, in the [Shared equity schemes: evaluation reports - gov.scot \(www.gov.scot\)](http://www.gov.scot).

**Chart 9.7: The rate of additionality generally declines as the purchase price increases**

Estimated rate of additionality, broken down by FHF purchase price bands.



9.34 Chart 9.8 shows that additionality rate also generally falls as income rises, from 37% for households with income below £20,000 to 18% for households with income over £80,000.

**Chart 9.8. The rate of additionality generally declines as household income increases**

Estimated rate of additionality, broken down by FHF buyer gross annual household income bands.



9.35 The additionality rate also tends to be higher for older households, with households over 30 having an additionality rate of 34% compared to 25% for

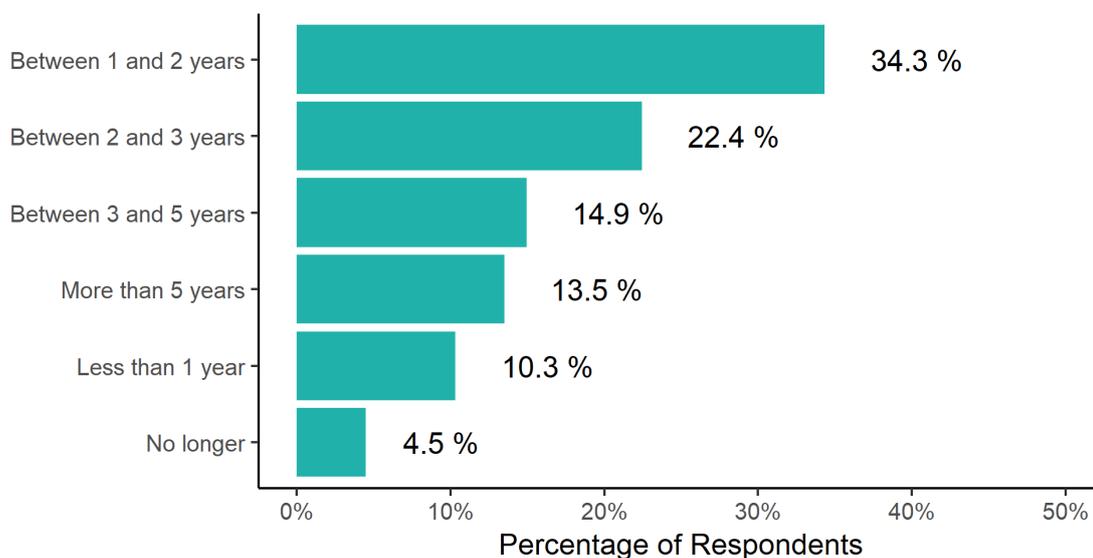
households aged 30 and under. The additionality rate is also higher for households who have not previously owned a property (29%) than for households where one of the joint buyers has previously owned property (20%).

### Length of Time to Purchase Without FHF

9.36 Where sales through the FHF are assessed as additional, in general this may be more a case of FHF buyers being able to buy earlier than they could otherwise have done, rather than never being able to become home owners without assistance, since over time they may have been able to save a sufficient amount for a deposit. Information on FHF buyers' expectations for the length of time it would have taken them to purchase the same property without the FHF is elicited from the sales log form. There were 5,876 responses, summarised in Chart 9.9 below.

**Chart 9.9: Approximately half (50.9%) of respondents believed it would have taken them at least two more years to have purchased the same property without the FHF**

FHF buyers' responses to the question: "If funding had not been available through the Scottish Government's First Home Fund, how much longer do you think it would have taken you to purchase this property?"



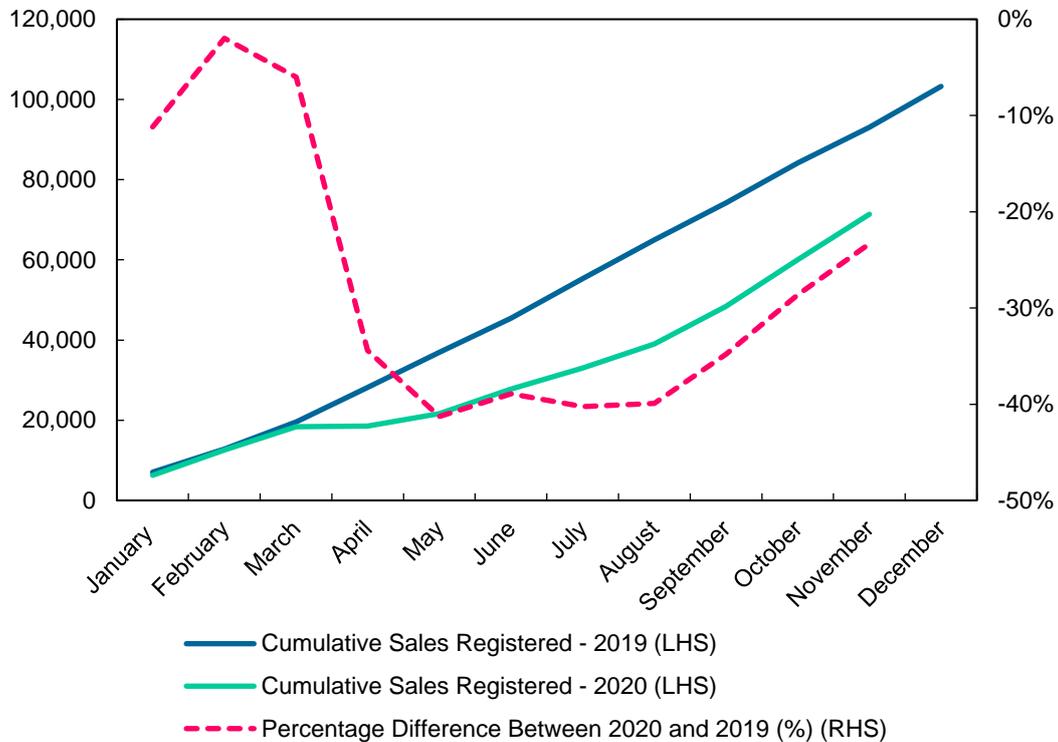
9.37 Approximately half (50.9%) of respondents believed it would have taken them at least two more years to have purchased the same property without the FHF. Meanwhile, just less than one in seven (14.8%) respondents believed they could have purchased the same property without the FHF in less than one year. A slightly smaller proportion (13.5%) believed it would have taken them more than five years to purchase the same property without the FHF, and it is possible that some members of this group may never have been able

to access home ownership without financial assistance. It is worth noting however that this question specifically asks about the extra time it would have taken to purchase the *same* property; it is possible that buyers could have bought *another* property that that would have met their needs more quickly than set out here.

- 9.38 To the extent that the FHF has accelerated sales, this will still be a benefit of the scheme. First, it allows households to benefit from a home that meets their needs earlier than would have been the case. Second, this could have gone some way to helping the Scottish housing market's recovery from the Covid-19 pandemic. Chart 9.10 illustrates the sharp fall in housing market activity from April to May 2020 during the first period of national lockdown, before the market stabilised in June and then cumulative transactions began to catch up towards their 2019 levels from September 2020 onwards. By bringing forward transactions that would likely have occurred in future years, the FHF may have helped to smooth out the immediate adverse shock experienced by the Scottish housing market from Q2 2020. This however depends on the extent to which FHF sales may have displaced other sales, an issue we discuss from paragraph 9.40 onwards.

**Chart 9.10:** There has been a significant shock to the Scottish residential property market in 2020 because of Covid-19; from January to November 2020, sales registered across Scotland were down by an annual 23%

The chart plots the cumulative number of sales registered against the left hand axis, while the right hand axis is the annual percentage difference in this cumulative number of sales registered. Source: Registers of Scotland.



9.39 While the FHF might in general have helped to bring some transactions forward, which would have benefitted housing market in the aftermath of Covid-19, it is not clear that Covid-19 itself – and the associated adverse implications for mortgage affordability<sup>43</sup> – has resulted in a much greater share of ‘additional’ FHF buyers. The additionality rate for applications made to the FHF from 18 December 2019 to 31 March 2020 is 25%, while the additionality rate for applications submitted from 1 April 2020 to 2 October 2020 is just slightly higher, at 29%. This can partly be explained by the fact that buyers using the FHF have not systematically taken out mortgages with relatively high LTV ratios<sup>44</sup>, so a significant share of FHF buyers may not have been affected by the reduced availability of high-LTV mortgage products. Furthermore, from 1 April 2020 to 2 October 2020, buyers continued to use

<sup>43</sup> Covid-19 led to a temporary reduction in the availability of high-LTV mortgages, partly in response to: greater uncertainty associated with house prices, decreased lender risk appetite, difficulties conducting in-person valuations, and capacity constraints caused by staff working from home. The mean LTV ratio on new mortgages advanced to first-time buyers in Scotland fell 4.5 percentage points annually to 78.3% in Q3 2020 (Source: UK Finance). In addition, high-LTV mortgages became relatively more expensive, with the spread between average advertised mortgage rate on a 2 year fixed 90% and 75% LTV mortgage widening from 64 basis points in January 2020 to 170 basis points in October 2020 (Source: Bank of England).

<sup>44</sup> Just over one in ten (13.2%) purchases had an LTV ratio of 85% or higher.

the FHF to purchase properties that were more expensive than the average first-time buyer property price. This suggests that buyers could still have purchased less expensive properties that may have met their needs without, or with less, funding from the FHF.

### **Other Measures of FHF Impact**

- 9.40 We set out in paragraph 9.23 our assessment of the rate of additionality generated by the FHF and, from paragraph 9.26 onwards, drew on some of the key findings from this research on the characteristics of FHF buyers and properties they've bought to corroborate this estimate. However, additionality estimates based on the data from buyers through the FHF have the limitation that they will not capture whether other potential buyers in the market have been displaced by FHF buyers. We therefore now extend our scope to look at what effect the FHF may have had on the broader Scottish housing market, to see if we can detect the net impact of additional FHF purchases and displaced purchases by non-FHF buyers.
- 9.41 It is important to note at this juncture that it is challenging to assess the overall impact of shared equity schemes on the housing market, and this is particularly true of the FHF. This is because there are many factors unrelated to the FHF that are at play which will also affect the housing market<sup>45</sup>, making it difficult to attribute any change to a particular policy intervention. Furthermore, it is challenging to carry out any meaningful econometric analysis given the limited time-series data that is available, particularly given the short period of time over which the FHF has been in operation. However, a “natural experiment” is one approach that can sometimes be used to assess the effect of a policy, by exploiting variation in the structure of a policy intervention to assess its effect.
- 9.42 An example of a “natural experiment” being used to assess the effectiveness of a shared equity scheme can be found in the research by Carozzi, Hilber and Yu<sup>46</sup> on the impact of Help to Buy. This study exploits differences in Help to Buy funding conditions on either side of a boundary (the Greater London Authority boundary, and the English/Welsh border) to help control for the variety of factors that can affect house prices other than Help to Buy. This research presents evidence that where housing supply is subject to long-term constraints and housing is already unaffordable (such as in the Greater London Authority), Help to Buy may have increased house prices and had no discernible effect on construction volumes, while where supply constraints are

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<sup>45</sup> For example, restrictions on the Scottish housing market related to Covid-19, changes to residential LBTT, as well as broader effects of Covid-19 on the economy.

<sup>46</sup> Carozzi, F., Hilber, C. and Yu, X. (2020) “On the Economic Impacts of Mortgage Credit Expansion Policies: Evidence from Help to Buy”, available at <https://cep.lse.ac.uk/pubs/download/dp1681.pdf>.

less binding and housing more affordable (such as along the English/Welsh border), it may have increased construction numbers without affecting prices.

- 9.43 In a similar vein, the evaluation of the other Scottish Government shared equity schemes exploited the fact that a price cap applies to purchases through the Help to Buy (Scotland) scheme to look at the performance of the new build market below and above the price cap. When new build sales are expressed as a percentage of all sales in a particular price range (to control for housing market factors which might have differential impacts on different segments of the market), the performance of the new build market above the price cap is no worse, and in fact slightly stronger, than below the price cap<sup>47</sup>.
- 9.44 We can use a natural experiment to assess what effect the FHF may have had on property prices and sales volumes across Scotland, by exploiting the fact that the FHF is available to first-time buyers, but not to home-movers. This allows us to create two groups that have been affected to a similar extent by recent housing market related factors, but where one group has been the subject of a significant policy intervention in the form of the FHF. Similarly, we can compare first-time buyers in Scotland to first-time buyers across Great Britain, with only first-time buyers in Scotland being able to use the FHF, and there not being a proportionately large, equivalent intervention across Great Britain. This should be seen as only preliminary analysis, as not all sales through the FHF will appear in the time-series used for this exercise given lags in the data.

### **FHF Effect on Prices**

- 9.45 To gauge what effect – if any – the FHF has had on Scottish first-time buyer property prices, we can look at the ratio of the Scottish geometric mean first-time buyer price to the Scottish geometric mean former owner-occupier property price across Scotland. This data is available from the UK HPI for completed sales up to and including October 2020 (the latest data available at the time of writing). If this ratio increases following the introduction of the FHF, this could be an indication that the FHF is putting upward pressure on Scottish first-time buyer prices relative to Scottish former owner-occupier prices. Chart 9.11 (L) shows that the ratio has not deviated much above the long-run average since January 2012 over the period of time the FHF has been open to applications.

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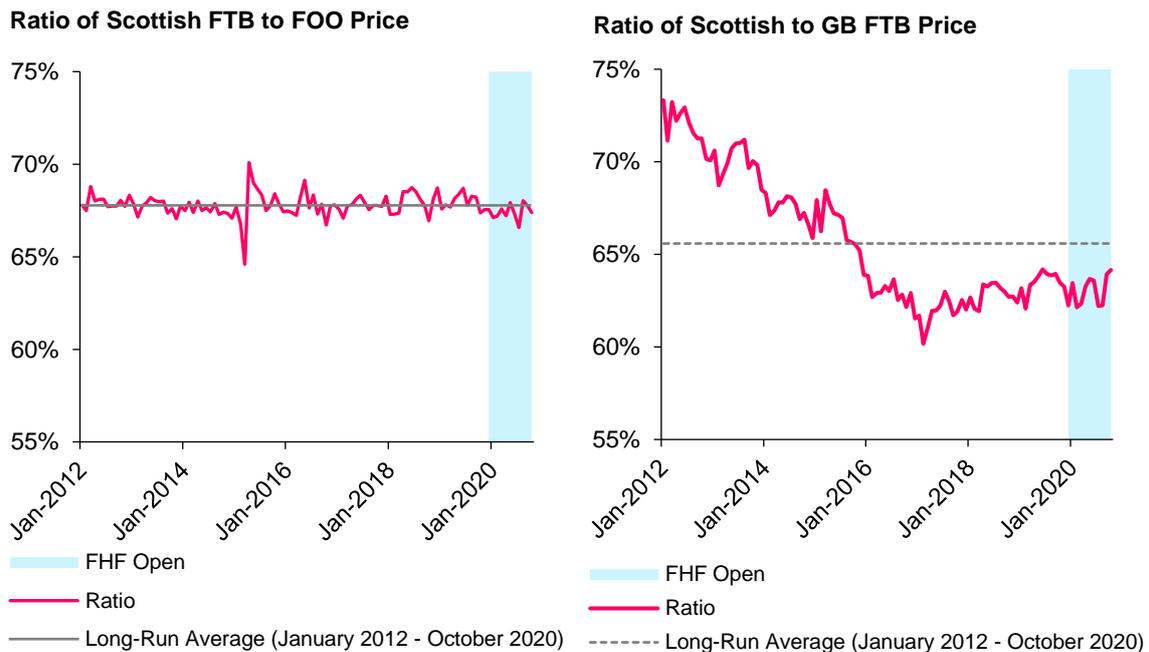
<sup>47</sup> [Shared equity schemes: evaluation reports](#), Figure 45.

- 9.46 We can also look at the ratio of the Scottish geometric mean first-time buyer price to the geometric mean first-time buyer price across Great Britain. If this ratio increases following the introduction of the FHF, this could be an indication that the FHF is putting upward pressure on Scottish first-time buyer prices relative to first-time buyer prices across Great Britain. This is because across Great Britain, there hasn't been a proportionately large scheme akin to the FHF; any deviation in this ratio should partly reflect the introduction FHF. Chart 9.11 (R) shows that the ratio has not deviated much since the FHF has been open to applications, relative to the previous couple of years.
- 9.47 It should be noted, however, that other factors such as the reduction in high-LTV ratio mortgage products, the changes to property taxes (LBTT (Scotland), SDLT (England and Northern Ireland) and LTT (Wales)) and Covid-19 related economy factors since the launch of the FHF in December 2019 will also have affected these ratios. Furthermore, there are a large number of approved applications to the FHF that did not settle by the end of October 2020 and won't be included in this analysis (as of 1 December 2020, 3,661 applications to the FHF had settled, or 38% of all applications to the scheme that had either been approved or settled). We are, therefore, limited in what impact we can attribute to the FHF specifically in terms of its effect on Scottish property prices. With that in mind, at the time of writing our conclusion is that the FHF does not appear to have had a significant effect on Scottish property prices thus far.

### Chart 9.11: The FHF does not appear to have put upward pressure on Scottish first-time buyer property prices

Ratio of the Scottish geometric mean first-time buyer price to Scottish geometric mean former owner-occupier price (L). The ratio has not deviated much from the long-run average since January 2012 while the FHF has been open to applications. Ratio of the Scottish geometric mean first-time buyer price to Great Britain geometric mean first-time buyer property price (R). The ratio has not deviated much since the FHF has been open to applications, relative to the previous couple of years.

Source: UK HPI – based on completed sales. Monthly data to October 2020.



### FHF Effect on Sales Volumes

9.48 In addition to looking at the possible effect the FHF could have had on property prices, we can also look at data on mortgage advances to first-time buyers and home-movers to understand what effect the FHF has had on sales volumes by buyer type across Scotland. This analysis is somewhat limited in the sense that data on mortgage advances used in this analysis is only available for settled sales up to the end of September 2020. As such, this mortgage data will not reflect all FHF applications. Nevertheless, it can give some insight as to what effect the scheme has begun to have on sales volumes in Scotland.

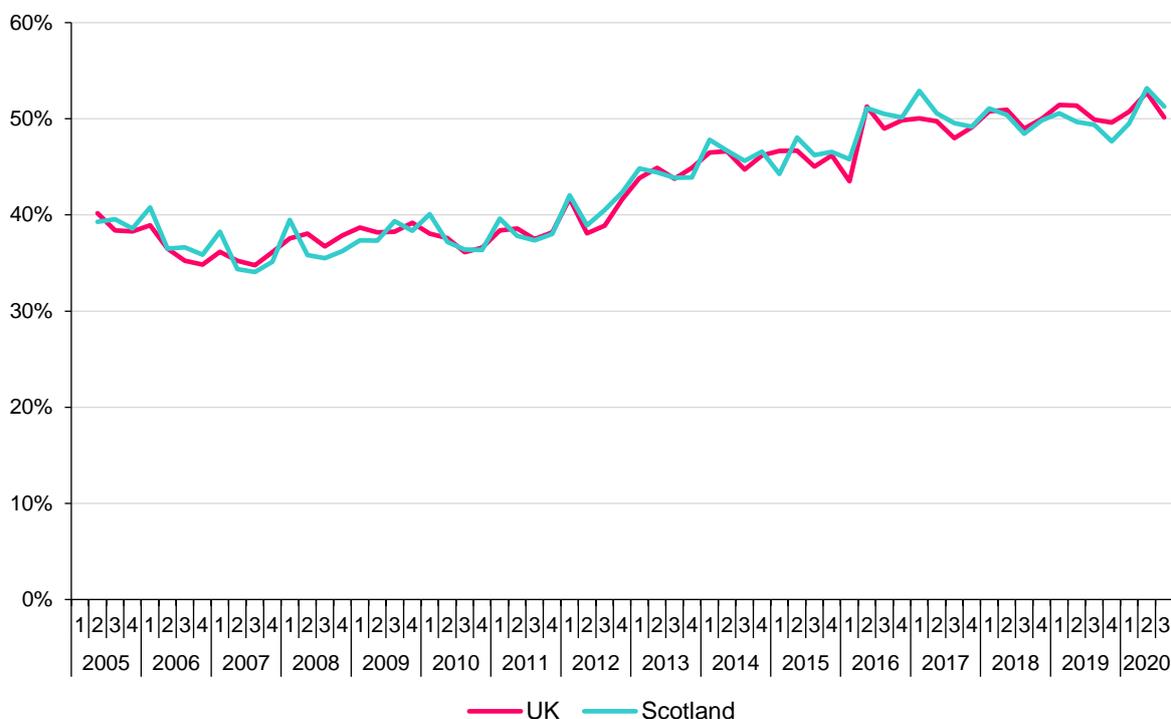
9.49 To explore the effect that the FHF has had on sales volumes and buyer types across Scotland, we can look at new mortgages advanced to first-time buyers as a percentage of all mortgages advanced across Scotland. If this percentage increases after the FHF was introduced at the end of 2019, it could imply that there has been either an increased number of mortgages advanced to first-time buyers, or that mortgages advanced to first-time buyers

are displacing mortgage advances to home-movers. Chart 9.12 plots new mortgages advanced to first-time buyers as a percentage of all mortgages advanced in Scotland and the UK. From 2017 to 2019, new mortgages advanced to first-time buyers as a percentage of all mortgages advanced have, on average, been 50% in Scotland. Chart 9.12 shows that this percentage increased slightly in Scotland when the FHF was open. However, factors other than the FHF could have boosted first-time buyer activity. To try to test for this, Chart 9.12 shows the corresponding time series for the UK. Since there was not a proportionately large policy intervention akin to the FHF over this time period in the rest of the UK, any divergence in the two series since the start of 2020 would be prima facie evidence to suggest that the FHF has led to an increase in the number of mortgages advanced to first-time buyers, or displaced mortgage advances to home-movers.

- 9.50 It is important to recall the caveats attached to this analysis outlined in paragraph 9.46. With these caveats in mind, our conclusion at the time of writing is that the FHF does not appear to have had a discernible, marked effect on mortgage advances to first-time buyers in Scotland. We reach this conclusion because there is no clear deviation between the Scottish and UK series from Q1 to Q3 2020 while the FHF has been open to applications.

**Chart 9.12. New mortgages advanced to first-time buyers as a percentage of all new mortgages advanced increased slightly in Scotland following the introduction of the FHF, but also did so across the UK as a whole**

The chart plots new mortgages advanced to first-time buyers as a percentage of all new mortgages advanced in Scotland and across the UK. Data is based on completed purchases with a mortgage up to September 2020. Source: UK Finance, quarterly data.



9.51 In summary, at the time of writing we have not been able to detect a discernible, marked deviation in first-time buyer prices or mortgage advances since the introduction of the FHF, relative to other segments of the market. However, not all FHF sales will be included in this analysis owing to data lags so some caution should be exercised when drawing conclusions from this analysis.

### FHF Effect on Other Scottish Government Shared Equity Schemes

9.52 The FHF has similarities with the Scottish Government’s other shared equity schemes, such as Help to Buy (Scotland) and OMSE – these were outlined previously in Table 3.1. It is, therefore, possible that buyers that purchased a property through the FHF may have been able to purchase the same property through either Help to Buy (Scotland) or OMSE. To give an indication of the extent to which buyers could have used these two other shared equity schemes, we have approached this question in the following way:

- **Help to Buy (Scotland)** – if a new build property purchased through the FHF is priced at or under £200K, it is assumed that the buyer

could have received financial support to purchase the same property through Help to Buy (Scotland); and,

- **OMSE** – if a property is priced at or under the relevant threshold price for a given property size, it is assumed that the buyer could have received financial support to purchase the same property through OMSE.

9.53 It is important to highlight that there a number of other criteria that need to be met for a buyer to be eligible to purchase the property through either scheme. For example, these schemes require the buyer to maximise the mortgage loan contribution (at an affordable and sustainable level) and, for Help to Buy (Scotland), not all developers operating in Scotland are registered with the scheme. As such, this should only be seen as an **indicative estimate** and the true share of properties that could have been purchased with financial assistance from these other two schemes will likely be lower.

9.54 With regard to Help to Buy (Scotland), out of the 1,641 new build properties purchased through the FHF, 615 were priced at or under £200K. This suggests that for 37.5% of new build purchases, the buyer could have received financial support to purchase the same property through Help to Buy (Scotland). It is worth noting that for properties priced above £167K, a buyer could obtain an equity loan that is up to £5K more through Help to Buy (Scotland) relative to the FHF; however, more funding is available through the FHF than Help to Buy (Scotland) for properties under £167K.

9.55 It is harder to estimate the effect of the FHF on OMSE as:

- Aberdeenshire, Highland, Fife and Stirling are split into different sub-geographies for OMSE threshold prices, while, for this analysis we are using local authority level data; and,
- OMSE thresholds are set by apartment size. An apartment is classified as any habitable room, but does not include kitchens, bathrooms, box rooms, utility rooms or hallways. Glass conservatories do not qualify as an apartment. FHF buyers were asked for the number of bedrooms in the property through the optional sales log form, which is not the same as apartment size.

9.56 To mitigate these issues, we have restricted the sample to only those local authorities for which there are local authority thresholds (28/32) and where the buyer has provided information in the sales log form on the size of the property (number of bedrooms). We have also considered two scenarios:

1. The apartment size is equal to the number of bedrooms; and,

2. The apartment size is equal to the number of bedrooms plus one room (e.g. this could be a living room).

- 9.57 Properties with one bedroom are considered to have two habitable rooms in each scenario (the minimum price threshold under OMSE is for a property with two apartments). The OMSE thresholds and criteria that applied during the period from December 2019 until December 2020 have been used as these are the thresholds and criteria that FHF buyers would have faced when deciding which shared equity scheme to apply to.
- 9.58 Of the sample of 5,698 purchases through the FHF that have the information required for this analysis, 3.8% (216) of properties were under or at the OMSE threshold price in scenario 1. The share of properties that were under or at the OMSE threshold price in scenario 2 was higher, at 11.7% (667).
- 9.59 From this analysis, we can conclude that:
- Nearly **four in ten** (37.5%) new build properties purchased through the FHF may have been able to receive financial support through Help to Buy (Scotland) instead of the FHF; and,
  - Just less than **one in eight** (11.7%) properties purchased through the FHF may have been able to receive financial support through OMSE instead of the FHF.
- 9.60 What scheme is used to purchase a property should not matter significantly to the FHF buyer, as the Scottish Government's shared equity schemes work in a similar manner. However, it is worth noting that sales through OMSE contribute to the Scottish Government's 50K affordable homes target. That there may have been some displacement from OMSE to the FHF suggests that the OMSE contribution to the 50K affordable homes target could have been higher in the tail end of 2019-20 and in 2020-21 had it not been for the FHF.