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FINANCIAL PLANNING

The **first-time buyer's guide** to saving for a property deposit

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You may have spent years dreaming and planning for the day you finally get the keys to a house you have bought and can proudly call your own.

And it's no wonder, as buying your first home is a major milestone and a significant accomplishment.

However, saving for that all-important property deposit can be a challenge, especially when balancing a high cost of living while trying to set aside money each month.

Of course, such difficulties have always existed, but young adults today face increasingly higher barriers to entry into the property market.

Data from the Office for National Statistics (ONS) shows the average age of a first-time buyer in the UK is 36, up from 32 in 2004.

Over those years, property prices have risen faster relative to real wages. Research from Schroders reveals that the last time house prices were as expensive relative to average earnings was in 1876. Moreover, younger Brits face other financial obstacles, such as student loan repayments.

But fear not. If you are saving for a property deposit, this guide will walk you through all the available options and the steps you can take to help you buy your first home.

You now may need around 20% of the property's value as a deposit

Traditionally, a 10% deposit was the benchmark figure for purchasing your first property.

However, recent figures suggest that though there are still 10% and even 5% deposit mortgages available, they are increasingly rare.

Earlier this year, the *Independent* reported that the average deposit for a first-time buyer is £53,414 – around 19% of the purchase price.

Though this is down from the average deposit in 2022 (£62,471), it is considerably higher than the sums needed five years earlier in 2018 (£44,411) and 10 years earlier in 2013 (£32,031).

Research from Generation Rent found that the average time it takes to save for a deposit is now almost a decade (9.6 years). Again, this is a dramatic increase from recent years, as in 2012, it took 6.8 years on average to save for a deposit.

No-deposit mortgages can offer 100% of the property price, but the repayments can be expensive

A no-deposit mortgage is a 100% mortgage you can secure without a deposit. They are not widely available and usually require you to have a guarantor who will be legally responsible for covering the repayments if you are unable to.

The interest charged on a no-deposit mortgage is typically considerably higher, meaning your repayments are likely to be more expensive. So, a no-deposit mortgage may not be the most efficient option.

7 tips for saving for a deposit

Now that you have an idea of how much you might need for a deposit, here are seven tips to help you save for one.

1. Review your budget

The first step for any savings journey is to review your current budget and see what you are currently spending your money on and if there are any cutbacks you could make.

Check your income and outgoings for the previous few months and make a note of your essential and discretionary expenses. For example, you may notice that you could save a considerable amount each month by cancelling unused subscriptions or memberships, or by eating out less.

Even small amounts regularly saved will build over time, so make any tweaks you can to your current budget, while ensuring you are still able to live a fun and wholesome life.

2. Try to save on rent

If you are a tenant, your monthly rent is likely the most expensive outgoing you have. So, finding ways to save on rent can help you save a lot more each month.

Living with others is the easiest way to reduce your bills. Generally speaking, the more people you live with, the lower your rent will be, so consider moving in with friends or finding a spare room in a house with other tenants.

If you have just finished school or university and are starting your first job, moving back in with your parents or other family members for a bit can be an effective way of building your savings.

You could also consider finding somewhere to live close to your work to save on transport costs, though the rent may be more expensive depending on the location.

Rent as a proportion of income

Research from Uswitch found that the average renter in the UK spends around two-fifths (39.1%) of their monthly income on rent.

So, finding ways to save money on your rental payments, can significantly boost your deposit savings.

3. Break your deposit into smaller targets

Attempting to save tens of thousands of pounds can feel like an insurmountable mountain, especially if you are starting with nothing.

But breaking your overall goal into smaller, more achievable targets means you can track your progress every month or year and ensure you are on course.

For example, saving £500 a month means you would save £6,000 a year. If saved in the right accounts, your savings could grow to more than £7,000 a year, meaning it would take you around seven years to save for the average deposit.

So, if you start saving £500 a month when you finish university at 21 or 22, you could be well on your way to buying your first home before the age of 30.

4. Prioritise saving

It can be easy to think of saving as an afterthought, especially when you're young. You want to pay for your essentials, have fun, and then save whatever you have left over each month.

But prioritising saving means putting your savings away ahead of your non-essential expenses.

When you prioritise saving, you pay your rent and other essentials, put away your monthly saving target, and then use the money you have left to pay for fun and non-essentials.

While this may mean you have slightly less to spend on indulgences, it ensures you build your savings and encourages a disciplined approach that will serve you well in the future.

5. Save in a Lifetime ISA

A Lifetime ISA (LISA) is a type of savings account specifically designed to help you either save for your first property deposit or for your retirement.

In 2024/25, you can save up to £4,000 in a LISA and the government will boost your contributions by 25%. That means if you use the full allowance, your £4,000 investment will yield an additional £1,000 bonus.

You also get interest or the potential for returns on your deposits, all of which is tax-free.

You can open a LISA anytime between 18 and 39, and you can make payments into it until you're 50.

If you're buying with another person, you could each open a LISA to double your tax-efficient savings and your bonus.

You can only use your LISA savings for your first deposit if the property you are buying is £450,000 or less and you are buying it with a mortgage.

If you don't use your LISA to put a deposit on your first home, you can access it when you're 60. If you withdraw from it before then for any reason other than to buy your first home, you will pay a withdrawal charge of 25%.

There are two different types of LISA:

- Cash LISA
- Stocks and Shares LISA.

The type of LISA you opt for will largely depend on how long you plan to save in it.

A Cash LISA offers you interest on your savings. Though the interest isn't certain to always beat inflation, you can be sure your savings will build over time, just not necessarily in real terms.

ISAs are a tax-efficient savings option

Lifetime ISAs are just one of a few different types of ISA, all of which offer tax-efficient interest on your savings.

The £4,000 annual limit for LISA savings contributes to your total annual ISA allowance, which is £20,000 for the 2024/25 tax year.

That means you can save an additional £16,000 a year in other ISAs.

If you have extra savings left over after you've maxed out your LISA, consider putting them in another ISA, as you won't pay any Income Tax or Capital Gains Tax on any of the interest or returns you accrue.

For this reason, Cash LISAs can be a good option for short-term savings for periods of less than five years.

With a Stocks and Shares LISA, you don't earn interest on your savings. Instead, you can invest in a wide range of funds and equities. Investing over longer horizons, five years or more, has the potential to yield higher returns.

However, it's important to remember that the value of your investments can go down as well as up, and you may get back less than you invest.

6. Buy with your partner or a friend

As the saying goes, "a problem shared is a problem halved", and buying a property is a perfect example of this adage.

If you buy a house with your partner or a friend, you only need to save half the deposit you would have if you bought it alone. It could also mean you can afford to buy somewhere slightly bigger or in a more desirable area.

Buying a property with another person can be a great way of speeding up the process of getting you both on the housing ladder and it doesn't have to be a permanent fixture. Rather, it can be a good way of setting you both up so you can buy places of your own a few years down the line.

It's a good idea to speak to a conveyancing solicitor before buying a house with someone else, so you can ensure you both understand the legal terms of the arrangement if and when you come to sell it, rent it out, or undertake renovations.

7. See if your family can help

Getting help from the Bank of Family can make a huge difference, and many people do it.

A report in the *Guardian* found that the proportion of first-time buyers receiving a gift to fund their deposit hit 37% in 2022/23, up from 27% just a year earlier.

Of course, not everyone is in the lucky position of having parents who can help them with a deposit. But even if your family can only contribute a small amount, if saved strategically, it could add up to a lot.

For example, let's say your parents were able to gift you £10,000 in total over five years, and you were saving £2,000 into your LISA each year. You could use their additional £2,000 a year to maximise your LISA contributions and double your 25% bonus from £500 to £1,000.

So, over five years, their £10,000 contribution would amount to £12,500 before interest or returns are considered. Combined with your contributions, you would have £25,000 plus interest or returns, from a £20,000 investment.

If your family is going to help you with your deposit, you will need to tell a lender whether it is a gift or a loan.

It may be harder to get your mortgage approved if the money is given as a loan, as any repayments will be factored into the affordability of a new mortgage.

A mortgage in principle can give you an idea of how much you can borrow, and what deposit you may need

An important step in knowing how much you may need to save for a deposit is finding out how much you can borrow.

A mortgage in principle is a statement from a lender that says they will be able to lend you a certain amount when you need it, subject to certain criteria. It also gives you an approximation of how much you will be able to borrow, based on your earnings, the length of your mortgage term, and the size of the deposit you hope to have.

If you don't yet know the size of the deposit you are building toward, you can try a few different iterations to get a rough idea of how much your repayments would be.

An independent mortgage expert can work with you to either obtain an official mortgage in principle or to approximate how much your preferred provider may be able to lend you. You can then work out the level of deposit you may need.

Family mortgages can help first-time buyers who can't afford their deposit alone

A family mortgage is a type of mortgage arrangement where your family formally assists you in purchasing a property, using a particular model offered by a mortgage provider.

In each case, your family uses their existing assets to help you get a foot on the property ladder, meaning you may potentially not need a deposit.

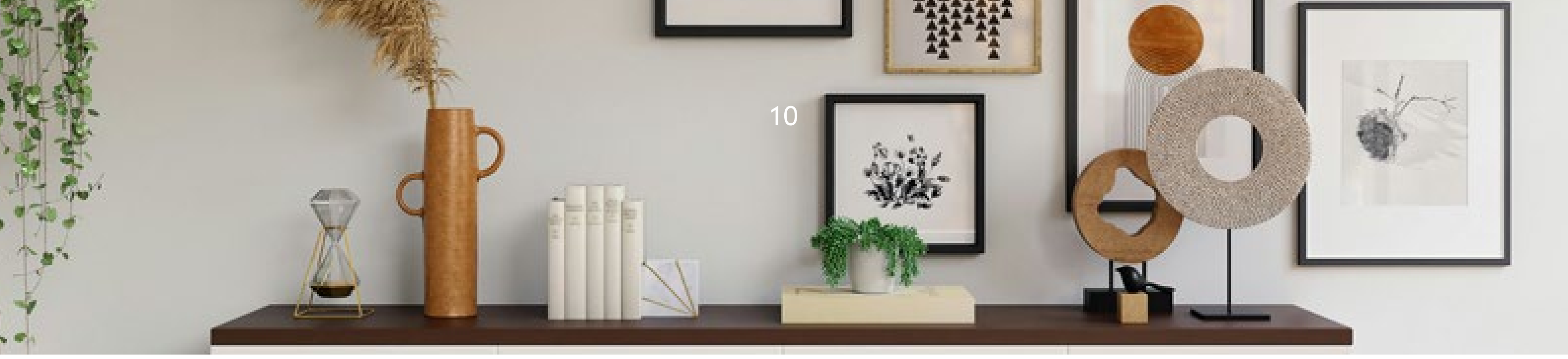
There are several different types of family mortgages, but they are broadly either:

- **Guarantor mortgages:** A provider could offer you a mortgage of up to 100% if you have a guarantor who provides a certain amount as security for a defined period of time. Typically, they would need to put between 10% and 20% of the property price in a savings account for anywhere between three and 10 years or until you have purchased that share of the house through your mortgage repayments. After that period, they are free to withdraw the cash with the interest it has accrued.
- **Equity plans:** An equity plan might be a viable option if your family lacks the cash to support your deposit. They can use their assets, including cash, as collateral to assist you in case you struggle with your mortgage repayments, or give you that money that acts as a deposit.

Family mortgages can be an excellent solution for securing a deposit on your first home if you're having difficulty saving enough on your own. Additionally, having another person formally involved could help you obtain a more favourable mortgage rate than if you were doing it alone as a first-time buyer.

Of course, there are risks involved in a family mortgage. It is important that both you and the participating family member are aware of what could happen if you fail to make the repayments. The family assets – cash or property – could be at risk, and it could even negatively affect their credit rating.

If you are opting for a family mortgage, you may also not qualify for the first-time buyer's Stamp Duty relief.



Remember to set some money aside for additional costs

While saving for your property deposit, remember that you may need to set aside some extra money for additional transaction costs.

Among others, these costs might include:

- **Surveyor's fee:** The survey will evaluate the condition of the property and inform you of any urgent or long-term work that may need doing. If there are significant issues with the property that you didn't previously notice, you may consider revising your offer. The survey can include a valuation, which will provide you with an estimate of the property's value based on its condition, location, and market rates.
- **Conveyancing solicitor's fees:** A conveyancing solicitor oversees the legal transaction of the property from the seller to the buyer. They can also conduct a search of the area to determine what building work is planned in the future and how the property is linked to local networks such as water and electricity.
- **Mortgage arrangement fees:** These are fees you pay to cover the costs of arranging the mortgage, such as electronic transaction fees and a potential fee to your mortgage broker.
- **Moving costs:** These might include house removal costs and storage fees for your furniture.

The total sum of these costs varies widely depending on the type of property you are buying, its value, the location, and the providers you choose.

You may need to pay Stamp Duty

Stamp Duty is a tax you may pay when you buy land or property.

You currently do not need to pay Stamp Duty as a first-time buyer in England and Northern Ireland unless you are buying the property for more than £425,000.

However, this threshold was raised in 2022 from £300,000 as a temporary measure set to last until 2025. The recently elected Labour Party have said that the Stamp Duty threshold for first-time buyers will return to £300,000 next year.

Until then, if you are buying a property worth between £425,001 and £625,000, you will pay a reduced Stamp Duty rate of 5%. You will pay regular rates if it is worth £625,001 and above.

Scotland has a Land and Buildings Transaction Tax instead of Stamp Duty. First-time buyers are exempt from paying it on properties worth up to £175,000.

Wales has a Land Transaction Tax that offers no relief for first-time buyers and is charged on properties worth more than £225,000.

A mortgage adviser could help you buy your first home

A mortgage adviser may help you on your journey to buying your first home.

They can assess your current financial situation, help you understand the mortgage you could access, and calculate the deposit you'll need. A mortgage adviser could also offer valuable guidance throughout the mortgage application process and help you find a lender that's right for you when you're ready to buy.

To speak to a mortgage adviser, please get in touch:

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Please note: This article is for information only. Please do not act based on anything you might read in this article. All contents are based on our understanding of HMRC legislation, which is subject to change.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it.

Think carefully before securing other debts against your home.