How the pandemic accelerated the rise of the million pound first-time buyer

The share of first-time buyers spending £1m or more doubled in 2020 as the average spend jumped 15pc

By Melissa Lawford
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The pandemic has disproportionately hit younger wannabe homeowners. But it has also accelerated a surge in million pound first-time buyers, with the share of such purchasers doubling in 2020 – despite a grim economic outlook and the threat of high unemployment.

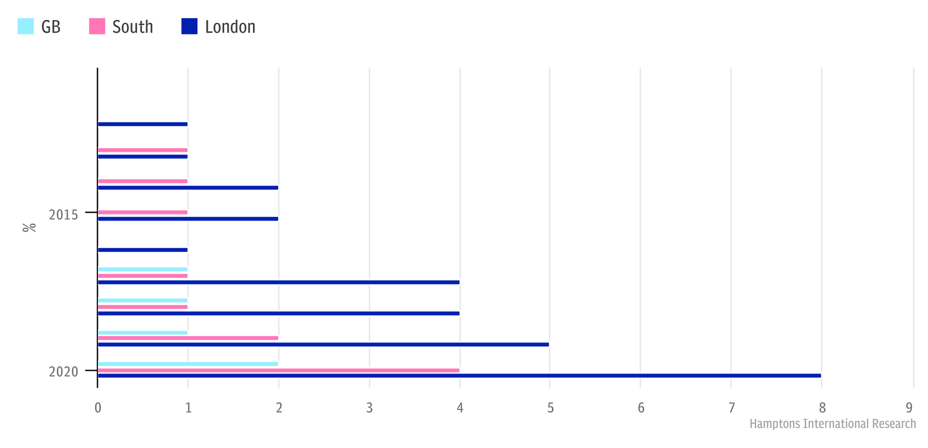
Low mortgage rates and a new desire for space after lockdown, combined with concerned parents, a temporary tax break and a trend to move less often to avoid costs, mean those who can still afford to buy are paying far more money.

One in 50 British first-time buyers spent £1m or more on their property in 2020, according to Hamptons International estate agents. This is double the 2019 share.

In the South, the number was one in 25 – also double the share in 2019 and four times that in 2018. In London, the share climbed from 5pc in 2019 to 8pc in 2020.

Hamptons analysed data from Countrywide, its parent company and the biggest estate agent group in the company. Overall in 2020 the average first-time buyer in Britain spent £253,700, which was £33,410 more than in 2019.

The share of first-time buyers spending £1m or more doubled last year



This represents a year-on-year jump of 15pc – more than double the 7.3pc annual house price growth rate recorded in December, according to building society Nationwide.

In the South, the average first-time buyer spend jumped 18.6pc year-on-year to £360,640, according to Hamptons. All of the 10 local authorities with the highest share of million-spending first-time buyers were in the South of England.

In the City of Westminster, two thirds of first-timers spent £1m or more. It was followed by Hammersmith and Fulham and Sevenoaks in Kent, where the share was 50pc. In Reigate and Banstead in Surrey and South Buckinghamshire the respective shares were 42pc and 40pc.

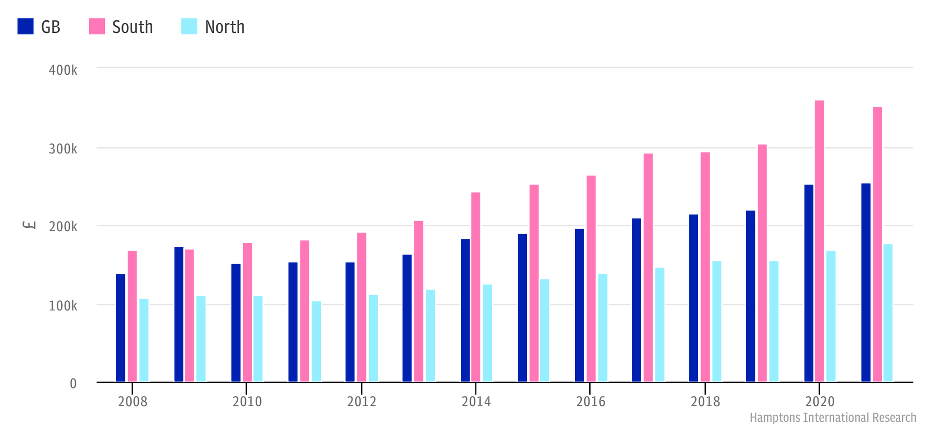
The stamp duty holiday is key

David Hill, of Marsh & Parsons estate agents, said the stamp duty holiday has brought "incredible new demand" from first-time buyers.

Before Chancellor Rishi Sunak raised the nil-rate band from £125,000 to £500,000 in July, first-time buyers already had an exemption up to £300,000, paying a reduced rate an properties above that threshold. But they forfeited this if the value of the property they were buying exceeded £500,000.

Any first-timer purchasing a property for over this price before the tax break ends on March 31 will benefit from the maximum saving of £15,000.

The average first-time buyer spend in Britain jumped 15pc year-on-year in 2020



In London particularly, where official data showed the average sale price surpassed half a million in November, the tax break presented an opportunity for wealthier first-time buyers to cut their tax bill.

There are signs the effect of the stamp duty cut on the market is thawing as the possibility of completing in time to take advantage of it disappears. So far in the 2021, the average agreed first-time buyer sale price in the South was down 2pc year-on-year.

In the North, however, where the lower value of properties mean first-time buyers were unlikely to benefit from the stamp duty holiday, prices are still rising. In January, the average first-time buyer sale price in the North was £177,630, a jump of 5.8pc compared to the 2020 average.

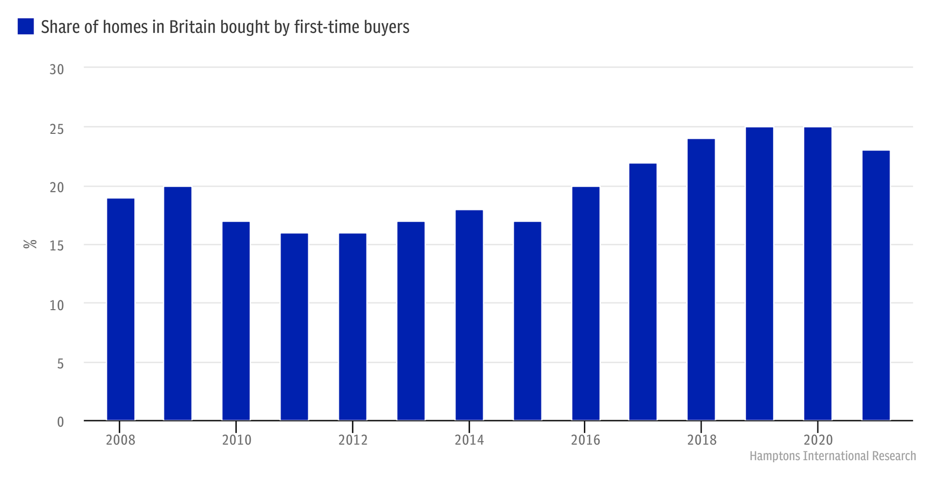
Lockdown means bigger is better

The rise in first-time buyer spend is tied to wider post-lockdown trends. Rebecca Stott, of FoundIt London, a buying agent for first-timers, said now they typically want larger properties with gardens and extra rooms for home offices. "Buyers are maxing out, borrowing more, and focusing on bigger and better for longer," said Ms Stott.

"It is tied to the pandemic, absolutely," added Mr Hill. "More first-time buyers are prepared to pay the premium for outside space."

Robert Sturges, of Chestertons estate agents, said: "These buyers are now settling down, travel is more restricted and working from home is more important."

The first-time buyer share has dipped in the first month of 2021



Max out, move less

Paradoxically, the rise in spending is also tied to shrinking affordability and the high costs of buying. As house prices rise, the value gaps between the rungs of the housing ladder have widened.

In Chestertons' Parsons Green office, first-time buyers in their mid-30s are buying homes for up to £2m, said Mr Sturges. "They're buying decent sized family homes that they can stay in for 10 years because the cost of purchasing is so high," added Mr Hill.

Analysis by property website Zoopla found that in 1988 buyers moved house on average every 8.6 years. In 2020, Zoopla estimated the average was every 22 years.

Martin Bikhit, of Berkshire Hathaway HomeServices Kay & Co estate agents, said first-timers are waiting to make longer-term moves at higher prices. "Our typical first-time buyer is in their mid-30s. Ten years ago, the average age would have been late 20s," he said.

Many of these high-earners work in the City or are entrepreneurs and hedge funders, who have been renting and working at home in central London and have been spurred to move out.

Some first-timers are foregoing the traditional first step of buying a London flat and moving straight to the Home Counties. Jemma Scott, of The Buying Solution buying agents, said some of her clients have been first-time buyers looking for country properties in the South East for up to £5m.

Local authorities with most first-time buyers spending £1m+

Local authority	Share of first-time buyers spending £1m+
Westminster	67%
Hammersmith & Fulham	50%
Sevenoaks	50%
Reigate & Banstead	42%
South Buckinghamshire	40%
Barnet	38%
Chiltern	33%
Kensington & Chelsea	33%
Herstmere	31%
St Albans	28%

Hamptons

Money is cheap, if you have a lot of it

Those who have more cash to put down are able to borrow more. Interest rates are at a record low and lenders are offering competitive rates – if buyers have significant deposits.

Analysis by Savills estate agents showed how the recent squeeze on mortgage availability pushed up deposits. In January 2020, the average first-time buyer had a 22.7pc deposit; by November, this was 25.4pc. Those not shut out by the changes had larger deposits, so could get better rates and were therefore likely to be able to borrow more.

Bomad to the rescue

Low interest rates have also encouraged lending from the Bank of Mum and Dad "because they're not earning anything from keeping the money in the bank," said Ms Stott.

Sophie Rogerson of RFR property consultants, said: "We have done a lot more buying for children of clients. We have bought a few properties in the £2m to £6m bracket, in areas such as Notting Hill, Bayswater, Chelsea."

Greater parental involvement can further push up prices because they are likely to opt for more established locations. "One child wanted to live in Brixton but their parents wanted them to live in Fulham. The kids tend to take the compromise because they want the house," said Ms Rogerson.

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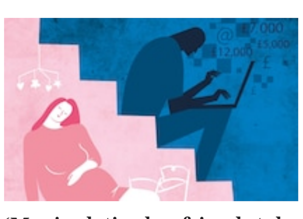
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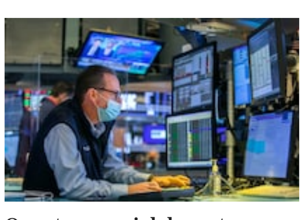
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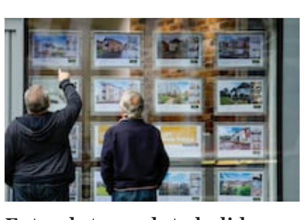
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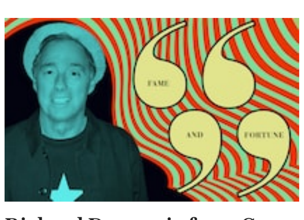
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