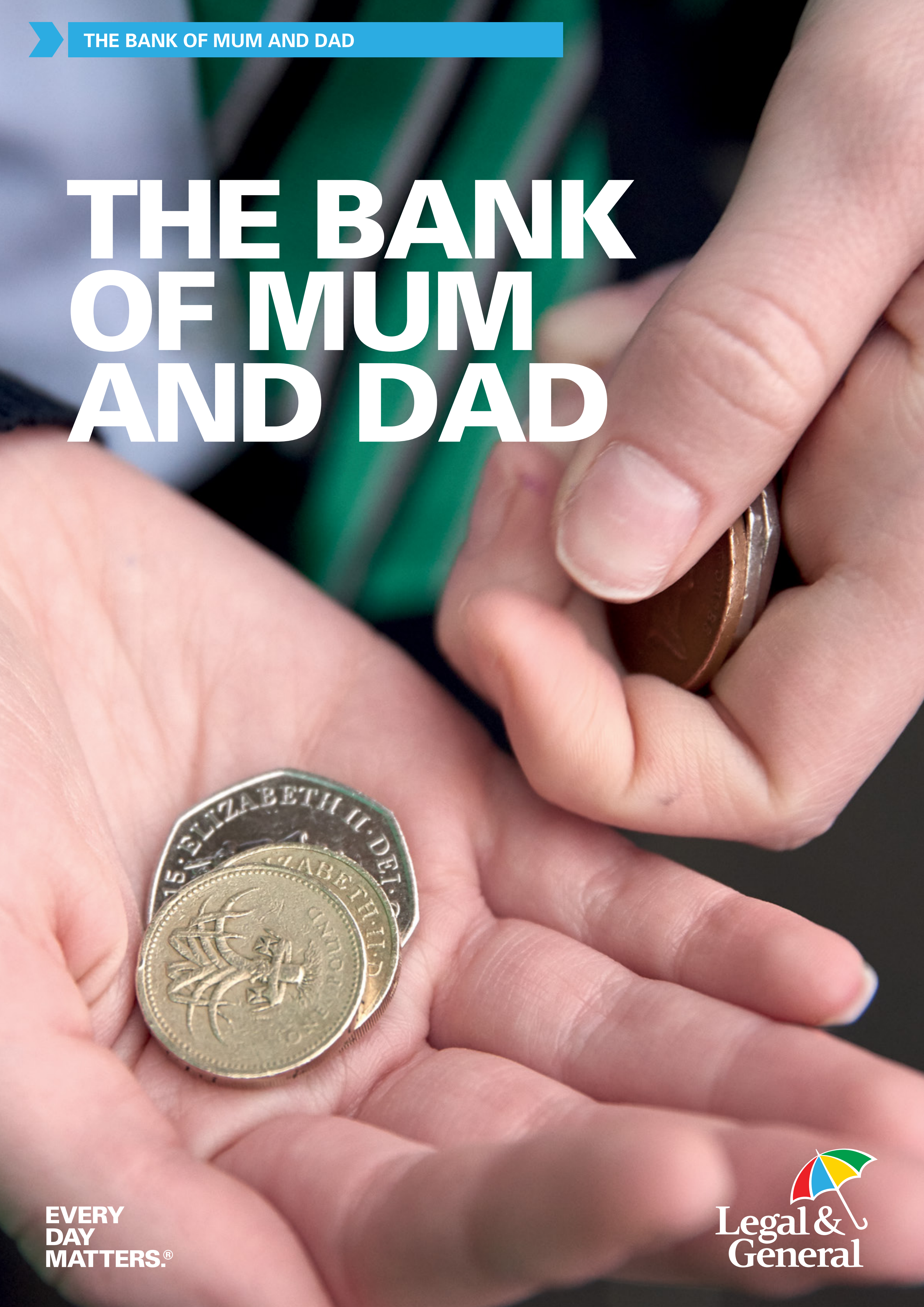
# THE BANK OF MUM AND DAD



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Legal & General

# EXECUTIVE SUMMARY

**The Bank of Mum and Dad: For many young adults, the reality is you can't leave home without it.**

**After another year of rising prices and sluggish wage growth, home ownership is out of reach for ever more prospective buyers, and The Bank of Mum and Dad is busier than ever fighting to change that. Parents, family and friends will put up a massive £6.5 billion this year to help their loved ones onto the property ladder – a 30% increase in the last year. That money will support close to 300,000 property purchases.**

Already, just over a quarter of home owners say they received help to buy. For the under 35s, though, that rises close to two thirds (62%). Increasingly, it's the only way for young adults to get on the housing ladder:

The proportion of prospective buyers who expect to get help from family or friends for their property purchase in the future has risen significantly, from a third in 2016 to more than four in ten this year.

About half (48%) of prospective first time buyers expect to get some help.

By money given or lent, the Bank of Mum and Dad rivals the UK's ninth biggest mortgage lender. [i]

With mortgage rates at record lows, few struggle to make repayments. Yet requirements to raise large deposits mean more than two thirds (69%) who received help say they couldn't have afforded to buy without it.

The bank's work doesn't end there, though. Unable to buy, people are renting for longer. That, in turn, is pushing up demand and prices. As a result, where families and friends can't help with a deposit, they often end up covering some rental costs:

Our research finds that the Bank of Mum and Dad will **fund over £2.3 billion of rental payments** in 2017, to an average of £415 for every time a rental payment is made.

**One in every ten** (9%) renters in the UK will receive help from family and friends to pay their rent, whilst **6%** had help with moving expenses and **5%** with letting fees.

Where families help, they can. It's admirable but does little to address the real problems of the housing market, whether for renters or purchases.

As it is, the help buyers get is something of a lottery: Those in the **South West** are the least likely to be helped to buy by family and friends **(just 19% get support)**; but those that receive help get more than anywhere else as a proportion of average house prices in the region: **£30,000.**

As a proportion of regional house prices, meanwhile, the help The Bank of Mum and Dad can provide ranges from **as little as 5%** of average house prices for those buying in London, to **as much as 14%** in the North East.

In every case, though, this money makes a massive difference: not between those home owners who receive help and those that don't – the research finds little difference in income, assets or lifestyles between the two; but in enabling recipients to join the ranks of home ownership, which look increasingly out of reach for those that can't afford a deposit and can't get help.

The Bank of Mum and Dad is caring bank, and it will always try to do more. We'd expect the small minority – just 3% - using equity release to grow in coming years as more strain to help their loved ones onto the property ladder. But it can't do it alone, and as prices continue to rise, the strain will begin to show.

We've been lucky that the older generation controlling the lion's share of the nation's wealth are so generous to those following after. We need to remember, though, that this largess is a symptom of the problems of the UK housing shortage, not its solution.

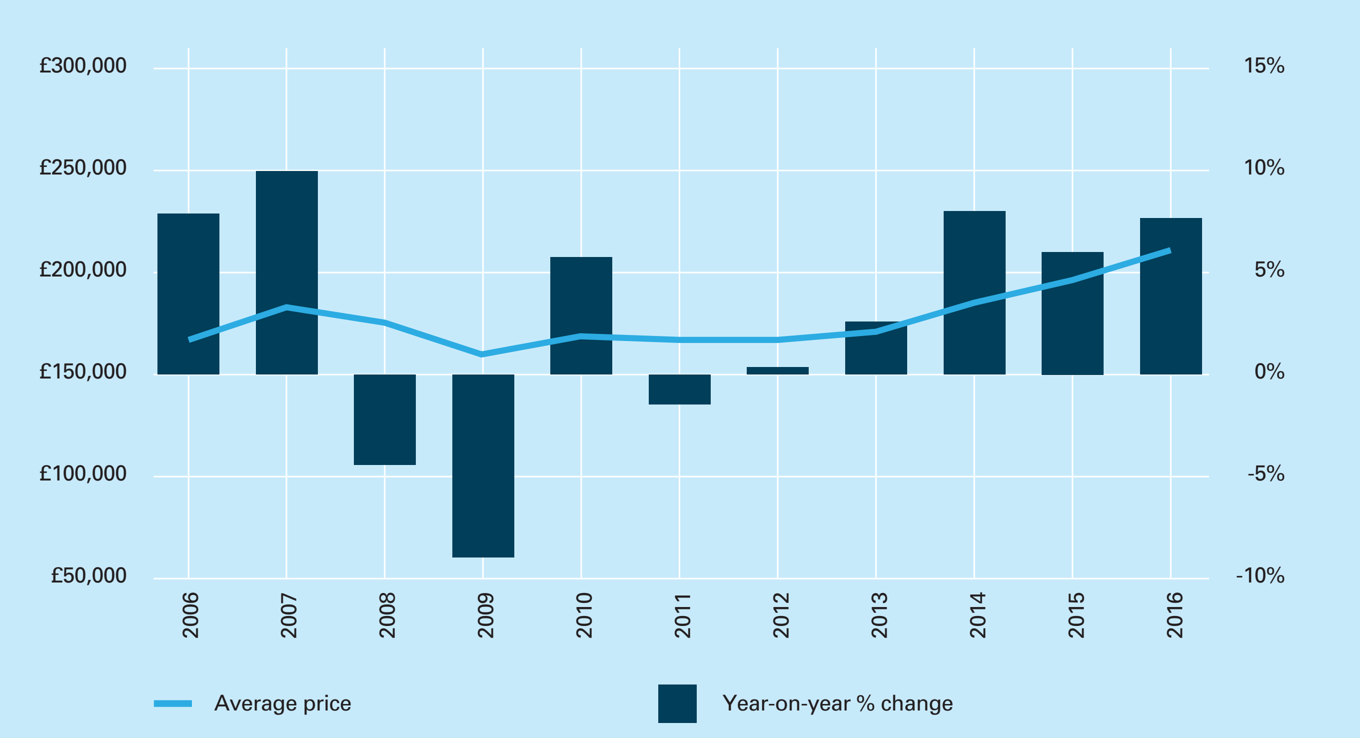
i. https://www.cml.org.uk/news/news-and-views/challenger-banks-and-specialist-lenders-showed-strongest-growth/

# INTRODUCTION
# NO LET UP

**Despite economic uncertainty, house prices continue to grow strongly. Average annual price growth in 2016 was 7.4%.[ii] By January this year, the typical UK house cost £218,255. In London it was £490,718.[iii]**

Continued uncertainty and tax changes designed to cool the buy to let market are expected to see the market slow in 2017, but prices are still likely to grow a healthy 4.4%.[iv] The Spring budget forecasts average annual growth of 4.8% in the next five years.[v] That would see prices increase by more than a quarter by 2022. Sustained for a decade longer than that, and prices will have doubled.[vi]

The housing market juggernaut has slowed, but for many aspiring homeowners there's still little chance of jumping on board.




Average UK house price (£, LHS) and year-on-year growth rates (RHS)
Source: Land Registry

ii. https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/jan2017
iii. https://www.gov.uk/government/publications/uk-house-price-index-summary-january-2017/uk-house-price-index-summary-january-2017
iv. Cebr forecast
v. https://www.gov.uk/government/publications/spring-budget-2017-documents/spring-budget-2017
vi. https://www.thesun.co.uk/news/3060871/house-prices-are-on-course-to-double-in-the-next-15-years-official-forecasters-predict/

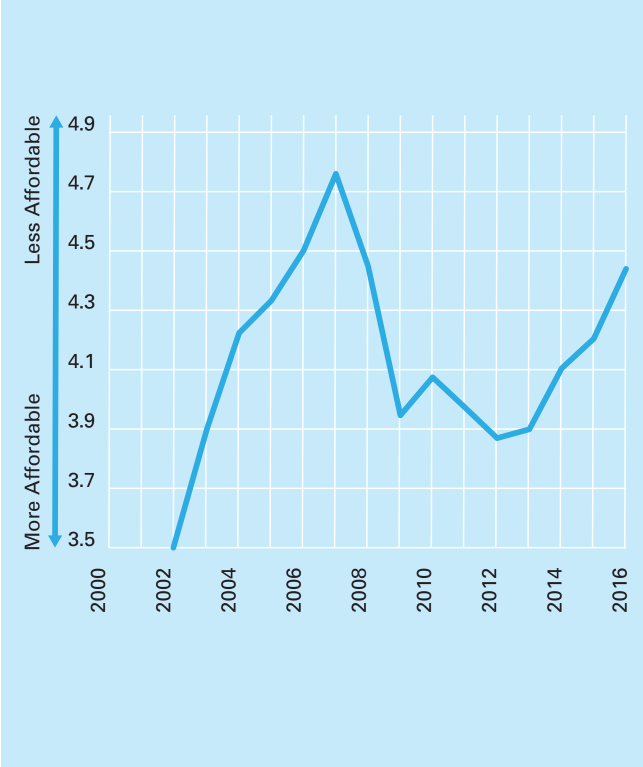


That's even more so since other factors continue to make house buying unattainable for more and more people.

**Growth in wages** – which determine how much prospective buyers can borrow, as well as what they can afford to repay **– trails well behind house price inflation, increasing just 2.2%** in the year to last April.[vii] There was little sign of an improvement coming into 2017.[viii]

Typical loan to value (LTV) ratios, meanwhile, increased only modestly over the last year.[ix] Despite an increasing number of higher LTV products,[x] most buyers still need to raise large deposits if they want to buy.

Overall, these factors mean that the ONS calculates an average working person could expect to pay 7.6 times their annual earnings when purchasing a home in England and Wales in 2016 – more than double the 3.6 times earnings they would have paid in 1997.[xi] House price affordability in terms of the ratio of house prices to average annual household disposable incomes, meanwhile, has declined consistently since 2012. It is now returning to levels last seen in the run up to the financial crisis.




House price affordability: ratio of house prices to average annual household disposable incomes

vii. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2016provisionalresults
viii. http://www.bbc.co.uk/news/business-39277539
ix. http://www.bankofengland.co.uk/publications/Pages/other/monetary/creditconditions.aspx
x. https://moneyfacts.co.uk/news/mortgages/number-of-90-ltv-mortgages-highest-since-2008/
xi. https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/1997to2016

# BANK OF MUM AND DAD
# A FAST GROWING LENDER

Given all this, The Bank of Mum and Dad remains the lender not just of choice but of necessity for many purchasers. It's busier than ever.

In 2017, our research shows friends and family will give or lend £6.5 billion to help home buyers realise their dream – a massive 30% growth on the £5bn last year. It puts The Bank of Mum and Dad pretty much on a par with the UK's 9th largest mortgage lender.[xii]

While the number of transactions it will facilitate this year is down (reflecting lower levels of activity in the market overall), this money will still support 298,300 purchases. The proportion of those buying who receive help is also increasing and looks set to rise further in future:

**Just over a quarter (26%) of property owners received financial help from family and friends when they purchased their current home.**

**Among younger buyers, those under 35, though, that rises to 62%, compared to just 6% of the over 55s.**

**The proportion of prospective buyers who expect to get help from friends of family for their property purchase in future has risen significantly, from a third in 2016 to more than four in ten (42%) this year.**

**About half (48%) of prospective first time buyers expect to get some help.**

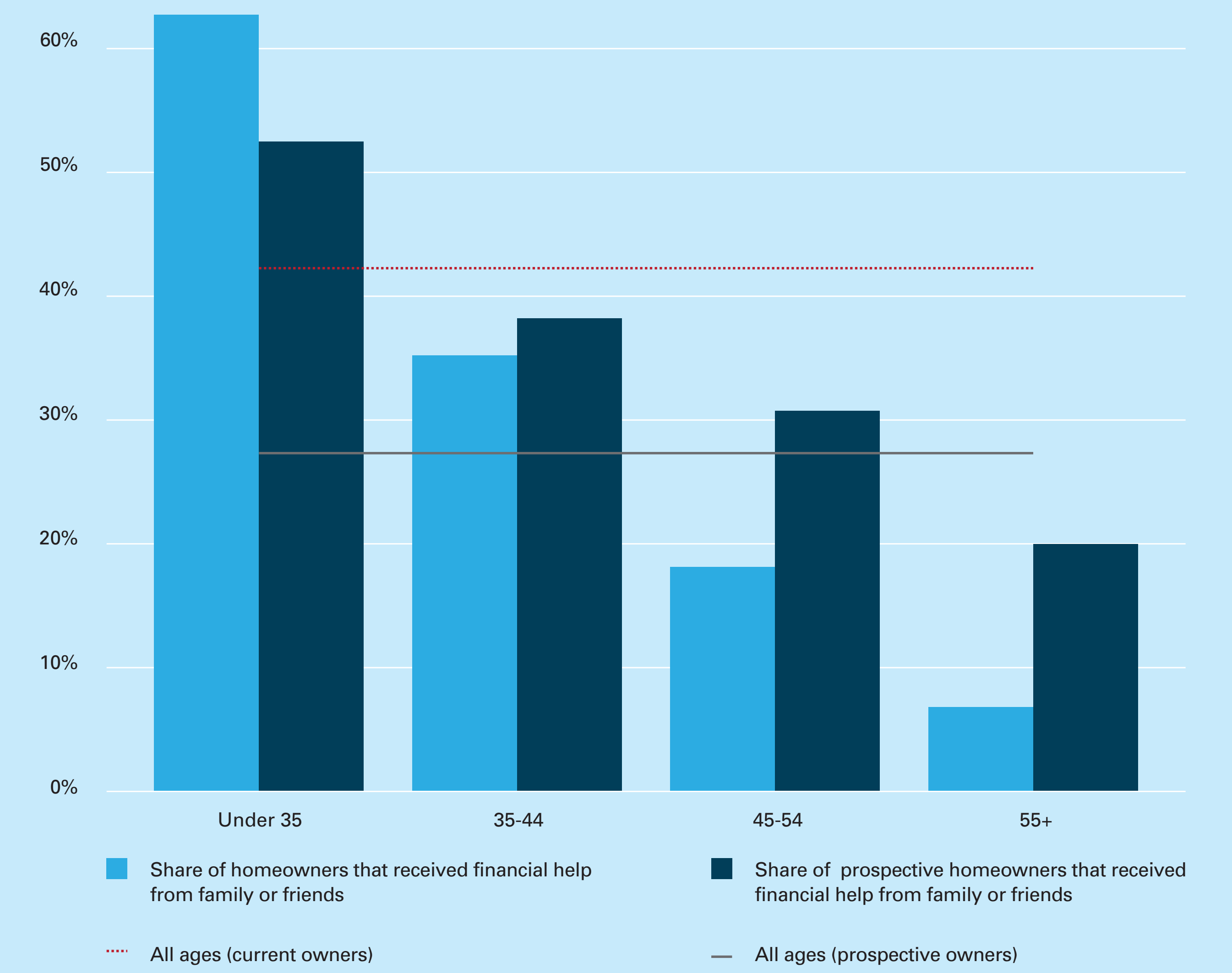
With a young clientele, The Bank of Mum and Dad's is a growth business.

Share of current homeowners that received and prospective homeowners that expect to receive financial assistance toward a home purchase from family or friends, by age

| AGE | CURRENT HOME OWNERS | PROSPECTIVE HOME OWNERS |
|---|---|---|
| Under 35 | 62% | 52% |
| 35-44 | 34% | 38% |
| 45-54 | 18% | 31% |
| 55+ | 6% | 20% |
| All Ages | 26% | 42% |

Source: Survey of over 1,000 UK adults commissioned by Legal & General in February 2017, Cebr analysis

xii. https://www.cml.org.uk/news/news-and-views/challenger-banks-and-specialist-lenders-showed-strongest-growth/




Share of current homeowners that received and prospective homeowners that expect to receive financial assistance toward a home purchase from family or friends, by age. Source: Survey of over 1,000 UK adults commissioned by Legal & General in February 2017, Cebr analysis

# CHARITY BEGINS AT HOME

**For many if not most, this will be the biggest financial windfall from their family outside an inheritance. The big increase in The Bank of Mum and Dad lending is down to the average amount given to home buyers rising almost a quarter in the last year from £17,500 in 2016 to £21,600 in 2017.**

In most cases this is given as a gift (56%), and in the majority of other cases as an interest free loan (21%). Only 2% of those given assistance are expected to pay interest on the money. Perhaps not surprisingly, in about three quarters of cases (73%), it's parents who are helping, financing 219,000 transactions this year. A further 21,900 and 57,400 supported by grandparents and other family members or friends, respectively.

Nor is it a great surprise where the help is going. The challenges of house-price affordability for millennials – those born between the early 1980s and late 1990s are well recognised. Perhaps predictably, then, this demographic is the largest recipient of help, with 79% of funding going to those under the age of 30. Add in those under 35, and the figure rises to 92%.



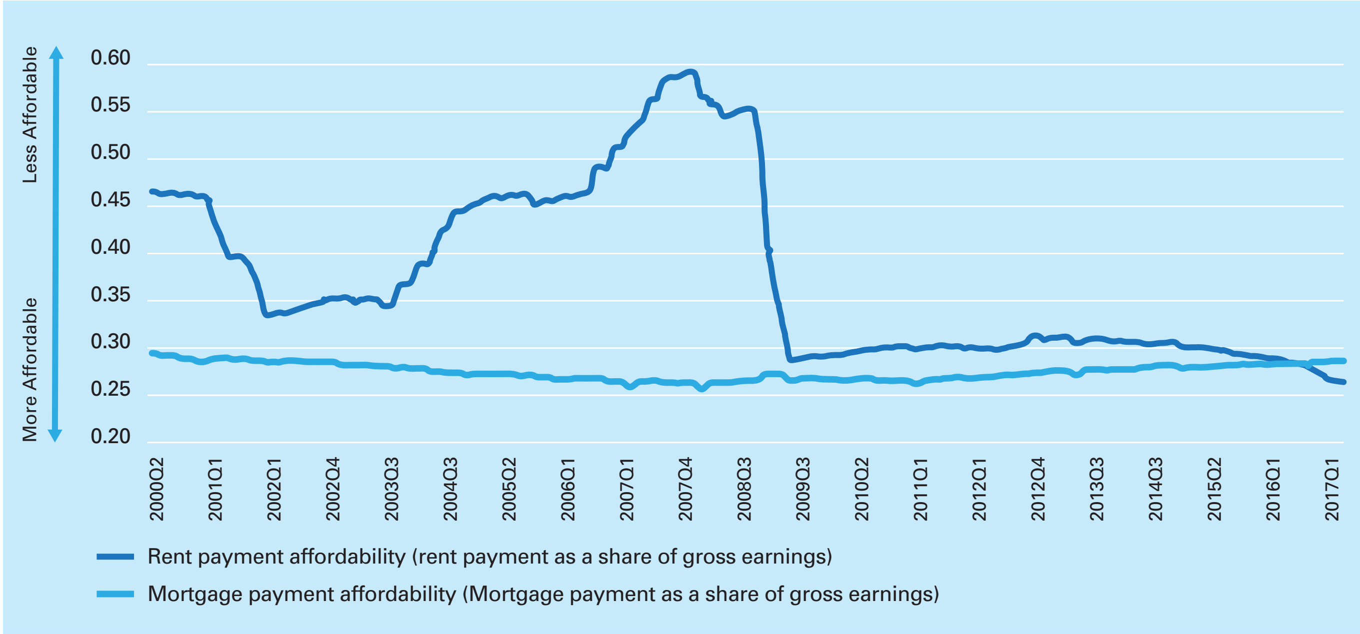
# MEASURES OF AFFORDABILITY

**What is less obvious, is that the majority of these buyers can afford repayments themselves – so long as they can get a sufficient deposit to begin with: more than three quarters (76%) say the money they were given went just to the deposit. Just 8% use help solely or partly for repayments. Once they've raised the initial lump sum, affordability, it seems, is no longer a problem.**

That's born out by the fact that a far higher proportion of first time buyers rely on The Bank of Mum and Dad than those moving: 55% against just 14%. Just 8% of those moving – who usually have some equity in their existing house to help with a deposit – say they needed help.

It's also explained by looking at a different measure of affordability: mortgage payments as a share of earnings. While house prices have continued upwards, interest rates have fallen to record lows. The result is those that have been able to buy have benefited from borrowing that is historically cheap.

Repayments, then, are at their most affordable for almost a decade. Yet 69% of all those that have received financial from The Bank of Mum and Dad help say they would have been unlikely to have made their purchase without it.




Monthly mortgage payment and monthly rent payment affordability
Source: ONS, Cebr analysis

## GOING NOWHERE:
# GENERATION RENT

**For those who want to buy but can't raise the necessary deposit, the frustration is exacerbated by the fact that they pay for the privilege. Higher house prices and deposits mean people are renting for longer, pushing up demand. That's putting pressure on rents.**

Saving for a deposit while paying rent has long been a challenge for renters, but it's more testing than ever. Research by the Resolution Foundation suggests that Millennials have paid £44,000 more rent than the baby boomers by the time they reach 30. By that age, 63% of baby boomer and 60% of generation X owned their own home. For today's 30-year-olds, the proportion is 42%.xiii

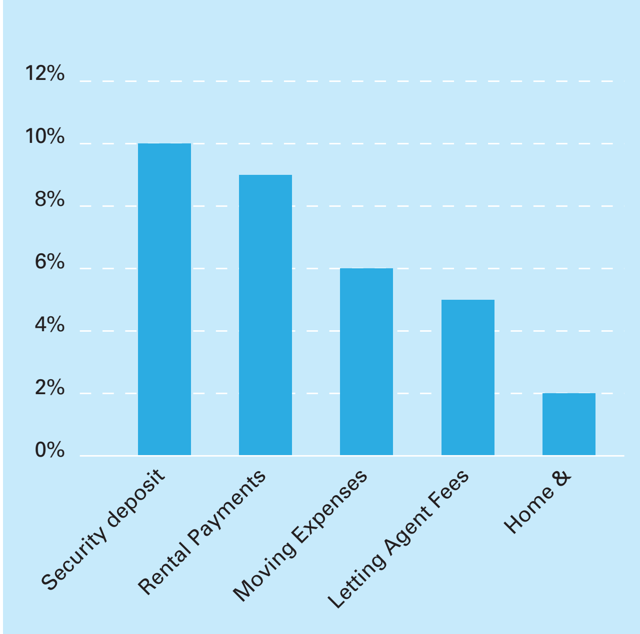
Rents are now, on average, higher than mortgage repayments. At the start of last tax year in April 2016, paying a mortgage was cheaper than renting in about half of British cities, according to property website Zoopla.xiv Six months later, that had risen to almost two thirds, with renters in cities such as Glasgow, Birmingham and Bradford paying about a quarter extra per month than purchasers.xv In cash terms that's over £2,100 per year extra in Birmingham, for example.

xiii. http://www.resolutionfoundation.org/media/press-releases/millennials-have-paid-44000-more-rent-than-the-baby-boomers-by-the-time-they-hit-30/
xiv. http://www.zoopla.co.uk/press/releases/cheaper-to-buy-than-rent-in-nearly-half-of-britains-cities/
xv. http://www.zoopla.co.uk/press/releases/cheaper-to-buy-than-rent-in-nearly-two-thirds-of-british-cities/



# A NEW BUSINESS LINE FOR THE BANK OF MUM AND DAD

**No surprise, then, that there are signs The Bank of Mum and Dad is branching out. If it can't always afford to help with a purchase, it's increasingly easing the pain of renting.**




Share of renters that received financial help from family and friends with a particular renting-related expense, 2017. Source: Survey of over 1,000 UK adults commissioned by Legal & General in February 2017, Cebr analysis

Legal & General's research finds that the Bank of Mum and Dad will fund over £2.3 billion of rental payments in 2017 – an average of £415 every time a rental payment is made.

As with house purchases, the figures vary from region to region. Payments to the rental sector are highest in London at £626m and the East of England at £604m. Parents in the North West as well as Yorkshire and the Humber give the least, but will still lend £175m and £369m respectively.

But it isn't just support for rental payments that BoMaD is helping with. Family and friends are also providing financial assistance with other rental costs - 6% are helping with moving expenses, 5% provide assistance to pay for letting fees, and 2% (rising to 8% in the East of England) help out with contents insurance.

In total, almost one in ten (9%) of renters in the UK regularly received financial assistance of between £500-1500 a month from family and friends to help pay their rent, and 10% received help from BoMaD for their security deposit. Younger people were most in need of support, with a quarter (25%) of those aged 25-44 saying they'd received support.

As homeownership levels come under increasing pressure and 65% of renters having moved at least once in the past 5 years, BoMaD is expected to play an increasingly important role, not just on the property ladder, but also the private rented sector.

xiii. http://www.resolutionfoundation.org/media/press-releases/millennials-have-paid-44000-more-rent-than-the-baby-boomers-by-the-time-they-hit-30/
xiv. http://www.zoopla.co.uk/press/releases/cheaper-to-buy-than-rent-in-nearly-half-of-britains-cities/
xv. http://www.zoopla.co.uk/press/releases/cheaper-to-buy-than-rent-in-nearly-two-thirds-of-british-cities/

# GROWING ACTIVITY

**While those receiving help may still be in a minority, the amounts being given are not insignificant: Of those receiving help who answered, a quarter (26%) say they receive between £201 and £500 towards each rent bill; close to one in five (18%) receive between £501 and £1,000; and only slightly fewer (16%) receive over £1,000 for each rental period.**

The role of friends and family in the rental market looks unlikely to diminish. For a start, almost two thirds of renters (64%) say they have moved at least once in the past five years, and are therefore likely to do so again, incurring another set of moving costs. Moreover, home ownership has continued to decline in recent years, slumping to its lowest level since 1985 last year, to just 62.9% of households.[xvi]

The same factors that see The Bank of Mum and Dad play a major role in property purchases are also increasingly forcing it to prop up the rental market, too.

xvi. https://www.gov.uk/government/statistics/english-housing-survey-2015-to-2016-headline-report

# A POSTCODE LOTTERY – OR A GENETIC ONE?

**The objection to The Bank of Mum and Dad is not that parents and grand parents should help their loved ones to enjoy the same benefits of home ownership they have. It is that – despite the good intentions – it is not up to the task of really addressing the issue. The Bank is a symptom of the problems in the UK housing market, not its solution.**

Most obviously, it fails to address the needs of aspiring home-owners who work hard but cannot afford a deposit and don't have friends and family able or willing to help.

Even families that do help, though, cannot always do so consistently. In fact, the majority of The Bank of Mum and Dad parents with more than one child say they have either provided help to just one of their children (34%) or provided help to all but with different amounts (11%). Only 40% say they a roughly equal to all their children.

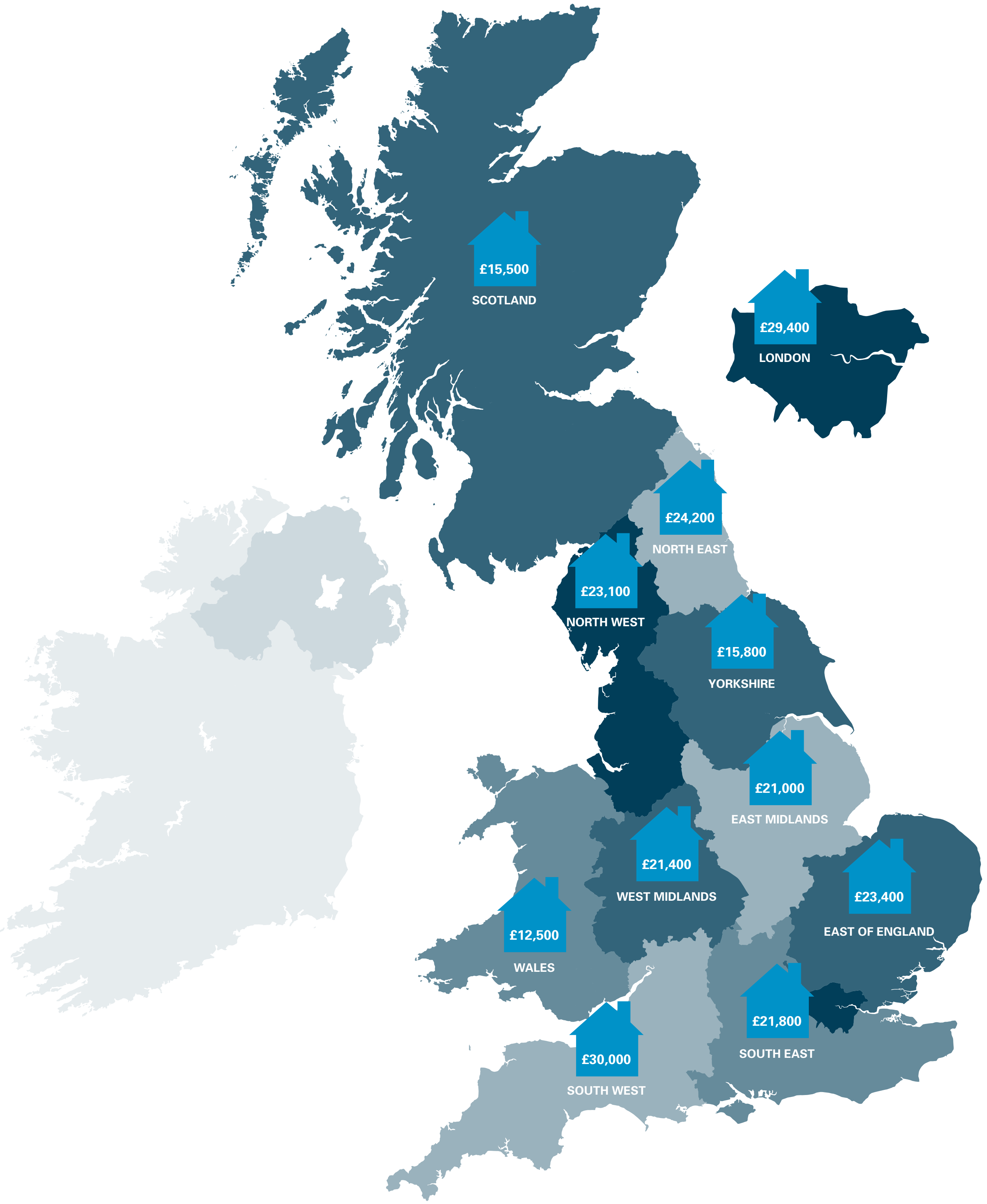
On the one hand, some of this will be based on the requirements of the children parents are trying to help. (The findings suggest there's little correlation to the order of birth, with roughly equal proportions preferring the younger and elder siblings). On the other, our research found that fewer than one in five (19%) parents who had provided money towards a home purchase to children living in different part of the country was willing to give more to those in more expensive areas. Parents largely seem to decide on a fixed amount they will contribute regardless of the location of the purchased property.

As a result, the amount available to prospective buyers is often poorly correlated to house prices in the area they're looking to buy in. On the one hand, the research shows contributions towards purchases were high in London, the UK's most expensive region, with by friends and family giving or lending, on average, £29,400. On the other, they were not that much lower in the North East (£24,200), the cheapest region in the UK, and highest in the South West where average prices are half London's (£243,203 against £490,718).

In fact, as a proportion of average regional house prices, Bank of Mum & Dad recipients received average contributions to their house purchase of as much as 20% and 15% in the North East and North West, respectively, to as little as 7% and 6% in the South East and London.[xviii]

xvii. Using the Land Registry's UK House Price Index summary: January 2017, ibid






Average BoMaD contribution in 2017 by UK region

# THE HAVES AND HAVE NOTS

**If the average amount of support given is a poor match for house prices, the likelihood of buyers receiving help is, if anything, even less well correlated to local needs.**

Again, the exception is **London**, where almost **four in ten home owners (39%)** say they received help. Outside the capital, though, it's a wildly inconsistent picture. The generosity of family and friends in the **North East** is once again on display, with **almost a third (32%)** of buyers there receiving help. Likewise, buyers in **Yorkshire and the Humber** (where **34%** received help), **Scotland and the East Midlands** (**29%** for each), where house prices are well below average, were above averagely likely to receive help.

Again, without criticising those helping, it should be noted that these variations only add to the inequality The Bank of Mum and Dad fosters. **The South West**, for example, saw the lowest proportion of buyers receiving help anywhere in the country: **Fewer than one in five were given support**. At the same time this lucky 19% who did get help received more than buyers anywhere else: an average of £30,000 each.



# HEADING TOWARDS ANOTHER BANKING CRISIS?

**If the divide is between those who own and those who rent, The Bank of Mum and Dad at least puts more people on the right side of that split.**

Moreover, even now, there is room for The Bank of Mum and Dad to increase its funding. For a start, while parents remain the biggest source of support, the role of other family and friends is growing. In 2016 they accounted for 9% of all assisted home purchases; this year the proportion is 19%.

The survey also finds that equity release remains barely used, with just 3% of the UK's over 55s drawing on the value of their property this way. Allowing borrowers to remain in their home while borrowing a lump sum or regular amounts from its value, greater use could unlock the nation's £5 trillion in privately-owned housing wealth, 70% of which is in the hands of the over 50s.[xix]

A number of barriers prevent greater uptake. One is simply that many (59%) say they don't need the extra cash. With reform to pension rules in 2015, the over 55s have greater access to pension savings than ever before, if they do need cash. One in three also say, they don't want to leave their family without an inheritance.

There may a role for greater education about the benefits – and protections of equity release – however. Of those surveyed, 18% say they haven't used equity release for fear of losing their home. That is despite all Equity Release Council lenders providing a "no negative equity" guarantee. This ensure the amount of money borrowed, together with any rolled-up interest, can never go above the value of the property, and that borrowers always retain the right to live in the home until death or a move into long-term care.[xx]

Even as it is, though, if all the households who said they were considering equity release went ahead and put at least a part of the receipts towards a loved ones' home purchase an extra 442,900 families could become home owners.

xix. http://www.savills.co.uk/_news/article/72418/213407-0/1/2017/uk-homes-worth-a-record-%C2%A36.8-trillion-as-private-housing-wealth-exceeds-%C2%A35-trillion
xx. http://www.equityreleasecouncil.com/faqs/

# HOME TRUTHS

Even so, friends and family can't be expected to solve the UK housing problems. Not only is it unfair to expect them to do so, they're fundamentally ill equipped for the job.

Last year's report observed that in 2016, a family with wealth in line with the overall Great British average already had to put close to two thirds (64%) of their household net financial wealth to help a loved one buy in London.[xxi] And prices have since continued to increase.

The challenges of the UK's housing market are not down to a lack of generosity on the part of existing home owners; far from it. Without their help far fewer would have been able to join them in enjoying the benefits of ownership.

If this is to be a reasonable expectation for many, rather than a privilege reserved for a minority, however, the issue must be addressed at its root: As ever, a fundamental imbalance between continuing, growing demand for homes and persistently inadequate supply from new building.

The Bank of Mum and Dad is doing its upmost to ease some of the pain that causes, but it can't fix the problem.

xxi citation

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