

THE BANK OF MUM AND DAD

THE BANK OF MUM AND DAD

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Legal &
General

EXECUTIVE SUMMARY.

Low or no interest rates, long or infinite repayment periods and a personal service: It's not surprising the Bank of Mum and Dad is Britain's best-loved financial institution. It's a little more surprising what a major player it is in the UK housing market.

New analysis and research by Legal & General and the Centre for Economics & Business Research (Cebr) shows that, in 2016, home buyers will receive £5 billion of help from families' and friends – equivalent to the annual lending of a top-ten mortgage business.

That's driven by both demand and supply. On the one hand, years of house price increases have significantly outpaced rises in wages, particularly since the financial crisis, making property less and less affordable. Home ownership is at its lowest levels in a generation, and things are only going to get worse. In 2015, the house price-to-income ratio was at its widest since the financial crisis. Cebr forecasts it will pass its 2007 peak within two years.

For many aspiring homeowners, it is impossible to buy without help from family and friends.

On the other hand, recent decades have been much kinder to the baby boomers who now control the lion's share of the nation's wealth. Beneficiaries of the increase in the value of their homes and with good pensions and significant savings, many are in a strong position to help. And they are generous in doing so:

Our research shows the Bank of Mum and Dad will help **305,900** of their loved ones buy a home in 2016, **giving an average of £17,500** to each to fund the purchase of **£77bn worth of property**. This means the Bank of Mum and Dad will be involved in **25% of all mortgage transactions** in 2016.

A quarter of all home owners, **32%** in London, and **57%** of the under 35s received help from friends and family to buy the home they live in.

That proportion will grow in future: A third of all prospective home owners say they will get help when they buy.

As prices rise, wages trail and affordability worsens in coming years, an increasing number of house buyers across the country will rely on friends and family to plug the gap. How long they can do so is open to question.

The pace of house price increases, however, threatens to stretch families finances to breaking point. In 2016, the average family contribution towards a loved one's home is 37% of an average household's net financial wealth, excluding property wealth. By 2035, we predict it will be more than half. For those buying in London, it already is, and the South East and East of England will follow soon.

There are opportunities for The Bank of Mum and Dad to expand. Releasing equity among the over 55s who already own their home is, at present, barely used. Only 3% in our survey had taken the opportunity, and another 3% said they were considering it. Even that represents a vast source of wealth, though, which could help house 413,000 more families. Lifetime mortgages would appear to be an ideal solution for many families looking to unlock their accumulated property wealth without having to move home. There might be opportunities in new solutions such as peer-to-peer lending, too.

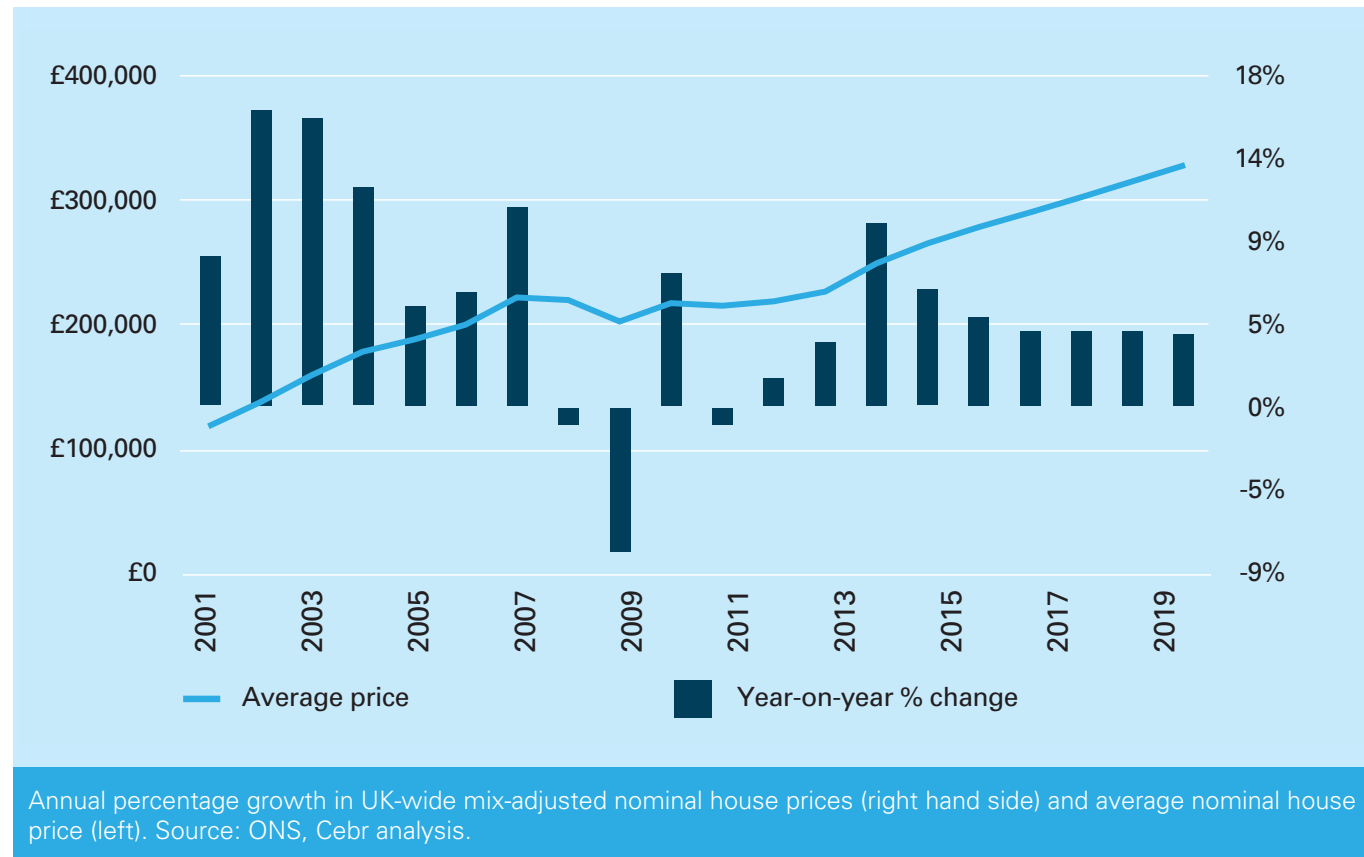
Things are even worse for those families living elsewhere who try to finance their children

buying in the capital or other property hot spot. Fundamentally, for all their generosity, our research shows that families and friends cannot solve a UK housing crisis caused by too few homes. It's not fair on those without wealthy families, and it's not sustainable in the future.

If home ownership is to be realistic for all who work hard, we need better, faster and more homebuilding. Innovations such as modular housing, where L&G is leading the way, use sustainable, durable, modern materials and proven technology to create high-quality homes meeting a wide range of housing needs and help solve the UK's housing crisis.

But this is just one part of the jigsaw. We need a joined-up strategy to deal with our housing crisis. And we need it before the Bank of Mum and Dad's reserves run out.

INTRODUCTION UNSTOPPABLE...



Don't hold your breath waiting for a correction. House prices in the UK continued to rise in 2015 and will be higher still next year. The average house price in England passed £300,000 for the first time in October 2015, and at the end of January 2016 stood at £306,000 up 8.6% on the year. In London, average prices were a record £551,000, up 10.8%.^{iv}

This continues a long-term trend. London values have more than tripled in two decades, up 358%.^v In the UK on average, with the exception of the financial crisis, the past 15 years have seen rapid, consistent growth in house prices.

Few expect it to change. Changes to buy-to-let tax relief and stamp duty announced by the Chancellor in November 2015 – blamed for a rush in the market in the first quarter of this year^{vi} – will have only limited impact, say experts. Of 88 economists questioned by the Financial Times to assess the impact of government policies, none expected a general fall in prices.^{vii}

As Nicholas Barr, Professor of Public Economics at the London School of Economics put it: “The core problem is too few houses. Government policy is doing little more than making a small dent in the problem.”

The Cebr forecasts house prices in the UK will grow 4.9% in 2016,^{viii} with slightly slower growth in following years, but still well above inflation of 0.3%.

iv. House Price Index: January 2016, ONS, March 2016 <http://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/january2016>

v. “London house prices rise by 358 percent in 20 years”, Westminster World, March 2016 <http://westminsterworld.com/london-house-prices-rise-by-358-percent-in-20-years/>

vi. “Landlords make last minute dash to beat buy-to-let stamp duty hike deadline”, City AM, March 2016 <http://www.cityam.com/237923/landlords-make-last-minute-dash-to-beat-buy-to-let-stamp-duty-hike-deadline>

vii. “Economists’ forecasts: Policies will not stop house price rises”, Financial Times, January 2016 <https://next.ft.com/content/87652554-afa8-11e5-b955-1a1d298b6250>

viii. “UK house prices: south east to outperform London in 2016”, City AM, April 2016

<http://www.cityam.com/238061/uk-house-prices-south-east-to-outperform-london-in-2016-as-buyers-look-out-more-affordable-homes-says-cebr>

...AND UNAFFORDABLE.

House price increases have also far outstripped growth in average wages. This has been particularly acute since the financial crisis, with annual wages increasing just 1.5% per year between 2009 and 2015^{ix}. Even before, however, wage increases of around 4% a year trailed far behind prices that frequently jumped double digits.

Had food prices and wages risen in line with house prices, homelessness charity Shelter’s analysis has previously shown that a carton of milk would cost more than £10^x, and an average couple with children would earn an extra £44,000 a year^{xi}.

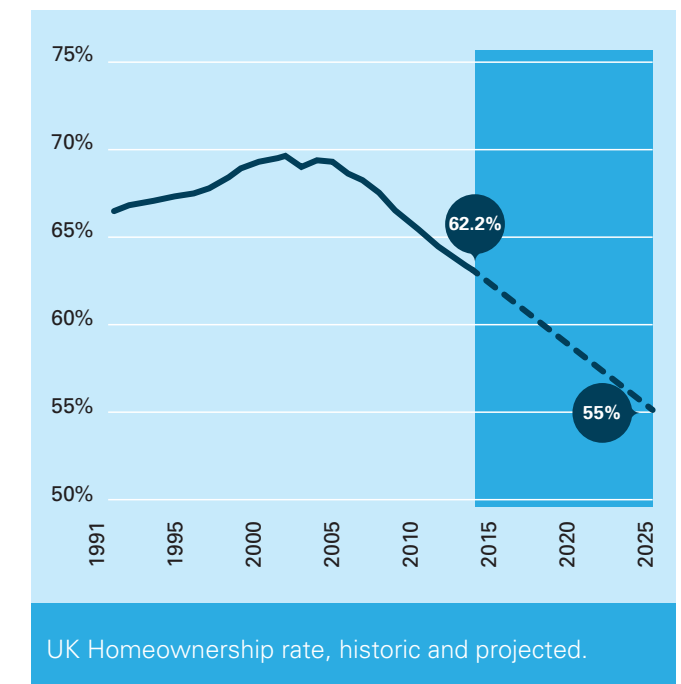
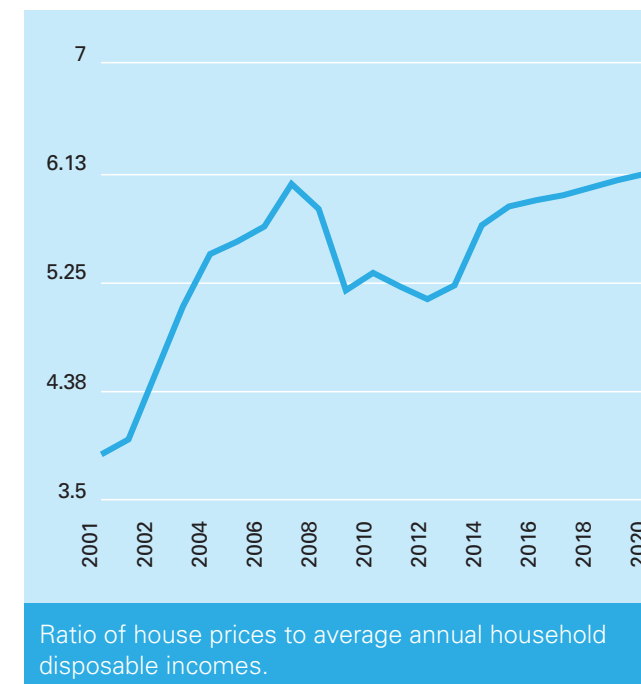
As result, home ownership is now at its lowest in a generation, and affordability is likely to continue to worsen. Recent analysis by consultants PwC predicts that

in London by 2025 just 40% will own homes and 60% will rent – a complete turnaround from the year 2000^{xiv}. The problem stretches well beyond London, however^{xv}. It has hit the youngest hardest. In the 20 years from 1991 to 2011/12, home ownership among 25-34 year olds fell from two thirds (66%) to under half (43%)^{xvi}, and, again, this looks unlikely to improve.

In 2015 the house price-to-income ratio stood at its worst position in the post-financial crisis period. Cebr forecasts suggest it will pass its 2007 peak within two years, resulting in a continuing decline in homeownership.

For many that do manage to get on the housing ladder, it will only be possible with help from family and friends.

HOUSE PRICE AFFORDABILITY & OWNERSHIP Source: ONS, DCLG, Cebr analysis.



ix. Annual Survey of Hours and Earnings: 2015 Provisional Results, ONS, November 2015

<http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2015provisionalresults#average-earnings>

x. “Food for thought: applying house price inflation to grocery prices”, Shelter, January 2013 http://england.shelter.org.uk/_data/assets/pdf_file/0005/625550/Food_for_thought.pdf

xi. “The house price gap: Analysis of house prices and earnings”, Shelter, February 2014 http://england.shelter.org.uk/_data/assets/pdf_file/0003/758046/House_price_gap.pdf

xii. Tenure trends and cross tenure analysis, Department for Communities and Local Government, November 2012, updated August 2015

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/451203/FT1101_Trends_in_tenure.xls

xiii. “UK house prices to rise faster than pay, inflation - Reuters poll”, Reuters, February 2016 <http://uk.reuters.com/article/uk-property-poll-britain-idUKKCNOVX1DR>

xiv. “London to be transformed from city of home-owners to city of home-renters in a generation”, PwC, February 2016

http://pwc.blogs.com/press_room/2016/02/london-to-be-transformed-from-city-of-home-owners-to-city-of-home-renters-in-a-generation.html

xv. “Affordability house crisis stretches beyond London”, Fastest Housebuyer, March 2016 <https://www.fastesthousebuyer.co.uk/affordability-house-crisis-stretches-beyond-london/>

<http://www.cityam.com/238061/uk-house-prices-south-east-to-outperform-london-in-2016-as-buyers-look-out-more-affordable-homes-says-cebr>

xvi. ‘Housing 2025’ National Association of Estate Agents <http://www.naea.co.uk/media/1043988/housing-2025.pdf>

BUCKING THE TREND

Unlike the generations that followed, the baby-boomers born between 1946 and 1964 benefited hugely from a boom in homebuilding in the post-war period – and the relative shortage of housing supply since.

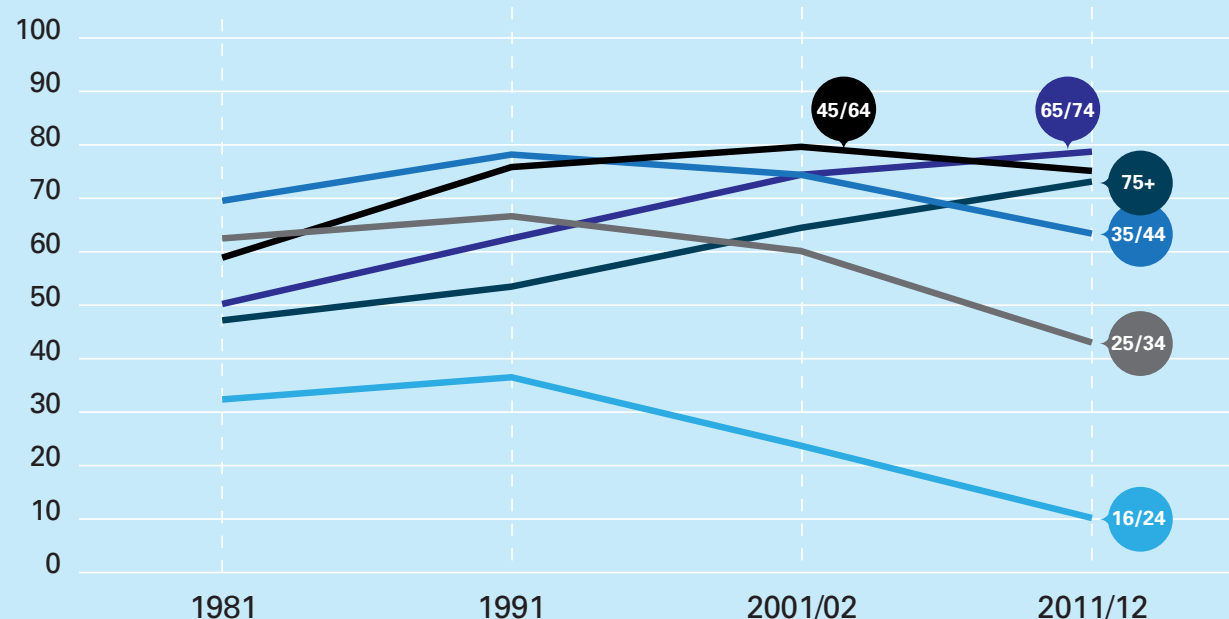
While younger age groups are less and less likely to be homeowners, home ownership among over-65s increased consistently over recent decades.

At the same time, some of this generation has benefited from generous pensions while being insulated from declining real wages. Wealth is now firmly skewed toward older households: Analysis by think tank the Resolution Foundation shows households headed by 65-74 year-olds hold more of the country's wealth (19%) than the under-45s (16%) for the first time in history.

As it noted: “The stark generational wealth divide has grown since the financial crash, as a result of the recently retired being relatively protected in a downturn where house prices had a swift recovery, while real wages took six years to start increasing again.”^{xvii}

Those over 65 are almost three times as likely to live in households with net financial wealth (including property) of more than £100,000 than those under 45^{xviii}. The new pensions freedoms introduced by the 2014 Budget and taking effect from April 2015 have also given them greater access to the pension savings that make up the greatest part of this wealth. In the year following April 2015, £5.9 billion was taken out by pension scheme customers 55 years and over in lump sums and drawdown payments.^{xix}

For now, the Bank of Mum and Dad (and grandma and grandpa) appears well-capitalised – but how long can this last?



Homeownership rate by age group in England (%). Source: English housing survey

A TOP 10 LENDER

The Bank of Mum and Dad is also a very active lender.

Analysis by Cebr for Legal & General shows that, as of 2016, a quarter (25%) of all homeowners received help when they bought the home they live in. This year, family and friends will help a further 305,900 of their loved ones buy a home, and the figure is likely to rise in the future.

Based on the figures and home purchase prices, we estimate that, in total, family and friends will spend £5bn in 2016 to help support the purchase of £77bn worth of property. This puts the Bank of Mum and Dad in the top ten mortgage lenders in the UK.

Meet the Bank of Mum and Dad:

The majority, **256,400 (84%)**, are parents helping their children. The remainder are grandparents (**22,500 or 7%**) or friends (**27,000 – 9%**)

On average they give **£17,500 or 6.9%** of the average purchase price to help

In most cases (**57%**) the money is simply a gift, while for some cases it's a no-interest loan (**18.3%**), and occasionally a loan with interest (**4.8%**), a combination or other form of help.



*Source: Survey of 1,000 adults in Great Britain commissioned by Legal & General in February 2016, ONS, Cebr analysis

xvii. "Share of wealth owned by the recently retired retired has now overtaken the under 45s", Resolution Foundation, December 2015
<http://www.resolutionfoundation.org/media/press-releases/7735/>

xviii. Main results from the Wealth and Assets Survey: July 2012 to June 2014, ONS, December 2015
http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/dcp171776_428683.pdf

xix. "ABI publishes latest data one year on from pension freedoms – reforms 'settling in and working as intended'", Association of British Insurers, March 2016
<https://www.abi.org.uk/News/News-releases/2016/03/ABI-publishes-latest-data-one-year-on-from-pension-freedoms-reforms>

EXPANSION PLANS

THE ROLE OF BANK OF MUM AND DAD IS GROWING

A quarter of all home owners called on family or friends when buying their current home. Among the under 35s, however, that rises to **57%**. Prospective buyers are also, on average, more likely to need help than previous purchasers, with a third (**33%**) of those looking to buy saying they're likely to get help.

This varies by age, but, interestingly, even among those over 55 years old **9%** – almost one in ten – say they will need help for their next home purchase. Among current owners of the same age, the proportion is half that (**5%**).

The number of regions where family and friends are helping to fund home purchases is also expanding. Among current owners, those living in London (**32%**) and the South East (**31%**) – the areas with the highest house prices nationally – were the most likely to have received support.

Among prospective buyers, it's more varied:

More than 40% expect they will get help in not just the South East, but also the South West and East Midlands.

More than 30% in Wales and the North West, as well as London, say they will need help.

Only in Scotland is the proportion of prospective buyers saying they will get help lower than the proportion of existing homeowners who received support.

As prices rise, wages trail and affordability worsens in coming years, an increasing number of house buyers across the country will rely on family and friends to plug the gap.



Share of current and prospective homeowners who received or expect to receive financial assistance, by region.
Source: Survey of 1,000 adults in Great Britain commissioned by Legal & General in February 2016, Cebr analysis.

*The prospective homeowners in the North East included in the survey was not significant enough to include in the results.

SPREADING THE WEALTH RELEASING EQUITY

Property accounts for more than a third of UK households' net wealth^{xxi} – second only to private pensions, which most retirees rely on for an income in later years.

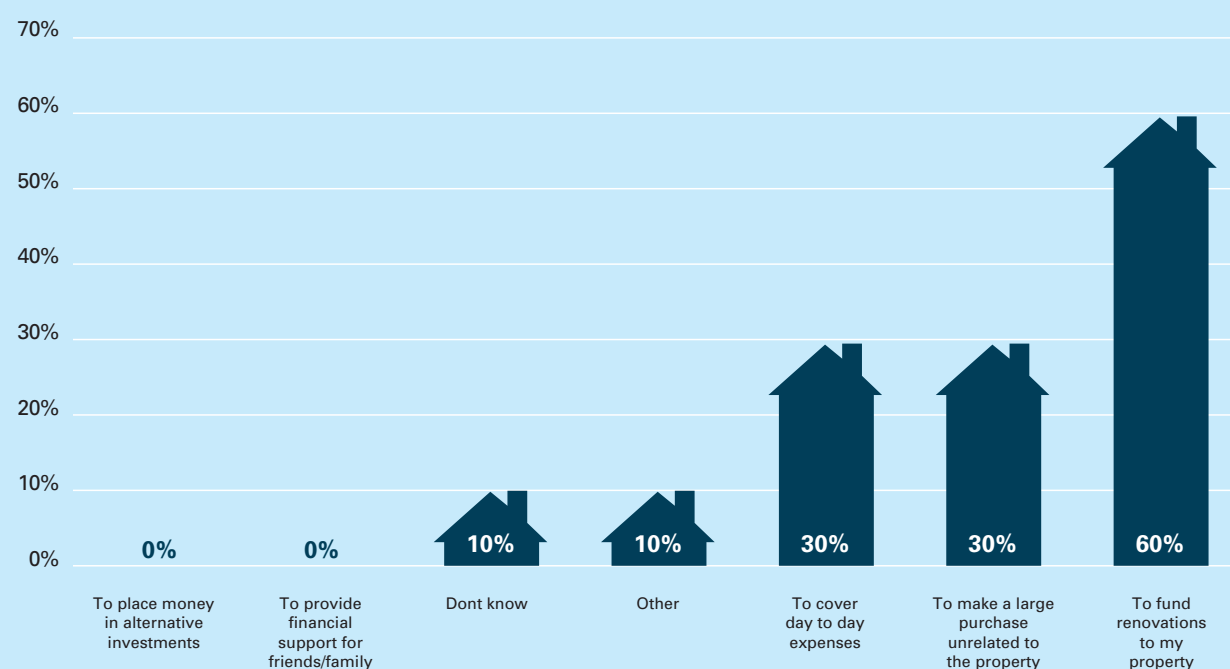
Despite this, few family and friends seem to use their own existing property wealth to help family or friends onto the ladder – or, indeed, for any other purpose. Our findings confirm that releasing equity, which allows property owners over 55 to borrow money against their property without any repayments during their lifetime and while continuing to live in the property, could potentially be an important source of funding for the Bank of Mum and Dad in the future.

Just 3% in our survey said they had released equity, with another 3% saying they were considering it.

Of those that had, 60% said it was to fund renovations to their property, 30% to make a large purchase unrelated to property, and 30% (since respondents could choose more than one answer) to cover day-to-day expenses.

Instead the Bank of Mum and Dad is currently capitalised through other sources: perhaps savings and investments; pensions, either in terms of income or assets released through the pensions freedoms; or from funds released from previous properties when parents have downsized their home.

Future generations may see lifetime mortgages as a way of releasing funds from their property to help their family on to the housing ladder without having to downsize or move from their own house.



Reasons given for equity release

ROOM TO GROW

The benefits that releasing equity could bring in terms of funding retirement, care in old age and even as a source of capital for housing for older people have been noted before. The House of Lords Select Committee on Public Service and Demographic Change recommended in 2013 that the government work with the financial services industry "to encourage the growth of a safe and easy-to-understand equity release market".

Despite a record number of deals in 2015, however, the value of lifetime mortgages plans was still just £1.61bn.^{xxii} This is a tiny fraction of UK housing wealth, estimated in 2014 at £3.92 trillion – much of it owned by older households.^{xxiii}

If a little more than 0.1% of that were released and applied to help others buy property, the Bank of Mum and Dad's business could double to £10 billion. To look at it another way, if all those in our survey considering releasing equity went ahead and applied at least a portion of the money released to helping others buy, 413,000 more families could be helped onto the housing ladder in 2016.

As house prices continue to rise, the equity of those who own grows while it becomes yet more difficult for their loved ones to buy. As lenders such as Legal & General enter the market and distribution capacity grows, releasing equity will surely grow more popular in the future.

KEEPING IT IN THE FAMILY

The majority of support for purchasers at present is in the form of a gift or interest free loan, and those helping believe that charity begins at home.

Reports suggest some parents are even pushing offspring they help with housing to use pre-nuptial agreements to ensure their investment is protected should the marriage break down.^{xxiv} Our research goes further, showing that even if they were offered a financial reward, three in five (**58%**) say they would not consider helping anyone else's children or grandchildren onto the property ladder. Among those 55 and older, the proportion who would is even lower – just **14%**.

This is despite the extended and continuing period of low interest rates following the financial crisis making it difficult for savers to achieve good returns. The FCA has highlighted savings accounts offering **interest rates as low as 0.01%: 1p a year in interest on £1,000.**^{xxv}

Property has offered strong performance over the same period, which explains the buy-to-let boom. Taking advantage of

this, a growing number of crowdfunding platforms also allow investors to buy stakes in buy-to-let property.^{xxvi} For those who cannot afford to gain a foothold on the property ladder, the small minimum investments (as little as £10) may allow them to benefit from rising values.

More significantly, the same technology facilitates peer-to-peer lending, connecting those looking for higher investment returns with prospective homeowners requiring an alternative to traditional mortgage lending.^{xxvii} Despite some concerns,^{xxviii} big P2P platforms are doubling new lending every year.^{xxix}

Only **3%** in our survey said they would definitely consider helping others' children onto the property ladder. However, a further **24%** said they may consider it, and younger respondents were more open to the idea.

Of those considering it, 39% would want a loan repayment with interest; 21% would expect monthly rent from the occupier; and 17% would want an ownership share.

xxiv. "Bank of Mum and Dad forces grown-up children to sign pre-nups to protect their property investment", Daily Mail, November 2015 <http://www.dailymail.co.uk/property/article-3315817/Bank-Mum-Dad-forces-grown-children-sign-pre-nups-don-t-lose-cash-relationship-breaks-down.html>

xxv. "FCA list of savers rates sees some as low as 0.01%", BBC, December 2015 <http://www.bbc.co.uk/news/business-35037407>

xxvi. UK Crowdfunding <http://www.ukcfa.org.uk/members>

xxvii. "Peer-to-peer lending: everything you need to know about the leading websites", the Telegraph, February 2016 <http://www.telegraph.co.uk/personal-banking/savings/peer-to-peer-lending-everything-you-need-to-know-about-the-lead/>

xxviii. "Peer-to-peer lenders hit back after City grandee Lord Adair Turner says they could lead to 'big losses'", City AM, February 2016 <http://www.cityam.com/234308/peer-to-peer-lenders-hit-back-after-city-grandee-lord-adair-turner-says-they-could-lead-to-big-losses>



WILL THE BANK OF MUM AND DAD EXPERIENCE A FUNDING CRISIS?

Whatever hopes we may have for the future, pressure on the Bank of Mum and Dad today is growing.

With increasing prices, more prospective homeowners are unable to buy a property without any financial assistance. Without faster growth in wages, the amount of help required will also grow, particularly given stricter lending rules introduced by The Mortgage Market Review in 2014. These require lenders to make tougher checks on affordability, including borrowers' ability to pay if interest rates increase.

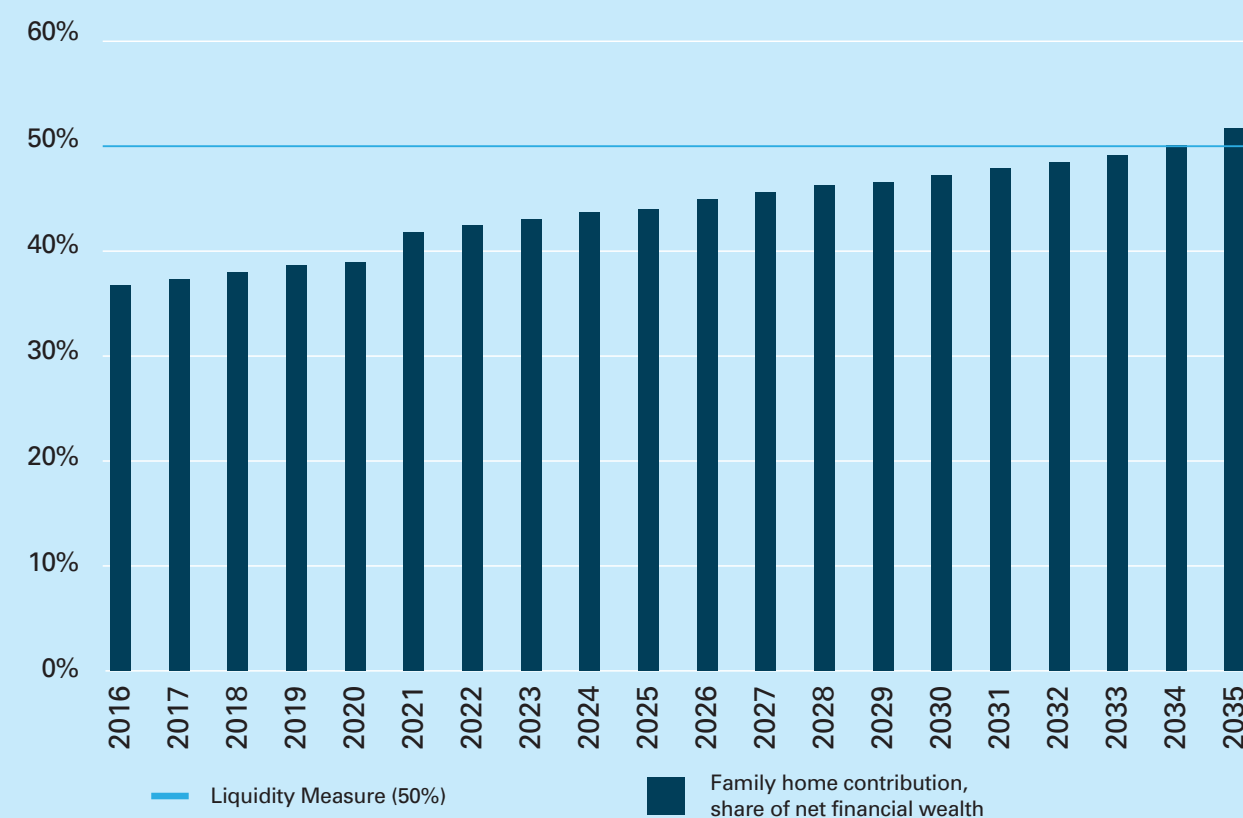
In 2016, our analysis estimates that the average family contribution towards a loved one's home will be 37% of an average household's net wealth, excluding property assets. That will increase steadily in coming years. By 2035, we estimate it will be more than half (51.0%), assuming continuing house price increases that outstrip wage inflation and assuming the average share of the purchase price contributed by the family remains the same.

This looks unsustainable, and more so given that people are living longer, with life expectancy at the age 65 increasing by almost two-and-a-half years for men and two years for women in the last decade alone.^{xxx} Older people wanting to support family onto the property ladder face difficult choices as they live longer, remain more active longer,^{xxxi} and face increasing costs for care in very old age. A proposed cap on the costs individuals should pay towards old-age care is not now due to come into effect until 2020.^{xxxii}

Without much greater willingness to engage in options such as releasing equity, the next generation of parents could run into liquidity issues when the time comes to help their own children onto the housing ladder.

Furthermore, for some the difficulties could come much sooner than for others.

Average family and friends' contribution towards a home purchase as a share of average household net wealth, excluding property, by year.



Source: Survey of 1,000 adults in Great Britain commissioned by Legal & General in February 2016, Wealth and Asset Survey, ONS, Cebr analysis

xxx. Life Expectancy at Birth and at Age 65 for the UK and Local Areas in England and Wales, ONS, April 2015
<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/datasets/lifeexpectancyatbirthandage65bylocalareasintheunitedkingdomtable1ukandlocalareasinenglandandwales>

xxxi. "Old age does not begin until 74", the Telegraph, April 2015 <http://www.telegraph.co.uk/science/2016/03/15/old-age-does-not-begin-until-74-researchers-suggest-in-a-new-rep/>

xxxii. Delay in the implementation of the cap on care costs, Department of Health, July 2015 <https://www.gov.uk/government/publications/delay-in-the-implementation-of-the-cap-on-care-costs>

REGIONAL DIFFICULTIES

Housing affordability varies starkly by region. Office of National Statistics figures show a six-fold difference in affordability between the least and most expensive areas of England and Wales, based on median house prices against median earnings locally.^{xxxiii}

Our survey illustrates the challenges around the corner:

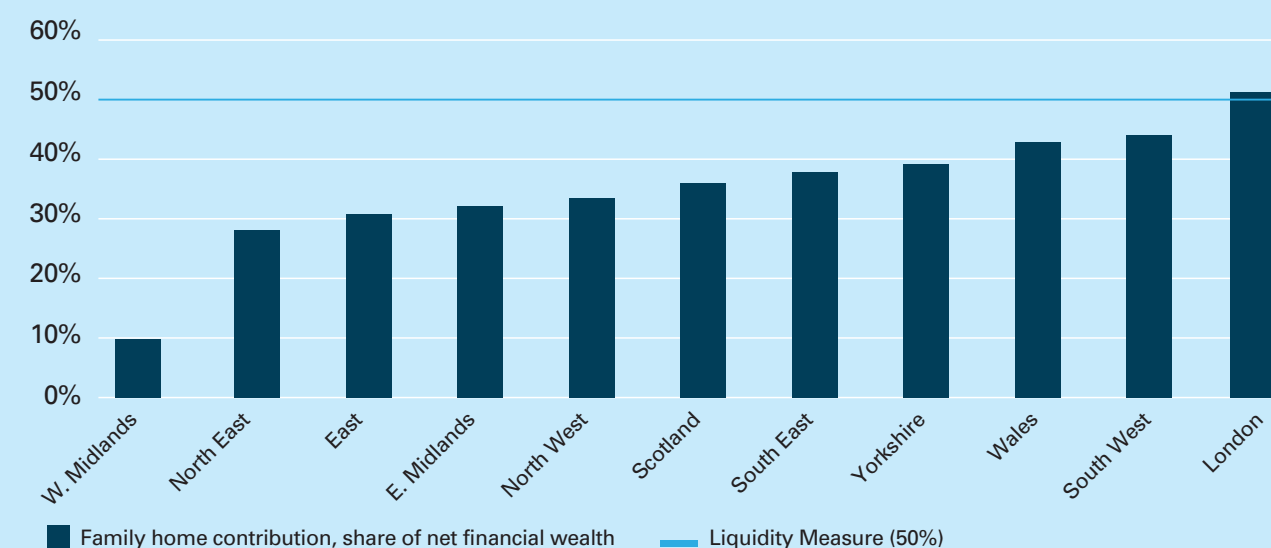
In 2016, London homeowners receiving help from family and friends got an average of **6.2%** of their home's total purchase price in this way. This already represents more than half (**51.0%**) of the average household net financial wealth in London.

Given expected house price growth, the figure in the South East will pass **50%** in 2025; in the East of England by 2028.

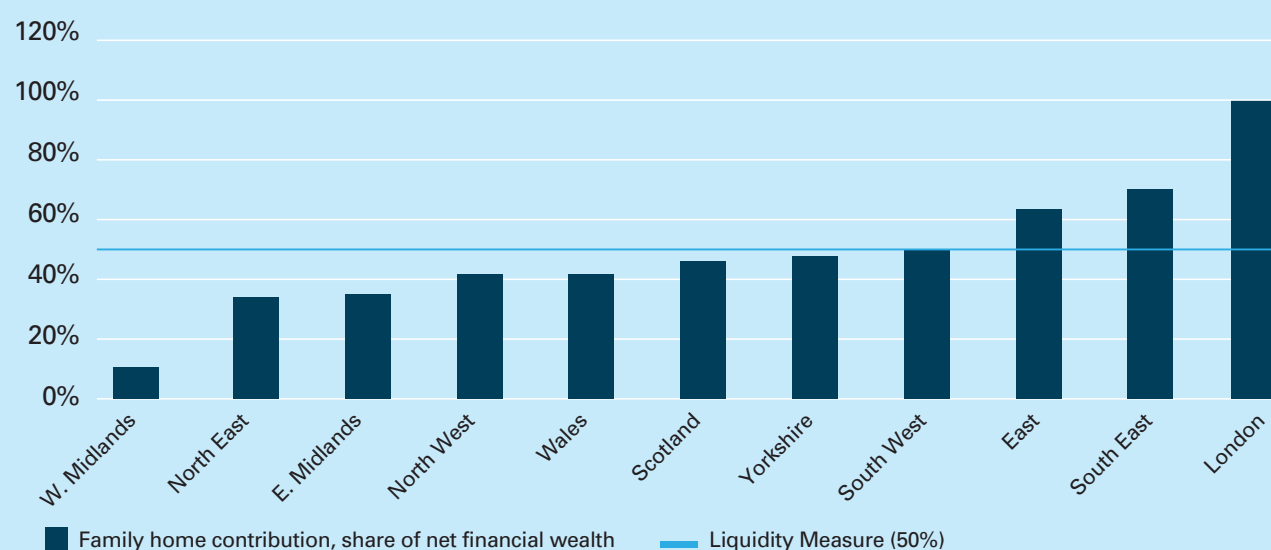
On current trends, the average family and friends' contribution towards a home purchase in London would equal the entire average net wealth of an average London household by 2035.

As bad as this is, regional variations in wealth are usually correlated to an extent with variations in house prices. The greatest challenge is therefore for families living in less wealthy regions whose offspring seek to live in a region with more expensive property.

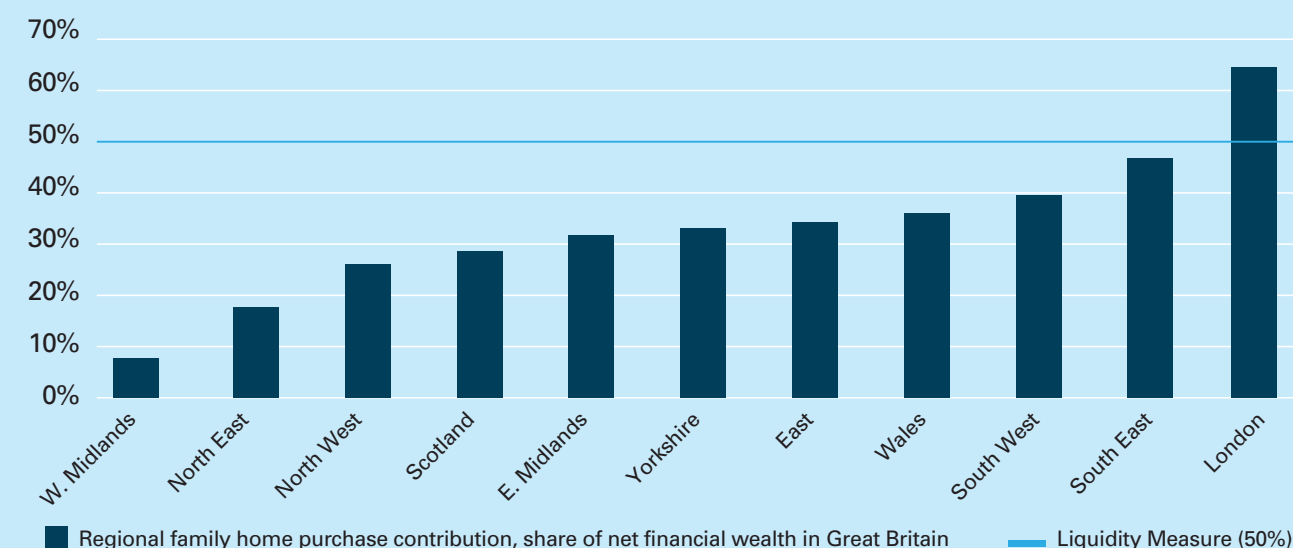
In 2016, a family with wealth in line with the overall Great British average had to put **64.1%** of their household net financial wealth to help a loved one buy in London. For those buying in the South East, the proportion was already heading towards half (**46%**).



Average family and friends contribution towards a home purchase as a share of average household net wealth, excluding property, by region, in 2016*



Average family and friends contribution towards a home purchase as a share of average household net wealth, excluding property, by region, in 2035*



Average family and friends contribution towards a home purchase, by region, as a share of average household net wealth, excluding property, in Great Britain, 2016,

ALL GOOD THINGS

Parents' and grandparents' desire to see their children or grandchildren set up in their own homes is understandable and welcome. Most want nothing more than for their loved ones to enjoy the same thing they did at a similar age or younger.

With rising prices, a difficult period for wages, and an increasing number of adults carrying significant student debt, the Bank of Mum and Dad has played a necessary and useful part of the market. The well-publicised difficulties facing first time buyers would have been much worse without it. Families will continue to play an important and even growing role in the future.

This is not, though, an answer to the housing crisis the UK faces.

The Bank of Mum and Dad is not adequate in that it fails to address the needs of those without parental wealth, who nevertheless rightly expect a realistic prospect of being able to buy their own home.

It puts pressure on those who can help, making it more difficult to plan for the uncertainties of retirement and old age.

It is not sustainable, with continued increases in the cost of housing already putting property in London and elsewhere beyond the reach of all but those from the wealthiest families.

Above all, relying on family and friends would not be necessary if house prices were not so out of sync with average wages.

There is undoubtedly more to be done to make better use of the wealth tied up in property through releasing equity, and to increase competition in lending through new, disruptive technologies. However, house prices will only return to sensible levels relative to wages when we see a revolution in supply.

As we noted at the outset of this report, the problem the UK faces is too few houses. Until that is addressed, the Bank of Mum and Dad will never be short of customers, but could – sooner than most expect – find itself short of funds.



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