

Bank of Mum and Dad





The Bank of Mum and Dad (BoMaD) continues to be a prime mover in the UK housing market. This year, it will be the equivalent of a £5.7bn mortgage lender. It's supporting more people than ever: 27% of all buyers will receive help from friends or family in 2018, up from 25% in 2017 – purchasing almost 317,000 homes.

However, parental generosity is not without its limits and our latest Bank of Mum and Dad survey suggests that households are feeling squeezed. Parents are providing smaller sums, with the average BoMaD contribution declining from £21,600 in 2017 to £18,000 in 2018. This means that although BoMaD-supported transaction volumes are rising, overall lending by the Bank of Mum and Dad is £5.7bn – a huge sum, but nonetheless a reduction from its height of £6.5bn last year.

This is the third year that Legal & General has conducted our Bank of Mum and Dad campaign and the fact that over one in four housing transactions in the UK are dependent on the Bank of Mum and Dad is a depressing indictment of our ongoing housing crisis. If hard-pressed parents are finding it more difficult to provide the funds to help their loved ones with deposits, it's going to be even harder for first-time buyers. House prices are no longer experiencing double-digit growth in many parts of the UK, but they're still incredibly high relative to earnings and well out of reach for many aspiring buyers.

Put simply, we are not building enough houses. We need to build more homes for the young, old and families alike – more quickly and cost-effectively. We urgently need real action to transform the housing system in this country, offering affordable accommodation for all, across a range of tenures, construction methods and funding options.

We owe our generous parents a debt of thanks; the Bank of Mum and Dad continues to be a generous lender. But BoMaD funding cannot keep playing such a vital role in the housing market forever. There will always be years when funds are squeezed. The Bank of Mum and Dad's pre-eminence is not desirable; it is not sustainable; and it is not fair – for the parents lending the money or the young people who remain so dependent on it. We need to take action to fix the housing market and promote affordability for all. Jobs, infrastructure and economic growth are needed to create thriving communities where people can afford to buy.

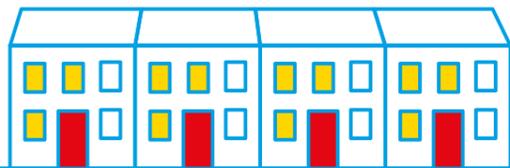
UK house prices: Little reprieve

The house price juggernaut has finally slowed. In May, the RICS (Royal Institution of Chartered Surveyors) UK Residential Market Survey showed house prices at their weakest since 2012.¹ Continued price growth in parts of the country was offset by weak performance elsewhere, particularly in London where nearly two thirds of surveyors saw prices fall over April – the highest proportion since February 2009.

For those struggling to get on the housing ladder though, it's likely to prove little relief.

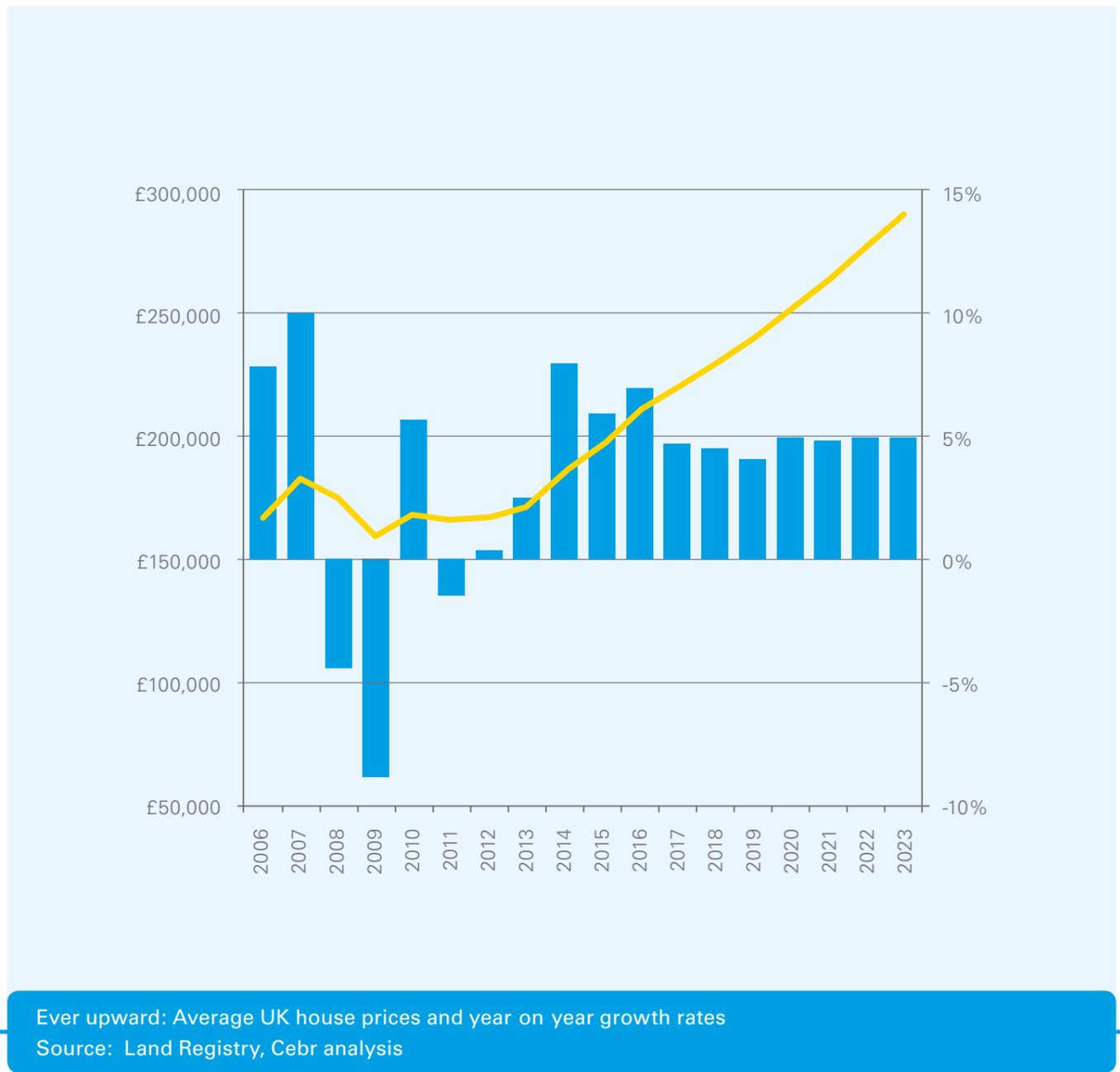
That's likely to be uncomfortable news for prospective buyers, because prices remain extremely high. Property values are still higher than a year ago³ and even if growth stopped in its tracks entirely, it would be a long time before property would be affordable for most earners.

Benefits from stalling house prices have been offset by sluggish wage growth and a rise in interest rates in November 2017 too. Full-time workers could expect to pay close to eight times their annual earnings purchasing a home in England and Wales last year – a record high, according to the most recent official figures.⁴



First, the pause in price rises could prove short-lived. The RICS report² notes that any declines in prices to date have been “marginal”, and that many more surveyors expect prices to be higher in a year’s time, not lower.

“Virtually all areas of the UK exhibit comfortably positive twelve-month price expectations...” as the report puts it.



1. <https://uk.reuters.com/article/uk-britain-economy-houseprices/uk-rics-house-price-balance-hits-lowest-since-2012-idUKKBN11A3J7>
 2. <https://www.rics.org/uk/knowledge/market-analysis/rics-residential-market-survey/>
 3. <http://www.bbc.co.uk/news/business-44037087>
 4. <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2017>

Booming business for the Bank of Mum and Dad

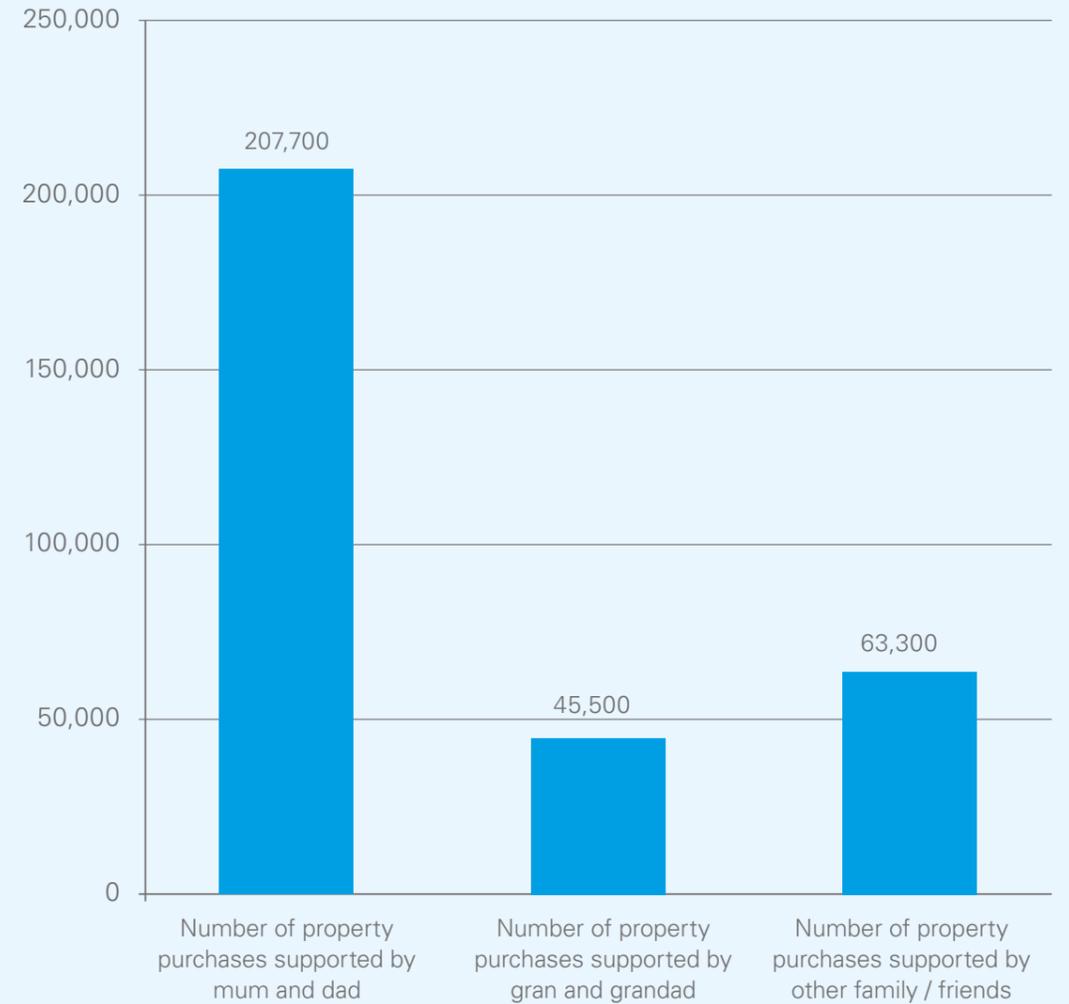
As a result, more people than ever are getting help from friends and relatives to finance their home. Our survey suggests that, without the help of generous parents and other contributors, more than a quarter (27%) of purchases might not happen.

This year, the Bank of Mum and Dad will support 316,600 loved ones to buy a home – a record high, up from 298,300 in 2017. Taking account of the average amounts put up to help buyers, that means a cash injection into the housing market of £5.7bn.

BoMaD therefore remains a major lender in UK housing, supporting the purchase of property worth £82bn.



In most cases, it is parents donating the money for these purchases, but grandparents, other family members and even friends have between them supported 108,800 of these purchases. The seriousness of the housing crisis is reflected in the generosity of this wider circle of family and friends willing to step up to help buyers who would otherwise struggle to afford their homes.



Who are the Bank of Mum and Dad? Parents, grandparents, friends and family
 Source: Survey of over 1,000 UK adults commissioned by Legal & General in April 2018, Cebr analysis

Strong demand

Not surprisingly, many of these buyers are relatively young and are purchasing their first home – but by no means all of them. In broad terms, buyers under 35 were by far the most likely to have received assistance for their most recent purchase. In fact, nearly three out of five (59%) of these younger homeowners got help from family and friends.

Without the Bank of Mum and Dad, the first-time buyer market would collapse

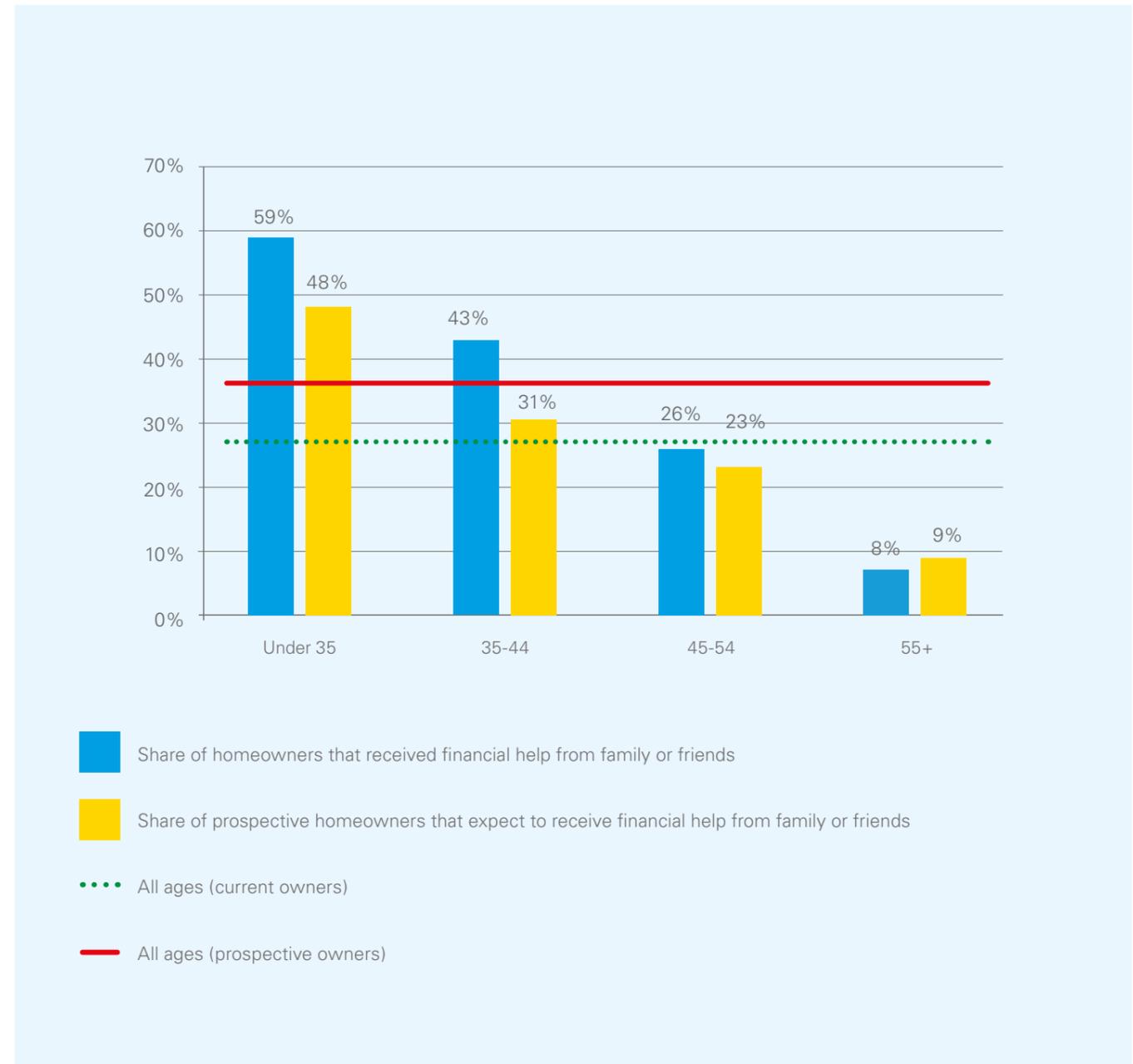
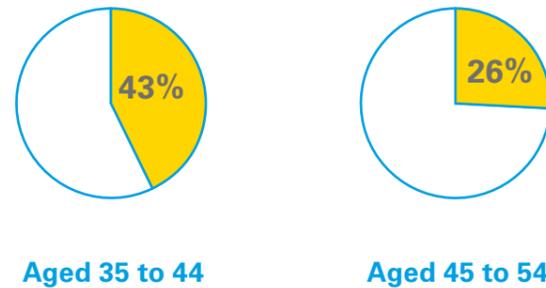
At the other end of the scale, just 8% of over-55s received help to buy. Indeed, individuals in this age group are more likely to be BoMaD lenders than borrowers. It holds the lion's share of wealth in the UK, including housing wealth.⁵

It's not just those starting out in adult life who are getting support, though. Our research shows that 43% of buyers aged 35 to 44 received financial help from family and friends, with more than a quarter (26%) of those aged 45 to 54 still relying on the Bank of Mum and Dad. Indeed, it may seem staggering that people are calling on their parents for money to buy a house well into middle age, when their earnings are likely to be near their peak and they will often have children of their own.

In part, this likely reflects the fact that the age at which buyers are able to purchase their own home has increased significantly as house prices have climbed over the decades. The average age of first-time buyers in some areas of the UK is already in the mid-thirties.⁶ But it also reflects the challenges faced by those who already have a foot on the property ladder: many "second steppers" looking for a house with more room are finding that they too struggle to raise the money they need.

As a result, BoMaD remains a key player across the market. While softer house prices equate to fewer prospective buyers, purchasers still say they will need help to buy in the future. For every age group, outside help therefore looks set to remain crucial.

Receiving financial help from family and friends



Never too old for a helping hand

Source: Survey of over 1,000 UK adults commissioned by Legal & General in April 2018, Cebr analysis

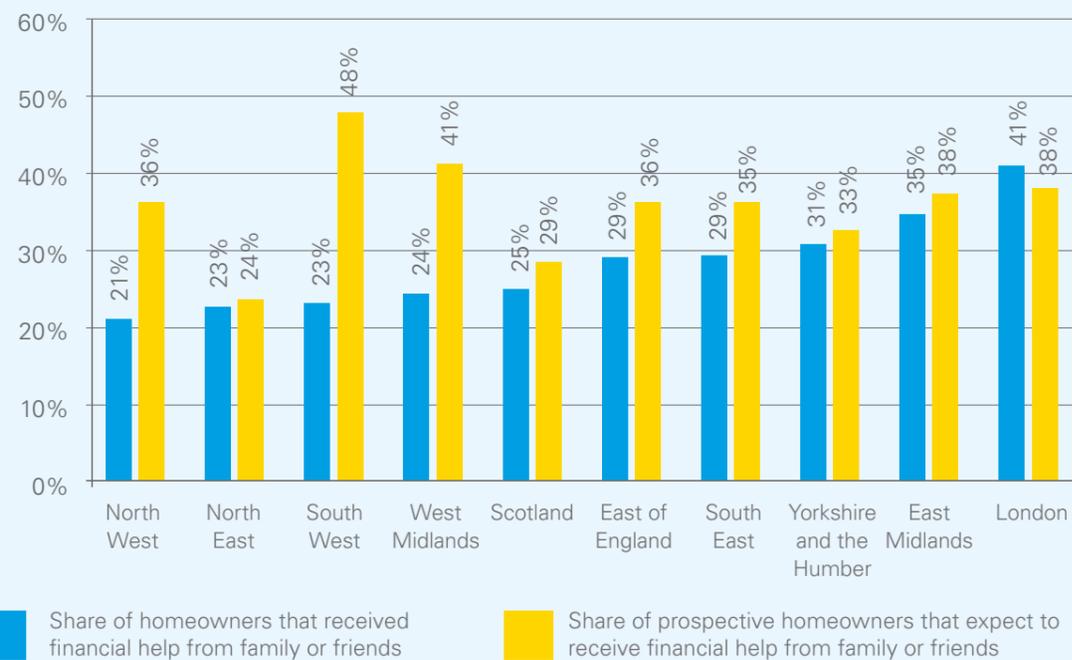
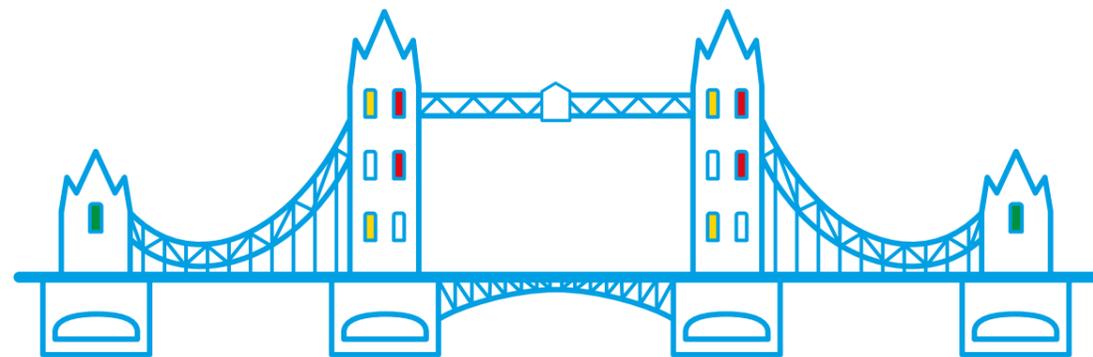
5. <http://www.legalandgeneralcapital.com/media-centre/publications/lg-capital---media-centre---publications---last-time-buyers.html>

6. <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/february2018>

Serious money

If anyone needs convincing that a slowdown in house price growth is unlikely to put BoMaD out of business, they can look at London. Despite the capital seeing the most pronounced decline in prices

over the last year, two in five (41%) recent buyers in London received BoMaD assistance – the highest proportion in the UK. By contrast, just one in five in the north of England had help.



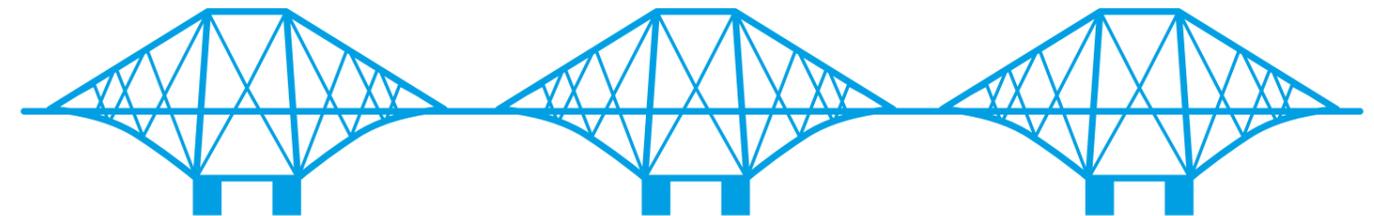
BoMaD has branches everywhere

Source: Survey of over 1,000 UK adults commissioned by Legal & General in April 2018, Cebr analysis

We see a similar pattern when it comes to how much financial help buyers received. In England, buyers in London received the most – an average of £30,600 from friends and family and an indication, perhaps, of the sort of drop in prices we'd need in order to make BoMaD redundant. Average contributions in the South East, meanwhile, were £21,700; and £19,300

in the South West. Contributions were lowest in the North East (£12,000). This order perfectly reflects average house prices in each of the regions.⁷

The lowest contributions, however, were in Scotland. Even here though, the average amount put forward by friends and family was still £10,800. The generosity of BoMaD across Britain is substantial. But can it last?



Digging deep: Average BoMaD contribution (where help was given) by region

Source: Survey of over 1,000 UK adults commissioned by Legal & General in April 2018, Cebr analysis

7. <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/february2018>

Signs of strain

In last year's report, we raised the prospect that BoMaD could one day face its own banking crisis as prices continued ever upwards, demanding more of parents' wealth to help young buyers.⁸ This year's report may highlight the first signs of strain, with average contributions from BoMaD falling from the levels of 2017: average BoMaD contributions have declined from £21,600 to £18,000 this year.



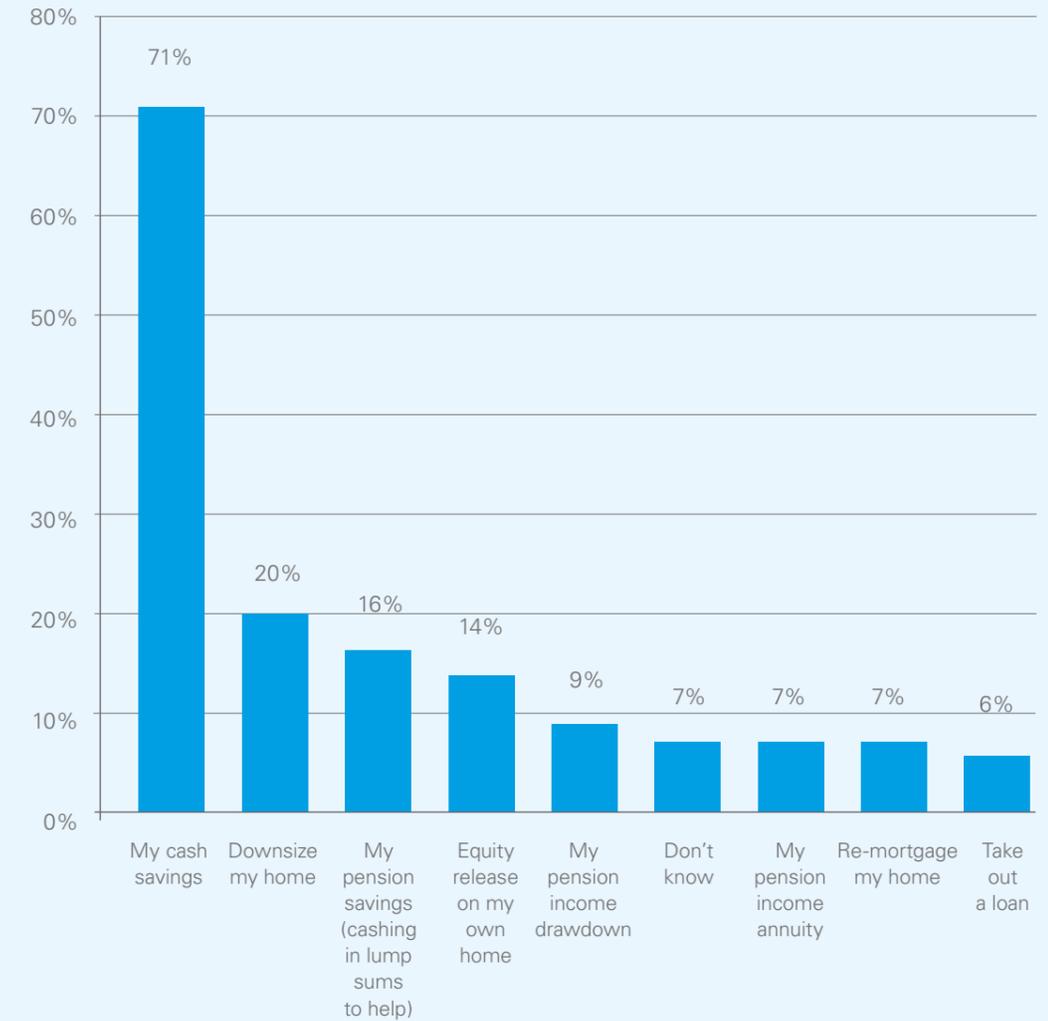
Taking account of the number of purchases expected in 2018, that puts the value of BoMaD lending at £5.7bn – a massive amount, but a drop of 12% from 2017.

The fall is partly, perhaps, a reflection of sluggish wage growth trailing inflation over the last year⁹ – a problem that could well persist.¹⁰ Times are tight for many, and parents and other family members have less money to spare.

We should not overstate this: the majority (71%) of BoMaD "lenders" say they used cash savings to help their loved ones buy. But one in five (20%) downsized their own home and 16% used pensions savings, taking a cash lump sum from their pension pot to help. Likewise, while only 10% say giving the money left them feeling less secure about their own financial future, many had to make sacrifices: nearly 1 in 5 (17%) say that they've had to accept a lower standard of living, such as cutting back on a holiday or postponing a car purchase as a result of lending the money.



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BoMaD's asset base: Where the money comes from
Source: Survey of over 2,000 UK adults commissioned by Legal & General in March 2018, Cebr analysis

8. <https://www.legalandgeneral.com/insurance/home/bank-of-mum-and-dad/Bank-of-Mum-and-Dad-Full-Report-2017.pdf>

9. <http://www.bbc.co.uk/news/business-42484798>

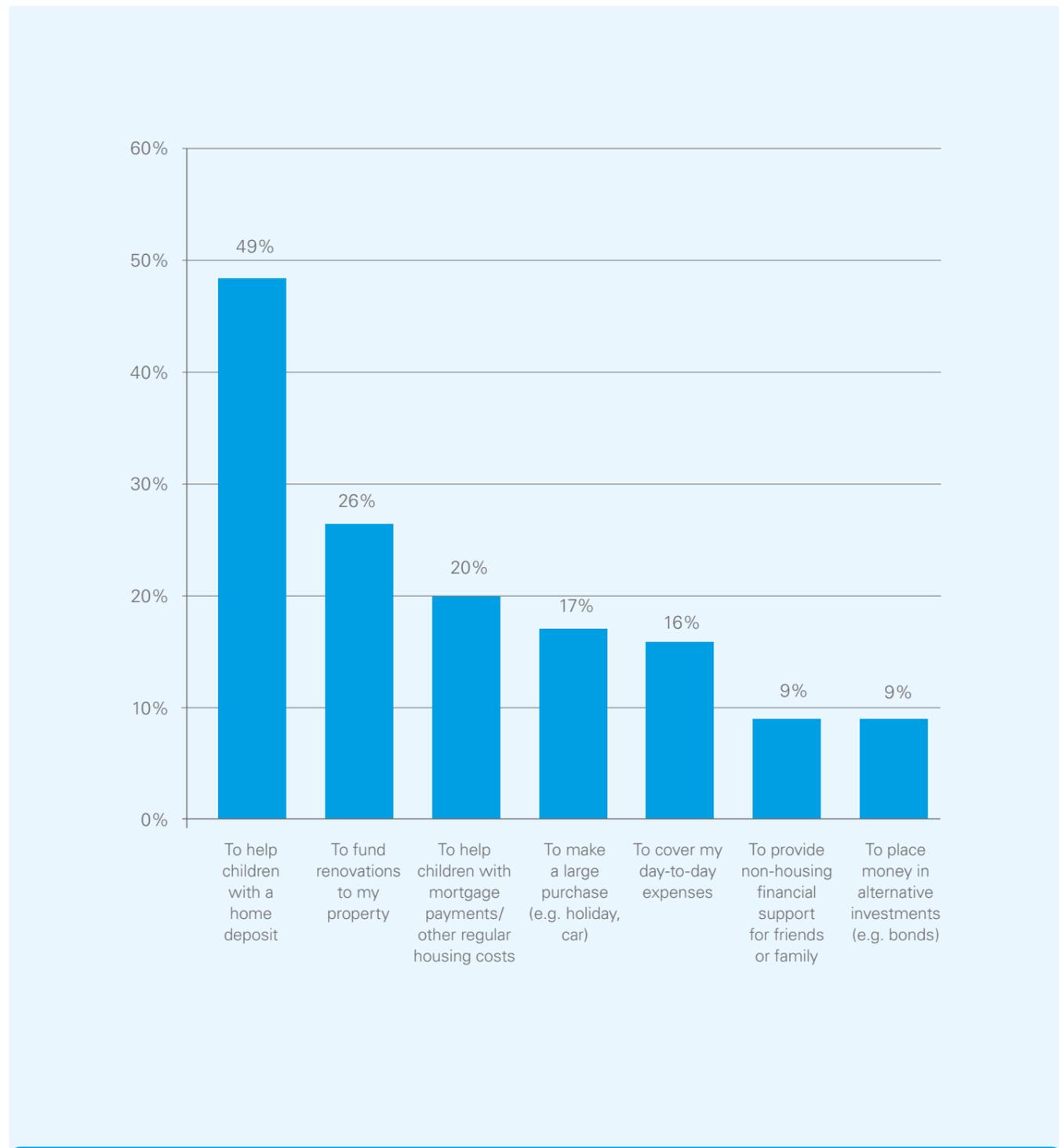
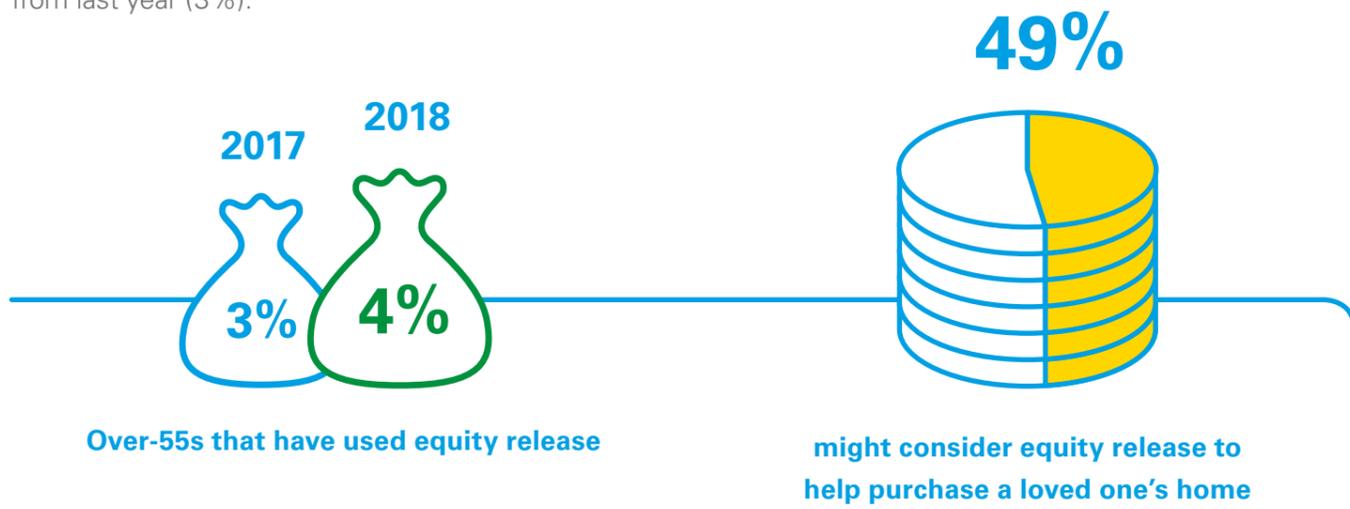
10. <http://www.bbc.co.uk/news/business-42484798>

Backing the bankers?

Friends and family helping young buyers are vital to the UK housing market and they deserve our support. After all, this isn't going to be the last year that household finances are squeezed. If BoMaD is going to continue to play such an important role, we want to help it make the most of its wealth.

One tool that remains significantly under-utilised is equity release. Our research finds that 4% of the UK's over-55s have used equity release – up slightly from last year (3%).

The proportion who say they might consider it is much higher, however, at 39%, and nearly half of those (49%) say they would put the money towards the purchase of a loved one's home. That makes it the most popular driver of equity release – ahead of using the money for renovations of individuals' own properties, which is a key driver.



Putting equity release to use: reasons for taking or considering equity release
 Source: Survey of over 2,000 UK adults commissioned by Legal & General in March 2018, Cebr analysis

Given this willingness to help, even a modest increase in uptake of equity release could have a profound impact on the amounts available to help young people get onto the property ladder. Bear in mind, almost two thirds (63%) of over-55s in the UK own their own home outright.¹¹ However, in all of this, we should be careful to protect the interests of generous BoMaD funders. One way of doing that is by ensuring they have access to good advice. At present, our survey finds that more than three quarters (77%) of BoMaD lenders took no advice before supporting loved ones to buy. Of those that did, many just searched for information online or asked friends and family. Only a little over half of them (53%) actually sought advice from a professional such as a mortgage broker.

Where BoMaD lenders did take advice, they saw its value, however: 73% said it helped them to feel more confident in the lending decision, while 30% said that they were able to secure a more favourable mortgage for their child or grandchild.

As an industry, we can certainly be doing more to help lenders, as well as buyers, get the best advice to make the most of their generosity.



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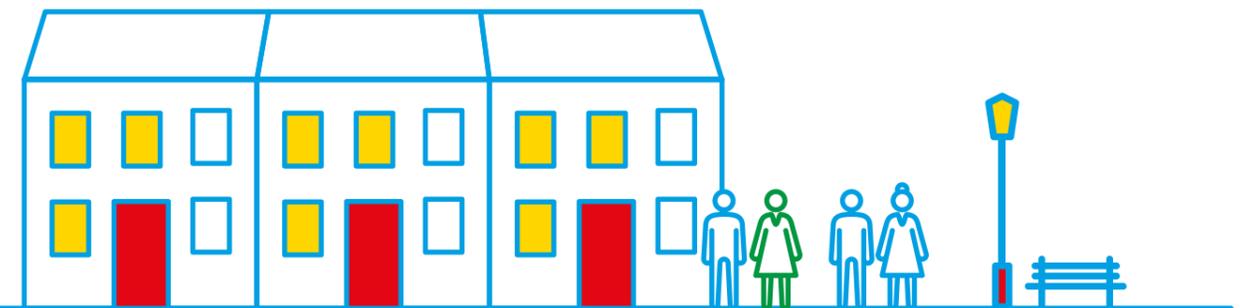
Fixing the market

Ultimately, however, we need to tackle the crisis itself, not just alleviate the symptoms. The actions of family and friends who fund BoMaD are laudable, but it's not a solution to the deep structural problems of the housing market.

The current arrangement – in which half of young buyers are receiving help to purchase – is not fair on those whose families don't have the wealth to help them. It merely perpetuates the problems we are seeing in declining social mobility.¹² But it's also not fair on those giving up their hard-earned comforts in retirement to fund loved ones' purchases, either; or even those who benefit from that funding – still reliant on parental hand-outs into middle age.

The key to addressing the housing crisis is no secret: we need to build more homes. Over 1.3 million UK households are on council housing waiting lists.¹³ More widely, England alone is expected to have 210,000 extra households per year between 2014 and 2039:¹⁴ the number of houses we need just to stand still. We are not building anywhere near this number.¹⁵

Government, non-profits and private enterprise all have a role to play, as will the parents, wider family and friends of aspiring home owners – at least for the foreseeable future. But we must all do more to ensure that this burden is fairly shared.



12. <https://www.suttontrust.com/newsarchive/disturbing-finding-lse-study-social-mobility-britain-lower-advanced-countries-declining/>

13. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/536702/Household_Projections_-_2014_-_2039.pdf#page=2
<http://www.gov.scot/Topics/Statistics/Browse/Housing-Regeneration/HSfS/HousingLists>

14. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/536702/Household_Projections_-_2014_-_2039.pdf#page=2

15. <https://www.gov.uk/government/statistics/house-building-new-build-dwellings-england-october-to-december-2017>

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