

Boileau, Bee; Sturrock, David

Research Report

Help onto the housing ladder: The role of intergenerational transfers

IFS Report, No. R289

Provided in Cooperation with:

Institute for Fiscal Studies (IFS), London

Suggested Citation: Boileau, Bee; Sturrock, David (2023) : Help onto the housing ladder: The role of intergenerational transfers, IFS Report, No. R289, ISBN 978-1-80103-161-5, Institute for Fiscal Studies (IFS), London, <https://doi.org/10.1920/re.ifs.2023.0289>

This Version is available at:

<https://hdl.handle.net/10419/282970>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



Institute for Fiscal Studies

IFS Report R289

**Bee Boileau
David Sturrock**

Help onto the housing ladder: the role of intergenerational transfers



**Economic
and Social
Research Council**

Help onto the housing ladder: the role of intergenerational transfers

Bee Boileau
David Sturrock

Copy-edited by Rachel Lumpkin

Published by **The Institute for Fiscal Studies**

© The Institute for Fiscal Studies, December 2023

ISBN 978-1-80103-161-5

Funding from the Economic and Social Research Council (through research grant numbers ES/V001248/1 and ES/W002671/1 and through the ESRC Centre for the Microeconomic Analysis of Public Policy (ES/T014334/1)) is gratefully acknowledged. The authors are grateful to Jonathan Cribb, Carl Emmerson and Peter Levell for helpful comments. This work contains statistical data from the Office for National Statistics (ONS) which are Crown Copyright. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce ONS aggregates.

Executive summary

This report describes patterns of financial help from family received by first-time buyers. We quantify the value of gifts and loans made, how they vary across different regions of the country and between those from different parental backgrounds, and shed light on their role in explaining inequalities in homeownership and wealth.

Key findings

- 1. Homeownership rates for young people have declined dramatically in recent decades and this decline was more rapid for those who are in high-price areas such as London and those whose parents don't own their own home.** Between 2009 and 2019, the homeownership rate for those aged 25–39 fell from 55% to 43%. In this age group, the children of homeowners are now over twice as likely to be homeowners as the children of renters: the homeownership rate for the children of homeowners fell from 60% in 2009 to 51% in 2019, but for the children of renters it fell from 40% to 22% over the same period.
- 2. Financial help around the time of home purchase is frequently received and substantial.** In 2018–20, almost half of first-time buyers in their 20s received financial help, primarily from their parents, to purchase their house. Among all first-time buyers, deposits averaged around £55,000, with financial help averaging around £25,000 for those who received it. These transfers have the potential to help people buy a home earlier, buy a more expensive house, or put down a larger deposit.
- 3. There are large inequalities in parental transfers at the time of home purchase.** Over half of those with university-educated homeowning parents received transfers when buying for the first time, with receivers getting around £35,000 on average. This compares to 29% of those with renting parents receiving transfers, with an average transfer of £11,000. Average financial help received by first-time buyers in the South East was £31,000, compared to £18,000 in the Midlands and £17,000 in the North.

4. **Not all of these transfers are helping people to get onto the housing ladder. A significant minority of transfers received around the time of home purchase go to those who could already afford to buy, given their non-transfer savings.** Around a quarter of first-time buyers who received financial transfers at the time of home purchase could have afforded to buy their house without these transfers, in that their savings (without the financial transfers) would cover a 10% deposit, and their savings plus a mortgage of 4.5 times their income would cover the value of the house they bought. But around three-quarters of those who received financial help might not have been able to afford the home they purchased without that help.
5. **Among those for whom transfers do help with home purchase, the impact of a pound of transfers depends on whether or not the receiver is unable to buy because they have insufficient savings to put down a 10% deposit.** For almost two-thirds of first-time buyers, each £1,000 they receive from parents increases the value of the house they can buy not by £1,000 but by £10,000. This is because for this group the constraint on what they can buy comes from the deposit they can afford, which usually has to be 10% of the price of the house.
6. **Despite those in their 30s, those who have wealthier parents and those in the South East receiving larger amounts of financial assistance when buying a home, the transfers received by other groups of first-time buyers are likely to have more of an impact on the ability to purchase a house.** One reason for this is that, among first-time buyers who received transfers, those in their 30s and those buying in the South East were around twice as likely to be able to afford to buy their house without this financial help than their counterparts in their 20s and in the North. In addition, each £1,000 in transfers received by those with university-educated homeowning parents increased the value of the house they could afford by around £2,700 on average. This compared to an increase of around £4,300 pounds for those with renting parents.
7. **Among those who receive a transfer when buying a house, those who receive more seem to use this additional money to put down more as a deposit rather than buying a more expensive house.** Among those receiving transfers, each additional pound received in transfers is associated with putting an additional 77p down as a deposit.
8. **Using financial transfers to increase the size of the deposit put down has had potentially very high effective returns in recent years, because doing so can reduce the interest rate paid on the entirety of the mortgage.** Using a typical transfer of £25,000 to put down a deposit of 25% rather than 10% of home value would

4 Help onto the housing ladder: the role of intergenerational transfers

reduce the repayments on a typical five-year fixed rate mortgage taken out in 2018 by £8,500. This compares to a return of around £850 if putting this in a typical cash ISA. This means that transfers around the time of home purchase may have large further knock-on effects on wealth accumulation, widening differences between those who receive more and those who receive less.

9. **Schemes that would reduce the deposit required from potential homebuyers are likely to have a bigger effect on affordability among those in their 30s, those who have better-off parents, and – in particular – those who live in the North or Midlands, rather than the South.** These groups have higher incomes in relation to the house prices they face, meaning that more of them are prevented from getting on the housing ladder only by the need to raise a 10% deposit. Among renters aged 25–39 who can't afford to buy a house at the 25th percentile of prices in their local authority when required to put down a 10% deposit, 29% of those in the North are constrained only by the deposit requirement, compared to just 9% of renters in the South.

1. Introduction

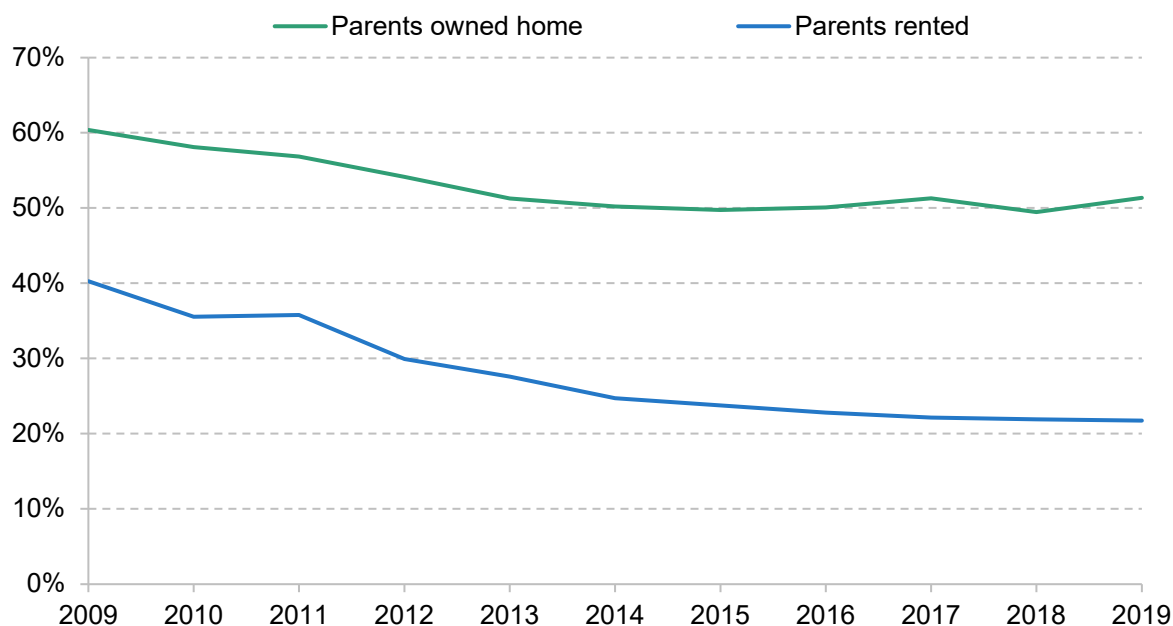
In the United Kingdom, rates of homeownership are much lower than they were in the late 1980s, especially among younger adults (Cribb and Simpson, 2018). Between 1989 and 2016, the homeownership rate for those aged 25–34 fell from 51% to 25%. While there has been some sign of a turnaround in this trend since 2016, with this rate rising to 28% in 2019, the proportion of young people owning their home is still considerably below levels in 1989 (Corlett and Odamttten, 2021). The dramatic rise in interest rates in the last two years has also brought a new dimension to the question of housing affordability.

This long-term decline in homeownership at younger ages is likely driven in large part by the rise in house prices relative to incomes over the same period (Cribb and Simpson, 2018). Between the mid-1990s and mid-2000s, house prices roughly doubled as compared to average household incomes. In the years since the financial crisis, income growth has been slow, leaving younger generations with incomes barely higher than those born 10 or more years before them (Bourquin, Joyce and Sturrock, 2020). In addition, this period saw a decline in the availability of high loan-to-value mortgages. Together, these trends mean young people have had to accumulate larger amounts of savings compared to their incomes if they want to become a homeowner.

While higher house prices compared to young people's incomes has made it more difficult for young people to get onto the housing ladder, this house price boom has also meant wealth has grown among those who already owned a home. As a much larger fraction of older generations are homeowners, this has meant relatively faster growth in wealth for older, as compared to younger, age groups (Bourquin, Brewer and Wernham, 2022). At a time when increasing amounts of financial assets are required to buy a home, the wealth of many, but not all, young people's parents has therefore received a significant boost.

Rates of homeownership have fallen significantly less among young adults whose parents are better off: specifically, for those whose parents are themselves homeowners. This has meant already existing intra-generational gaps in homeownership rates have been widening. Figure 1 shows this growing gap in homeownership rates among those aged 25–39 whose parents do and do not own a home over the period from 2009 to 2019. The overall decline in homeownership among this age group in this period was from 55% to 43%. While the homeownership rate for those whose parents own their own home fell from 60% in 2009 to 51% in 2019, for those whose parents do not own their own home, the fall is from 40% to 22%. This means that, in the 25–39 age group, while the children of homeowners were 50% more likely to be homeowners

Figure 1. Homeownership rates among those aged 25–39, by whether parents were homeowners or not



Note: Split in parental homeownership status uses a question on parental housing tenure when respondents were a young adult.

Source: Wealth and Assets Survey, wave 2 to round 7 (2008–10 to 2018–20).

than the children of renters in 2009, as of 2019 the children of homeowners were twice as likely to be homeowners as the children of renters.

Why is it that those with wealthier parents get onto the housing ladder sooner, and why are differences in homeownership between those with wealthier and less-wealthy parents growing over time? Homeowning parents tend to have more highly educated and higher-earning children who may be more able to meet the increased financial demands required to get onto the housing ladder when house prices are high. However, previous research has shown that even when we strip out these differences and compare young adults with the same level of education and earnings, those with wealthier parents are more likely to be homeowners in early adulthood (Davenport, Levell and Sturrock, 2021).

7 Help onto the housing ladder: the role of intergenerational transfers

Previous research has also shown that those with wealthier parents save a higher fraction of their earnings, and it is possible that the children of homeowners have a stronger preference to purchase their own home, irrespective of financial circumstances (Davenport et al., 2021). However, there is good reason to think that parental wealth itself may be driving some of these differences directly, with wealthy parents giving their children financial help to buy their first home. An increasing share of first-time buyers (FTBs) in the UK say that family members gave them financial help to buy a house. This proportion grew from 22% in 1995–96 to 29% in 2015–16 (Office for National Statistics, 2018). Furthermore, those who have university-educated homeownership parents are more likely to receive gifts and loans from parents in early adulthood than those who have renting parents, and to receive larger sums. More than half of this intergenerational flow of gifts and loans is reported to be used for home purchase (Boileau and Sturrock, 2023a).

We aim to shed light on how important these direct transfers of wealth are in driving the increasing inequalities in homeownership that we see. More widely, we want to understand the role that transfers of wealth connected with home purchase play in wealth accumulation. If financial transfers play an important role in driving gaps in homeownership rates between those with different parental backgrounds, this could have further implications for inequalities in wealth accumulation. In a period in which house prices are rising quickly and housing yields higher financial returns than other potential investments, buying earlier allows a household to capture these high returns from an earlier point. Even if transfers do not lead people to purchase a house earlier, they could mean people are able to purchase a more valuable house or put down more in a deposit. These channels also have implications for wealth accumulation, and we seek to understand these too.

The report proceeds as follows. In Section 2, we briefly describe the data we use in our analysis. In Section 3, we analyse who reports receiving financial help to afford their house, and how valuable this help is. In Section 4, we then turn to assess the impact that this financial assistance may have in determining whether people are able to purchase a house. In Section 5, we consider other ways in which receiving a transfer affects the homeownership choice. In Section 6, we consider the potential effects of a scheme supporting lenders to offer higher loan-to-value mortgages. We conclude in Section 7.

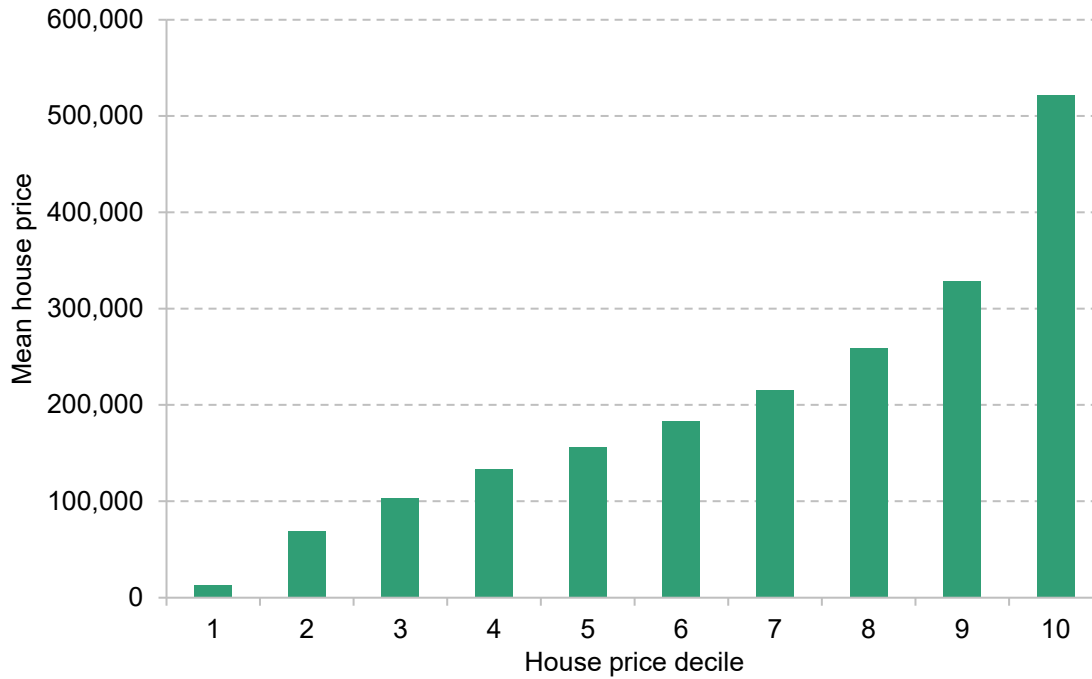
2. Data

We use data from the Wealth and Assets Survey (WAS), which covers the period 2006–08 to 2018–20. The survey covers those in Great Britain, and follows the same people over time. Each survey wave covers a two-year period, with the most recent wave covering 2018–20. The survey collects detailed information on respondents' financial situation, their wealth and their incomes, along with other demographic details. Importantly, respondents are asked whether they have received gifts or loans worth £500 or more in the last two years, allowing us to investigate the role played by these transfers.

We first analyse a set of questions asked of homeowners only in the latest wave of the WAS (2018–20). Homeowners are asked whether they received help to buy their current property, the year in which they received this help, and their relationship with the person who helped them. To further investigate the role of these transfers in the decision to purchase a house, we then analyse a sample of all those who bought a house during the period of our data. We look at the house price they paid, their outstanding mortgage, and all gifts or loans they received in the two years over which they bought a house and the two years before that. This four-year interval matches when those FTBs present in 2018–20 report having received financial help: all say that the help they received came at most four years before their home purchase. Our analysis of transfers over this period should therefore cover close to all of the financial help explicitly connected with homeownership. In Figure 2, we show the mean house price at each decile of the FTB house price distribution in the WAS. Typical houses purchased by FTBs were around £150,000 to £180,000. House prices are deflated using the Consumer Prices Index (CPI), and expressed in 2020 terms.

We look at gifts and loans received, as well as financial wealth, on a family level – combining gifts received and financial wealth held by members of a couple. We choose to look at gifts and loans together: more than a fifth of loans received in the WAS are reported as not expected to be repaid at all, and a further 6% not expected to be wholly repaid (Boileau and Sturrock, 2023b). Even if repaid in full, loans from family members could be made on particularly favourable terms. We remove from our sample those who are initially single and who own a house with a partner by the time of the following wave, as we do not have a good picture of the pre-purchase resources of their partner. Figure 3 shows mean transfers received among those who received something, by decile of the transfer distribution. Quite a large amount of these transfers are relatively small. The average transfer size for those receiving the smaller half of transfers was less than £3,000 whereas the largest half of transfers averaged almost £50,000.

Figure 2. Mean house price paid by house price decile among FTBs in the WAS



Note: House prices are deflated to 2020 prices using CPI inflation.

Source: Authors' calculations using the WAS, wave 2 to round 7.

Figure 3. Mean transfers received around the time of homeownership by transfer decile among FTBs who received something, in the WAS



Note: Transfer amounts are deflated to 2020 prices using CPI inflation.

Source: Authors' calculations using the WAS, wave 2 to round 7.

10 Help onto the housing ladder: the role of intergenerational transfers

We construct an estimate of the deposit put down by FTBs using their outstanding mortgage, their reported monthly mortgage repayments and mortgage interest rate, and an estimate of when they moved into homeownership using the number of years outstanding on their mortgage. We define the ‘deposit’ for those who bought their house outright as 100% of the house price.

We construct a measure of the financial wealth of FTBs in the survey wave immediately before home purchase, both with transfers (adding on transfers received in the subsequent two-year period) and without transfers (subtracting transfers received in the previous two-year period). We use Land Registry data covering England and Wales to calculate the 25th percentile of the distribution of house prices by month, year and local authority, which we link to the WAS. We use this as one measure of the house prices faced by FTBs in that local authority. We use the CPI to deflate our financial variables, and express all in 2020 prices throughout.

3. Who receives gifts and loans when buying a house, and how large are they?

In this section, we describe how often financial help is received by FTBs, from whom it is received, and the value of this help. We split our analysis by various groups: we examine whether help is more common at certain ages, in certain regions, and among those with certain levels of parental wealth, and we quantify the size of these differences.

Who receives help to buy a house?

It is relatively common for people in the UK to receive financial help from relatives when buying a first home. We find that a quarter of FTBs overall, and almost half (45%) of FTBs in their 20s, reported receiving financial help to purchase their house in 2018–20. The vast majority of this help flowed directly from parents to their children. Over 80% of FTBs who received help said this came from their parents, with an additional 7% saying they received help primarily from their grandparents.

Figure 4 shows that, among homeowners, those aged between 25 and 29 were most likely to report receiving help with buying their current property: 41% reported having received help. This compares to 36% of those in their early 20s and 22% of those in their early 30s. At ages above the late 20s, the proportion of homeowners who report receiving help to buy their current property falls steadily. This gradient will overstate to some extent the age differences in the proportion of homeowners who *ever* received help to buy a home. This is because individuals are asked whether they received help to buy their *current* property, and older groups are more likely to be in their second or subsequent owned house, meaning that we may miss some in older groups who received help to buy their first house.¹ Nevertheless, this higher rate of assistance for those at younger ages could represent those who are younger homebuyers being assisted to purchase a home at an earlier age than they otherwise would. It could also be driven by later-born generations being more likely to receive help (and this would be consistent with the known rising prevalence of this assistance over time).

¹ Evidence suggests that FTBs are more likely to benefit from financial help than repeat buyers (Mayer and Engelhardt, 1996).

12 Help onto the housing ladder: the role of intergenerational transfers

Figure 4. Proportion of homeowners under 40 who report receiving help to buy their current property, by age, region and parental socio-economic status



Source: Authors' calculations using the WAS, round 7.

Those whose parents have higher socio-economic status are more likely to report having received help to buy their home. We can split homeowners into three groups depending on what their parents' socio-economic status was when they were 14: those whose parents rented their homes when they were 14, those whose parents owned their homes but for whom neither parent had a university-level education, and those whose parents owned their homes and for whom at least one parent had a university-level education. These specific breakdowns create groups of a roughly similar size, which should broadly reflect parental wealth levels. Figure 4 shows the proportion of homeowners under 40 in each group who report having received help to buy their current property. A quarter of those whose parents were high-educated homeowners reported having received help, compared to 20% of those whose parents were low-educated homeowners, and 21% of those whose parents were renters.

We know there are significant geographical differences in house prices and wealth between different regions of the UK, and might expect this to generate some differences in the proportion of homeowners under 40 who say they received help to afford their current property (Agrawal and Phillips, 2020). As shown in Figure 4, however, we do not see huge differences between those who report having received help in different UK regions. Reporting receiving help was least common among those in the West Midlands, Scotland and the North West, at 12%, 15% and 18% of homeowners under 40, respectively. In the South West, the East and in Wales, it was most common. London looks very similar to other regions, despite much higher house prices and different patterns of wealth: 24% of homeowners under 40 reported having received help to buy their current property.

How big are the transfers that are received?

Among those who received a gift or loan at the same time as buying a house, average gifts and loans received in the two-year window in which they bought a house, as well as the two-year window before that, were equal to £24,000. This was around half of the average deposit they put down on the house they bought.

Among all FTBs, rather than just those receiving, average gifts and loans received in the four-year window around buying a house were closer to a fifth of the average deposit put down. Figure 5 shows this, illustrating average transfers received (£10,000), the average deposit (£55,000), and the fraction of the average deposit represented by the average transfer (19%). The figure is split by different subgroups, showing for whom gifts and loans are a larger fraction of the deposit put down.

Home-buyers in their 30s received £14,000 in gifts and loans on average, compared to £10,000 for those in their 20s and £8,000 for those in their 40s. These figures are among all first-time buyers, including those who did not receive anything: conditional on receiving anything at all,

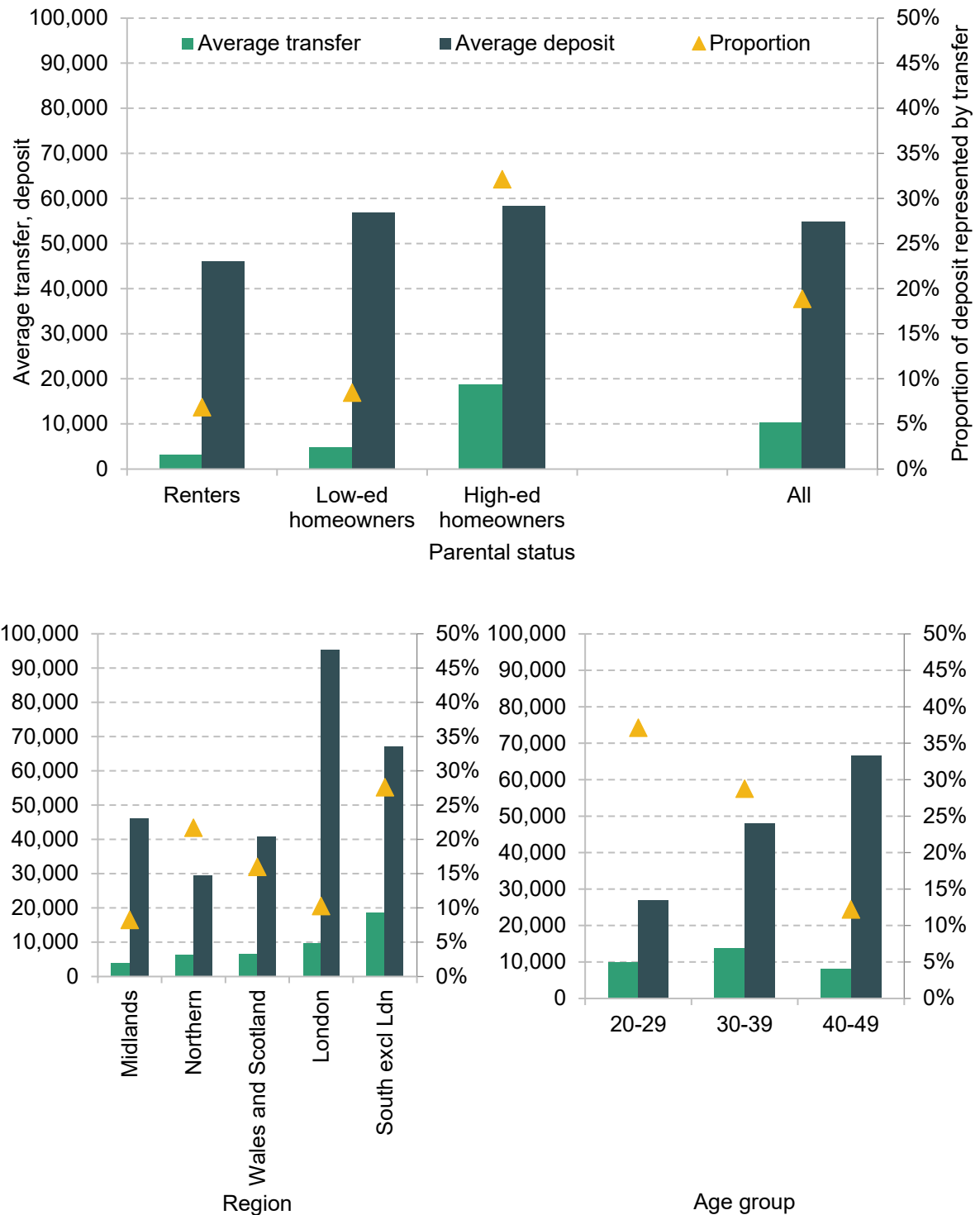
those in their 30s received around £31,000 on average, compared to £18,000 among those in their 20s and £24,000 among those in their 40s. However, those in their 30s put down a much higher deposit on average than those in their 20s, meaning that transfers represent the highest share of the deposit among those in their 20s, at 37% compared to 29% for those in their 30s. Transfers might therefore be more important in enabling homeownership for this group.

Those with better-off parents receive much more in transfers when purchasing a house than do those with less well-off parents. Those with parents who were renters received an average of £3,000, compared to £5,000 among those whose parents were homeowners who did not go to university, and £19,000 among those whose parents were homeowners who did go to university. This partially reflects the fact that more of those whose parents were homeowners who went to university received transfers: even conditional on receiving, though, differences were strong. Those whose parents were renters and who received money received around £11,000 on average, compared to £15,000 among those whose parents were homeowners who did not go to university, and £35,000 among those whose parents were homeowners who did go to university. Consequently, transfers represent a much larger share of deposits paid among the latter group. Transfers were around a third of the deposit for those with university-educated homeowning parents, compared to 8% among those whose parents were non-university-educated homeowners and 7% among those whose parents were renters.

We also see clear geographical differences when looking at the magnitudes of transfers, in contrast to our finding that transfers were similarly common across areas. Conditional on receiving anything, those in the South East received the most on average, at around £31,000; those in the Midlands received around £18,000, and those in the North and in Wales and Scotland received around £17,000.

As shown in Figure 5, transfers were the highest share of the deposit among all those buying in the South East (excl. London), at 28%. This group put down average deposits of £67,000 and received transfers of £19,000, on average. In London, transfers received among all FTBs were lower at £10,000, while average deposits were significantly higher, at £95,000, meaning that gifts and loans were almost three times smaller as a proportion of the deposit. In Wales and Scotland, and in the North, transfers were a larger share of the deposit than in London: while in absolute terms the transfers received were smaller – at an average of £7,000 in Wales and Scotland, and £6,000 in the North – deposits were also low enough to push up the percentage contribution of transfers. Transfers were the lowest share of the deposit in the Midlands: this group received least in gifts and loans on average, while they put down higher deposits than those buying in the North or in Wales and Scotland.

Figure 5. Mean transfer, mean deposit and share of deposit represented by transfer, among all FTBs, by region, age group and parental status



Note: 'Mean transfer' refers to the average amount of gifts and loans combined received in the two-year window over which an individual buys a home and the two years before that window. The calculation includes those who did not receive any money. 'Mean deposit' is the outstanding deposit on the house bought, subtracting the principal component of mortgage payments for between zero and two years before purchase (using an estimate of exactly when the house was bought). Prices and deposits are expressed in 2020 prices using the CPI.

Source: Authors' calculations using the WAS, wave 2 to round 7.

16 Help onto the housing ladder: the role of intergenerational transfers

These statistics tell us that those in the South East (excluding London), those whose parents are wealthier and those who are younger are receiving more in gifts and loans when buying a first home, relative to the size of the deposit they put down. Those whose parents are wealthier and those who are younger are more likely to report receiving this help.

We next turn to consider exactly how these groups are being affected by the transfers they receive and whether the transfers are responsible for the gaps in homeownership rates we see among these groups. There are several channels through which receiving a gift or loan could affect home purchase. A gift or loan could mean a buyer chooses to:

- buy a house sooner rather than later (or never);
- put down a bigger deposit on the house purchased, resulting in lower mortgage repayments;
- buy a higher-value house;
- have higher spending, or savings, before buying a house.

They could of course respond in some combination of these ways. We aim to shed light on these first three channels in the rest of this report. We want to understand the extent to which transfers are widening the gaps in homeownership rates we see and having an effect on broader patterns of wealth accumulation.

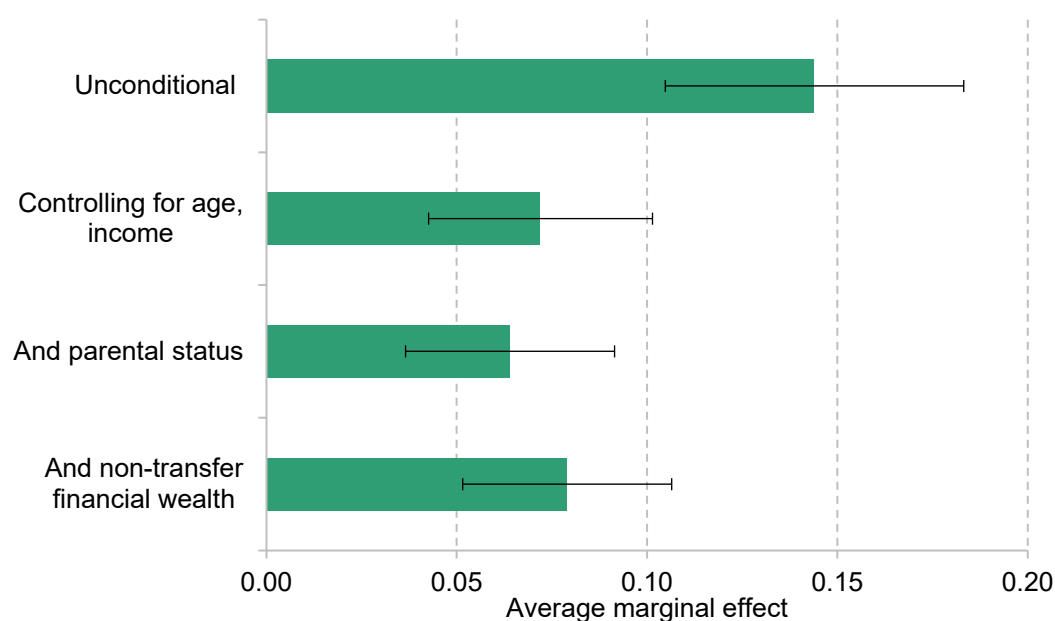
4. Do transfers help people overcome barriers to homeownership and buy sooner?

In order to understand the extent to which receiving gifts and loans helps recipients to buy a house, we begin by looking at how much higher the rate of home purchase is among young initial non-homeowners who receive a gift or loan. Figure 6 shows that among renters aged 25–39, having received a gift or loan of £500 or more in the last four years is associated with being 14 percentage points more likely to have bought a house in the last two years. We know that those who receive gifts and loans are likely to have higher incomes themselves and to be younger, as well as to have wealthier parents. This is also true of those buying a home. The association between transfer receipt and home purchase could therefore be driven by receivers being young or having higher income rather than by transfers themselves having an impact. However, as shown in Figure 6, even once we control for these factors, receiving a transfer is associated with an 8 percentage point higher probability of buying a house, implying that there is a potentially important role for transfers in driving movement into homeownership.

These transfers don't necessarily 'cause' everyone who receives them to be able to afford a house, and are not necessarily responsible for the gaps we see in homeownership rates between different groups. Some transfers are received by those who could already have afforded the house they bought, or who could already afford a different, cheaper house in their local authority. In these cases, the transfers do not make the difference between being able to afford a house or not. Instead, the transfers may have enabled the buyer to put down a higher deposit, to buy a more expensive house, or to save less aggressively before buying, which we explore later.

With this point in mind, we now quantify how many of those who moved into homeownership received a transfer while not already being able to afford a house. It is these people who are potentially helped to buy by receiving the transfer. We examine this for different groups, splitting by age, by region and by parental background.

Figure 6. Average marginal effect of receiving a gift or loan on buying a house, controlling for age, income, parental socio-economic status and non-transfer financial wealth



Note: The figure shows average marginal effects of receiving a transfer on the probability of buying a house in four probit regressions.

Source: Authors' calculations using the WAS, wave 2 to round 7.

When defining whether someone can 'afford' a house, we consider the role of two constraints on the size of a house, which we refer to as the 'savings constraint' and the 'income constraint'. The 'savings constraint' reflects the requirement that buyers put down a certain minimum fraction of the house value upfront as a deposit. We assume that this fraction is set at 10% of the house price on the basis that only a small fraction of mortgages are issued with a higher loan-to-value ratio.² This constrains the most valuable house that is affordable to be less than ten times a potential buyer's savings. The 'income constraint' reflects the requirement that buyers can borrow up to a certain fraction of their annual income as a mortgage. We assume that potential buyers can borrow up to 4.5 times their annual income.³ This constrains the most valuable house that can be afforded to be 4.5 times a potential buyer's income plus their savings.

If a potential buyer's annual income is more than twice the value of their savings, then the maximum amount that they can borrow is determined by the 'savings constraint'. Otherwise, it is determined by the income constraint. We refer to the former case as the savings constraint 'binding' and the latter case as the income constraint 'binding'. 63% of FTBs were – in the

² In 2017, only around 9% of mortgages were less than 10% (Cribb and Simpson, 2018).

³ Since 2014, mortgage lenders can issue at most 15% of mortgages at a loan-to-income ratio exceeding 4.5.

absence of financial assistance – constrained in the maximum house they could afford by the savings constraint before they made their house purchase.

When the income constraint is binding, transfers have a one-to-one impact on the largest house that can be afforded. Each additional pound in transfers adds to savings by one pound, so increases the house affordable by one pound. But when the savings constraint is binding, transfers have a multiplicative impact on the most expensive house that can be purchased. Each additional pound in transfers adds to the deposit by a pound, so increases the value of the most expensive house affordable by 10. Transfers therefore have this multiplicative effect for those with lower levels of savings compared to their income.

We use two different thresholds of affordability throughout: we assess whether an individual could have afforded to purchase the house we see them buy, and whether they could have afforded to buy a house at the 25th percentile of prices in their local authority. If someone was already able to afford to buy the house they bought even without the transfers they received, then clearly these transfers did not make homeownership possible for them. Some people, though, are likely to have responded to transfer receipt by buying a bigger house. This means that they might not have been able to buy the house they in fact bought had it not been for financial assistance, but they might still have been able to afford to buy a less expensive house with or without receiving a transfer. Using the house that someone actually bought as our threshold for affordability gives us an upper bound for the proportion of people potentially helped to buy by the transfer. Using a 25th percentile house as our threshold gives a rough lower bound on the proportion for whom transfers made homeownership possible, although this ignores factors that make the purchase of a less-expensive house infeasible for some people (e.g. those in larger households who need more space).

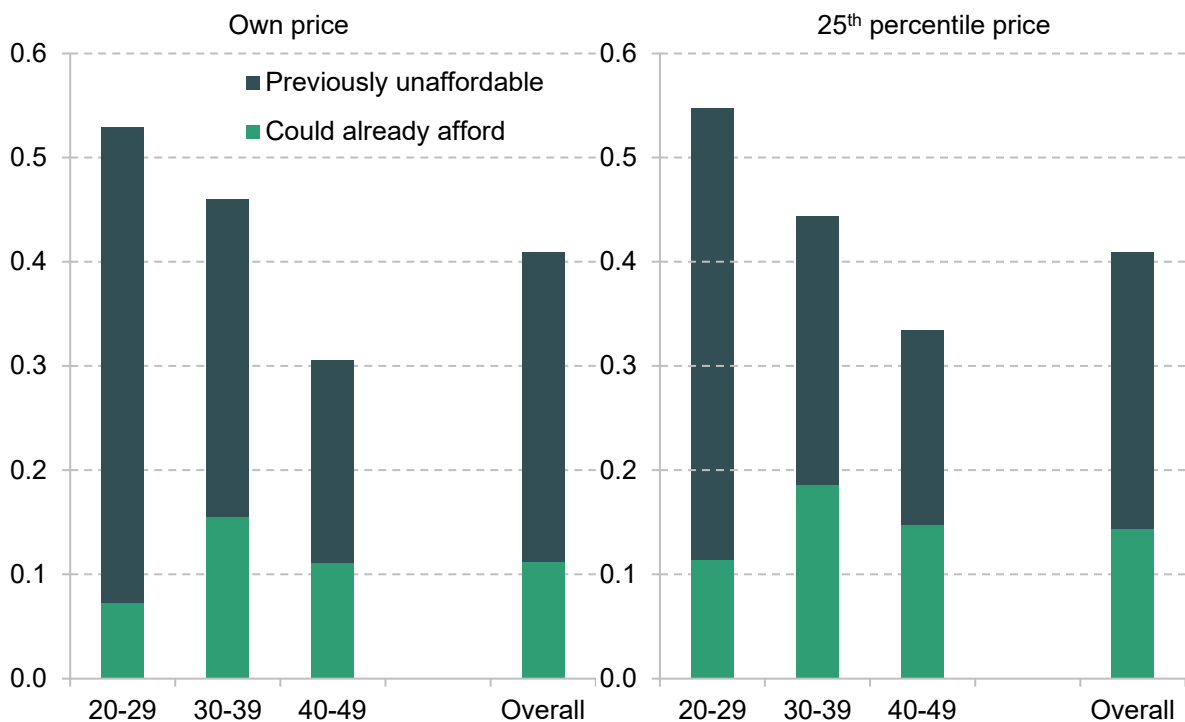
We assess for which groups transfers make a greater or a lesser difference to the value of house that they could afford. We look at the proportion of FTBs who receive a transfer, and split recipients by whether they could already afford a house – implying that transfers were not the crucial factor making homeownership possible – or by whether transfers potentially pushed them over the threshold of affordability. We also look at the effect of transfers on the house affordable by FTBs, comparing the average transfer received and average change in the size of the biggest house affordable among different groups. Differences in this ratio reflect differences in the multiplicative impact of transfers, and tell us about which groups could have been helped by more by the transfers they received.

Age

More than half of FTBs in their 20s received a gift or loan around the time of home purchase, as shown in Figure 7. Fewer of those in their 30s or 40s received a gift or loan around this time: 46% of those in their 30s received a gift or loan, and 31% of those in their 40s.

A higher proportion of those in their 30s received a gift or loan while already being able to afford the house they went on to buy. 15% of those in their 30s received a transfer and could already afford the house they went on to buy, compared to 7% of those in their 20s: the green sections of the bars represent this group in Figure 7. Conditional on receiving something, gaps remained large: 34% of those in their 30s who received a transfer could already afford the house they went on to buy, compared to 14% of those in their 20s. Those in their 30s were thus less likely to receive a transfer, and even *less* likely to receive a transfer which could be described as enabling them to afford the house they went on to buy. This implies that transfers were less important in shortening the time spent renting or living in the parental home pre-purchase than for those in their 20s.

Figure 7. Proportion of people who received a transfer, split by whether they could or couldn't previously afford the house we see them buy or a 25th percentile price in their local authority, by age group



Note: Totals do not exactly match due to some missing data for house prices. There are some missing data for own price, and for 25th percentile price we do not have data for Scottish house prices.

Source: WAS, wave 2 to round 7.

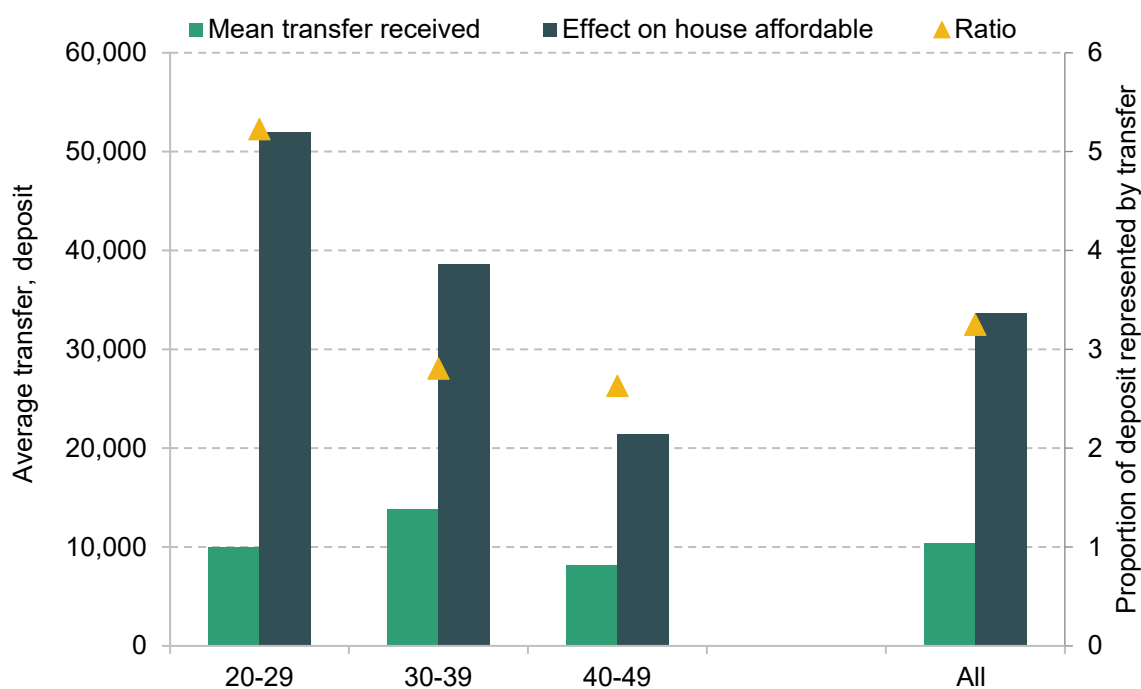
21 Help onto the housing ladder: the role of intergenerational transfers

Those in their 20s were much more likely to receive a gift or loan when the house they bought – or, alternatively, a relatively cheap house in their local authority – was previously unaffordable. 46% of this group received a transfer while the house they went on to buy was previously unaffordable, compared to 30% of those in their 30s.

The transfers received by those in their 20s also had a larger effect on the ability to buy a house than the transfers received by those in their 30s. The savings constraint was binding for more FTBs in their 20s than FTBs in their 30s: 79% of those in their 20s were constrained by their savings before receiving money, compared to 66% of those in their 30s.

This means – as explained above – that the money received by those in their 20s had more of a multiplicative effect on the house affordable. This is illustrated in Figure 8, which shows that the difference in the average house affordable by FTBs using their financial wealth, with and without transfers, is equal to around £34,000 among all FTBs. It then shows the average transfer received by the same group – equal to £10,000 among all FTBs – and the resultant ratio between average transfers received and the average difference they make. Overall, transfers increase the size of the average house affordable for this group by around three times their size.

Figure 8. Mean transfer received, effect on largest house affordable, and ratio between the two, by age group



Note: Mean transfer and mean difference are expressed in 2020 prices using the CPI.

Source: WAS, wave 2 to round 7.

While those in their 20s received less than those in their 30s – £10,000, compared to £14,000, in the four years around buying a house – this money increased the largest house by *more*, increasing it by £52,000, compared to £39,000. The ratio between the average transfers received and the increase in the average house affordable as a result of transfers is thus highest among those in their 20s, with the transfers' impact being five times their size. Among FTBs in their 30s and 40s, this is closer to three times their size.

Transfers therefore seem to be helping those in their 20s get onto the housing ladder. They have more of a multiplicative impact for this group, as this group is more likely to be constrained by savings rather than by income, and transfers are more likely to be received when a house is initially unaffordable.

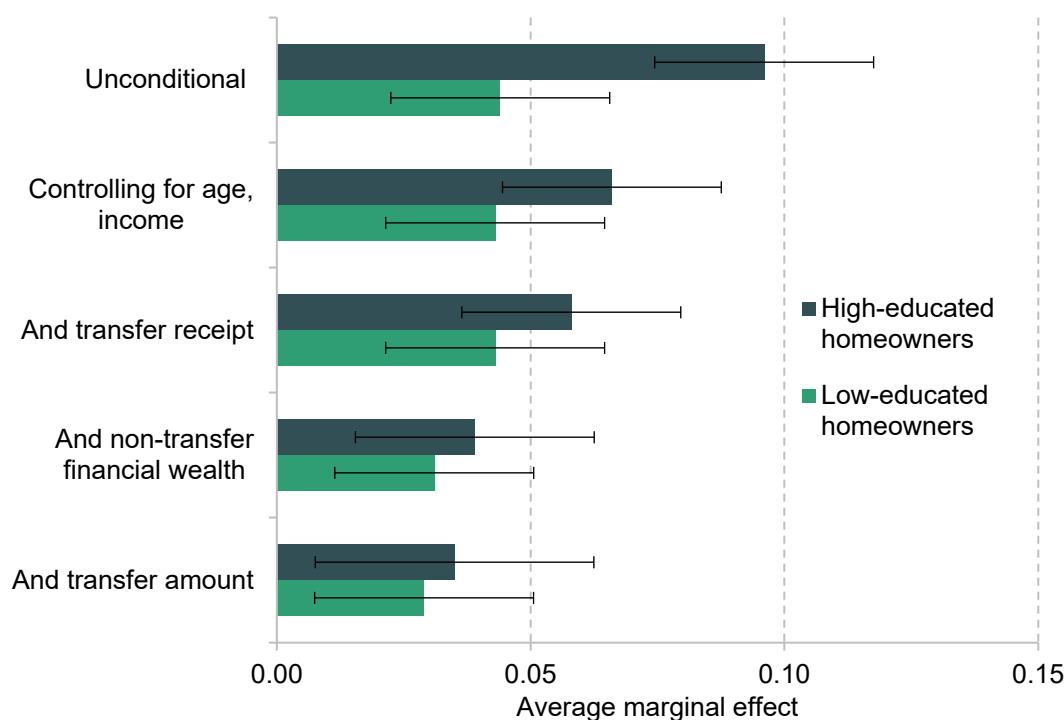
Those in their 30s are being helped in a different way by transfers received. They receive the most in transfers, but are more likely to be receiving while they can already afford the house they go on to buy. In Section 5, we investigate what those who receive more in transfers do with the money they receive.

Parental status

As we saw in the introduction, there are increasing gaps in homeownership rates between those whose parents owned their homes and those whose parents rented when the individual was a teenager. We now assess whether different rates of transfer receipt can explain some of these differences in the rates of homeownership. To do this, we look at a sample of people aged 25–39 who are renting in the first wave of data. We examine whether they transition into homeownership in the next two years, and how this is related to their parental status and transfer receipt.

Figure 9 shows that parental socio-economic status is closely related to the probability of moving into homeownership. Those with highly educated homeowning parents, compared to those with renting parents, are 10 percentage points more likely to buy a house in a two-year period; this falls to 7 percentage points when we control for age and income, reflecting the fact that those with higher incomes tend to be more likely to buy a house and have better-off parents.

Figure 9. Average marginal effect of parental status on buying a house among renters aged 25–39



Note: The figure shows average marginal effects from five probit regressions with controls listed. Age, income and non-transfer financial wealth are controlled for in bins.

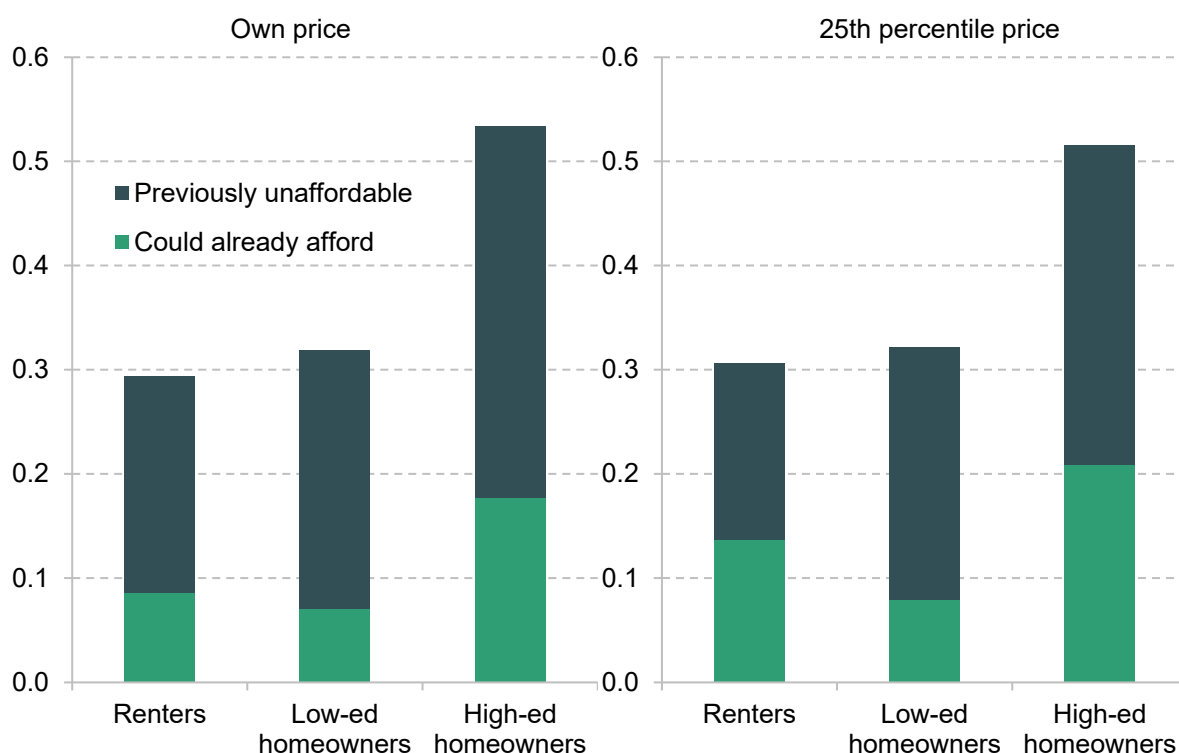
Source: Authors' calculations using the WAS, waves 3–5 and rounds 6 and 7.

When we control for transfer receipt, the effect of having highly educated homeowning parents on the probability of buying a house, compared to having renting parents, falls to 6 percentage points. This results from the fact that some of the differences in home purchase relating to parental status will be a result of wealthier parents directly giving their children financial help. Controlling for non-transfer financial wealth and for the *amount* received in gifts and loans further shrinks the relationship between parental status and transitions to homeownership, with the estimated effect of having highly educated homeowning parents relative to renting parents equal to 4 percentage points. This implies that transfers cannot explain all of the gaps in homeownership rates we see, although they do explain a proportion of the difference.

A higher proportion of those with better-off parents receive a transfer around the time of home purchase: more than half of FTBs with university-educated homeowning parents received a gift or loan around this time, compared to 29% of those with renting parents.

Those with better-off parents are more likely to receive money when already able to afford a house (either the house they go on to buy or a relatively cheap house in their local authority), which helps to explain how transfers can be so much larger and more frequent among this group yet not explain all the difference in homeownership rates. Figure 10 shows the proportion of this

Figure 10. Proportion of people who received a transfer, split by whether they could or couldn't previously afford the house we see them buy or a 25th percentile house in their local authority, by parental status



Note: The totals do not exactly match. There are some missing data for own price, and for 25th percentile price we do not have data for Scottish house prices

Source: WAS, wave 2 to round 7.

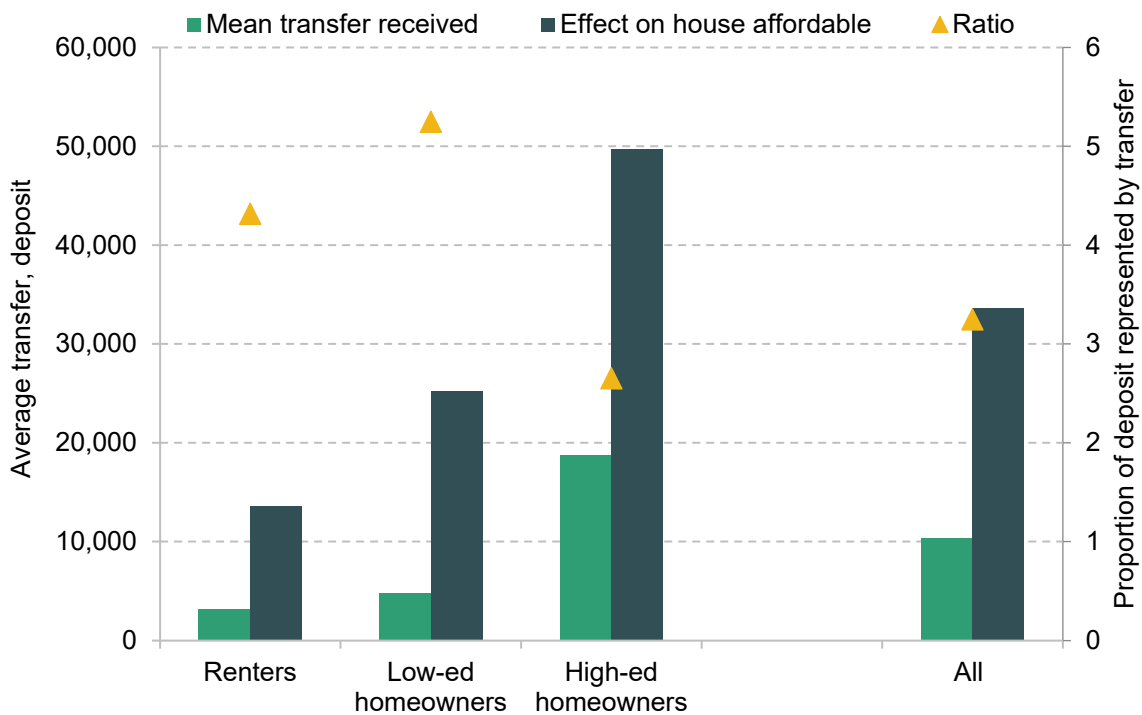
group who received gifts and loans, split by whether the house they went on to buy – or a house priced in the 25th percentile of their local authority – was already affordable. 18% of those with highly educated homeowning parents received a transfer while already being able to afford the house they went on to buy, compared to 9% of those with renting parents.

We therefore see that a higher share of transfers received by FTBs with better-off parents do not seem to be helping this group into homeownership. But it is still the case that a higher proportion of this group receive transfers who couldn't originally afford their house, or a 25th percentile house. 36% received a transfer and couldn't originally afford the house we see them go on to buy, compared to 21% of those with the least well-off parents. The proportion of those who can already afford the house they go on to buy, conditional on receiving, remains highest among the group with the best-off parents – 33% of those with homeowning, university-educated parents who receive something can already afford the house they go on to buy, compared to 29% of those with renting parents – but the differences are smaller.

Those with better-off parents are more likely to be constrained by their incomes, rather than savings, implying that while these individuals are more likely to receive transfers – and receive more on average – transfers have less of a multiplicative effect on the house they are able to afford. This is illustrated in Figure 11: as shown, the ratio between average transfers received and the difference in the average house affordable is lower for the group with wealthier parents. Each pound received increases the biggest house affordable by around £3, compared to £4 among those with renting parents and £5 among those with non-university-educated homeowners.

Even though those with the best-off parents receive much more in transfers, receiving £19,000 on average, compared to £5,000 among those with non-university-educated homeowners and £3,000 among those with renting parents, the effect of this larger amount is therefore much more muted. This helps to explain why this strong difference in average transfer size is not widening the gaps in homeownership rates between those with less wealthy and wealthier parental backgrounds by more.

Figure 11. Mean transfer received, effect on largest house affordable, and ratio between the two, by parental status



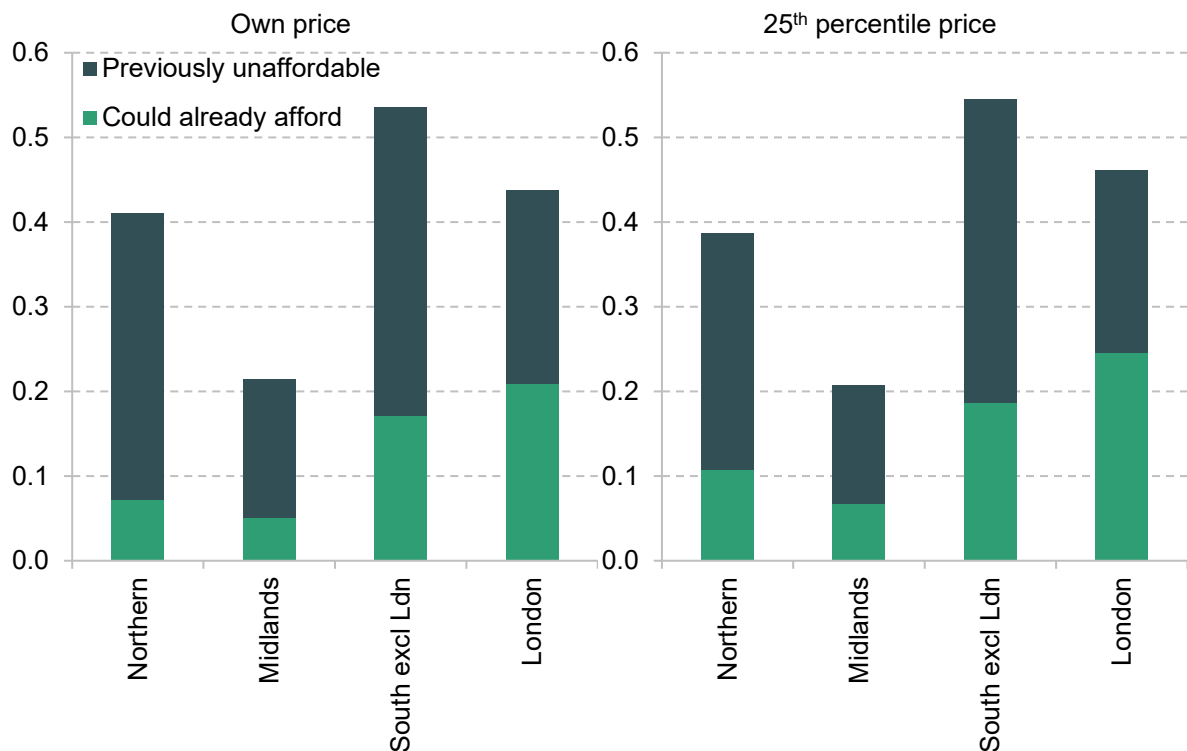
Source: WAS, wave 2 to round 7.

Region

A higher proportion of FTBs in London and the South East receive a gift or loan around the time of home purchase: 54% of FTBs in the South East excluding London, and 44% of those in London, received a gift or loan, as shown in Figure 12. This was 41% of those in the North, and 21% of those in the Midlands.

Those who buy in London – and the wider South East – are most likely to receive gifts and loans when the house they buy is already affordable. This is most common in London: Figure 12 shows that 21% of FTBs received a gift or loan while already being able to afford the house they went on to buy, compared to 17% in the wider South East, and just 7% in the North and 5% in the Midlands. Conditional on receiving, these differences remain striking: almost half of those who received a transfer in London could already have afforded the house they went on to buy, compared to just 18% of those who received a transfer in the North of England.

Figure 12. Proportion of people who received a transfer, split by whether they could or couldn't previously afford the house we see them buy or an average house in their local authority, by region



Note: Scotland and Wales are here excluded since we do not have 25th percentile price data for Scotland. There are some missing data for own price.

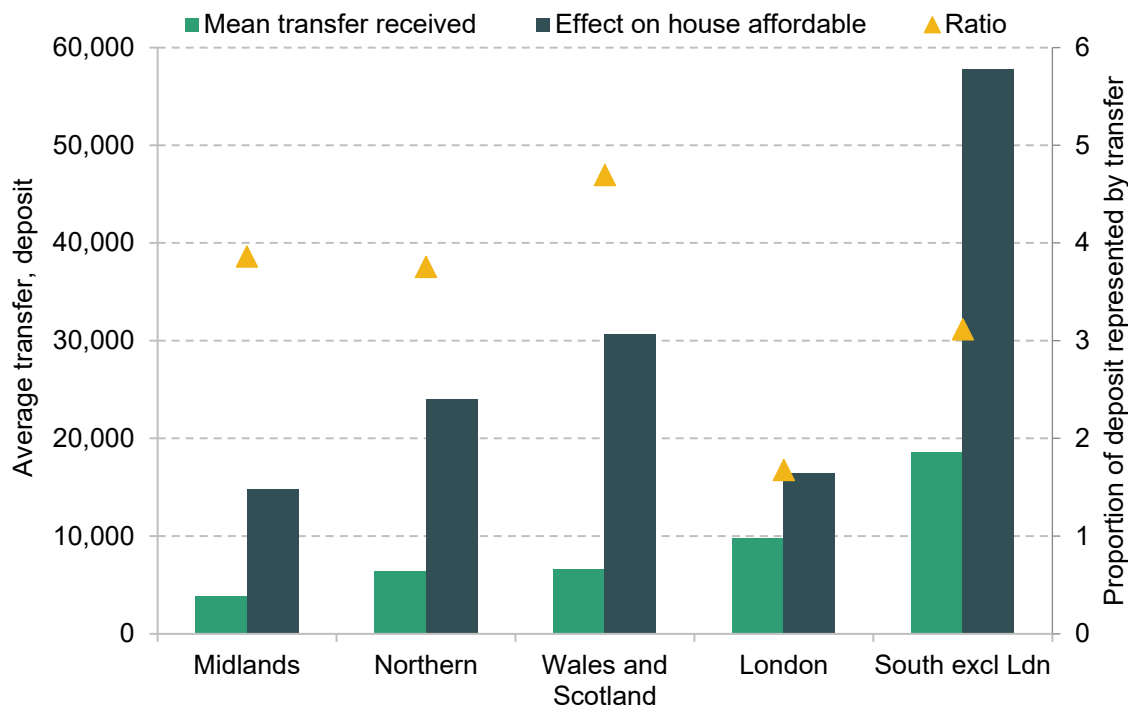
Source: WAS, wave 2 to round 7.

A smaller proportion of those in London receive transfers while not being able to afford the house we see them go on to buy, indicating that this group are more likely to use the transfers they receive in other ways – for example, to increase the size of the deposit they can put down. Transfers also have less of a multiplicative effect in the South of England – in particular, in London – compared with the North, Midlands, or Wales and Scotland. This helps to explain why we see much higher levels of transfers around the time of homeownership in the South but still not higher levels of homeownership (conditional on age and income).

The lower multiplicative effect of transfers is particularly marked in London. Each pound received in transfers increases the size of the average house affordable by less than £2, as shown in Figure 13. This compares with an increase of £3 in the rest of the South East, of £4 in the North and the Midlands, and £5 in Wales and Scotland. This is a result of much higher proportions of Londoners being income-constrained, as opposed to savings-constrained, than in other areas.

As we saw with parental status, therefore, even though those in London and the South East receive more in transfers in general, these have the most muted effects, increasing the size of the average house affordable by significantly less than the effects of transfers in the North, Midlands, and Wales and Scotland. These transfers, despite being most common, likely play less of a role in allowing people to get onto the housing ladder: they may be helping FTBs in London in different ways.

Figure 13. Mean transfer received, effect on largest house affordable, and ratio between the two, by region



Source: WAS, wave 2 to round 7.

Summary

Financial help received around the time of home purchase is highest on average among FTBs in their 30s, whose parents are better off, and who are buying in London and the South.

A substantial minority of this help is flowing to people who already have sufficient savings and income to buy either the house they did buy or a relatively low-priced house in their local authority. 27% of FTBs who received a gift or loan are in this position, and it is a particularly large share of those buying in their 30s, those whose parents are better off, and those buying in London and the South. These groups are therefore more likely to be being helped by transfers in different ways, rather than just being helped to afford to buy earlier.

These groups are also less affected by transfers because they tend to have higher savings in relation to their income. This means that the income constraint on the house they can afford is more likely to be binding: an additional £1,000 received from parents will increase the value of the house they can buy by £1,000, as it will not change how much they can borrow. Those in their 20s, whose parents are worse off, and who are buying outside the South East have lower savings on average, which are more likely to constrain the value of the house they can afford. For those constrained by savings, each £1,000 received from parents will increase the value of the house they can buy by £10,000, because the constraint on what they can buy comes from the deposit they can afford, which usually has to be 10% of the price of the house.

As a result of these differences in constraints, each £1,000 in transfers received by those with university-educated homeownership parents increased the value of the most expensive house they could afford by around £2,700. This compared to an increase of around £4,300 for those with renting parents. Each £1,000 in transfers received by those buying in London increased the value of the most expensive house they could afford by £1,700. This compared to an increase of around £3,800 for those buying in the North.

Therefore, although those in their 30s, those whose parents are better off and those in London and the South receive more in transfers, these transfers may be having a less transformative effect on their ability to get onto the housing ladder compared to those who receive at younger ages, those whose parents are less well off and those who are buying outside the South East. The former groups may be using the money they receive in other ways rather than simply getting onto the housing ladder itself.

5. How is money used if not only enabling home purchase?

A significant share of people who receive transfers around the time of buying their first home are receiving while they already have sufficient financial wealth to buy the home they end up buying, or – alternatively – a cheap home in their local authority. This is especially true amongst those buying in London and the South, those whose parents are better off and those in their 30s.

The existence of this group prompts us to investigate other ways that receipt of transfers could affect the home purchase decision, beyond just shortening the time spent renting or living in the parental home. As set out in Section 1, receiving gifts and loans can affect homeownership in other ways: it could allow recipients to buy a more expensive home, could allow them to put down a deposit larger than the minimum required, or could allow them to save less in advance of the home purchase.

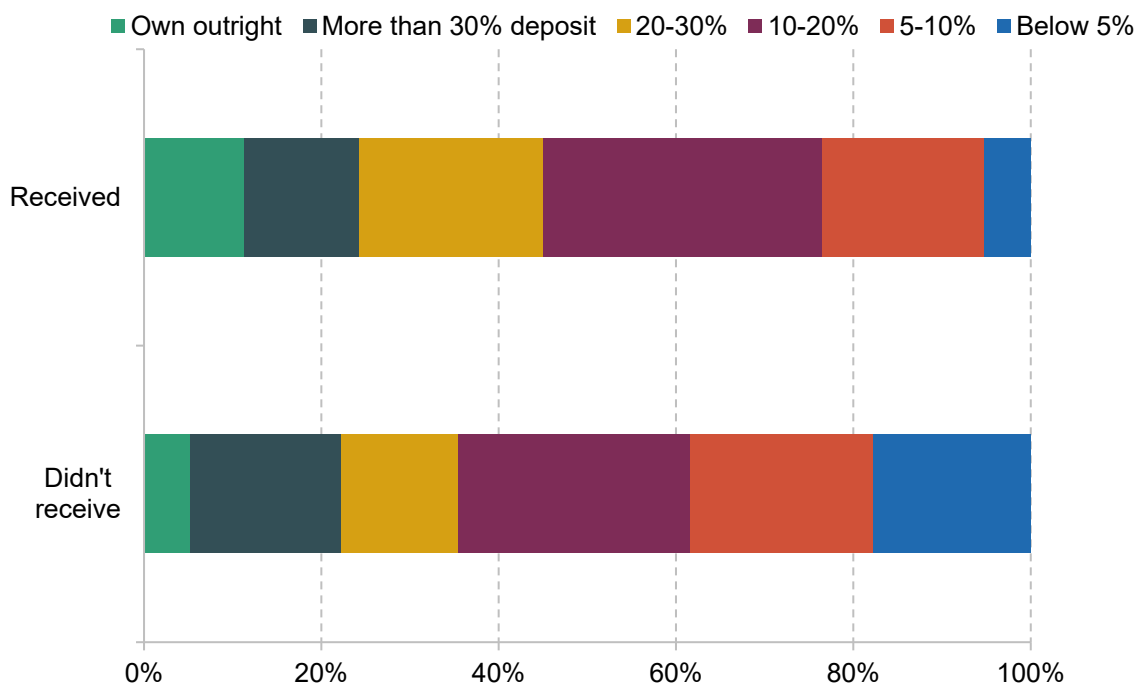
Here, we investigate the importance of these first two channels. To test whether receiving gifts and loans is associated with buying a more expensive home, or putting down a larger deposit, we run two sets of regressions. First, we look at a sample of those buying their first home. We test the relationship between receiving a transfer and the following outcomes: the price of the home bought; the deposit put down; the loan-to-value ratio; the average home price in the local authority bought in. This tells us whether receiving a gift or loan is associated with purchasing a more expensive home, with putting down a higher-value deposit, with buying a home with a larger loan-to-value ratio, and with buying a home in a more expensive area; these are various different facets of a home purchase decision which transfers might affect. Second, we restrict our sample to only those who received a gift or loan while moving into homeownership, and look at the relationship between the amount received and the same set of outcomes. This tells us whether, among those who received something, receiving *more* is associated with one of these other channels we have discussed. We control for a set of individual characteristics in both regressions: lagged wealth, age group (in 10-year age bands), income, marital status, education level and ethnicity.

Looking at all FTBs, we find no relationship overall between receiving a gift or loan and any of the outcomes we consider. Results are presented in Table A1 of the Appendix. But looking only at those who have received a gift or loan, we find that receiving more is strongly associated with

some outcomes. Receiving more in gifts and loans is associated with putting down a higher deposit, and having a lower loan-to-value ratio. Each additional pound received in transfers is associated with putting an additional 77p down as a deposit, and each additional £10,000 received is associated with a loan-to-value ratio 4 percentage points lower. It doesn't look as if those receiving more are using additional funds to buy a more expensive home, but instead primarily use this to reduce how much they have to borrow when buying. Results from this set of regressions are presented in Table A2 of the Appendix.

Figure 14 shows the distribution of loan-to-value ratios among FTBs between 25 and 44, split by whether they received a gift or loan of £5,000 or not. As implied by the above regression results, those receiving one of these larger transfers are likely to put down a larger deposit: a larger proportion of this group move into outright homeownership (11%, compared to 5%), and a much smaller proportion have a deposit under 10% (24%, compared to 38%). Putting down a higher deposit has implications for wealth accumulation, as explored in the following section. To the extent that transfers are acting through this channel, rather than allowing receivers to get onto the housing ladder earlier, they may be widening differences in wealth between different groups, even if not in homeownership rates themselves.

Figure 14. Distribution of loan-to-value ratios, by whether those aged 25–44 about to buy a home received £5,000 or more



Note: Loan-to-value ratios are approximate as we estimate the value of the mortgage at origination.

Source: authors' calculations using the Wealth and Assets Survey, Wave 2 to Round 7.

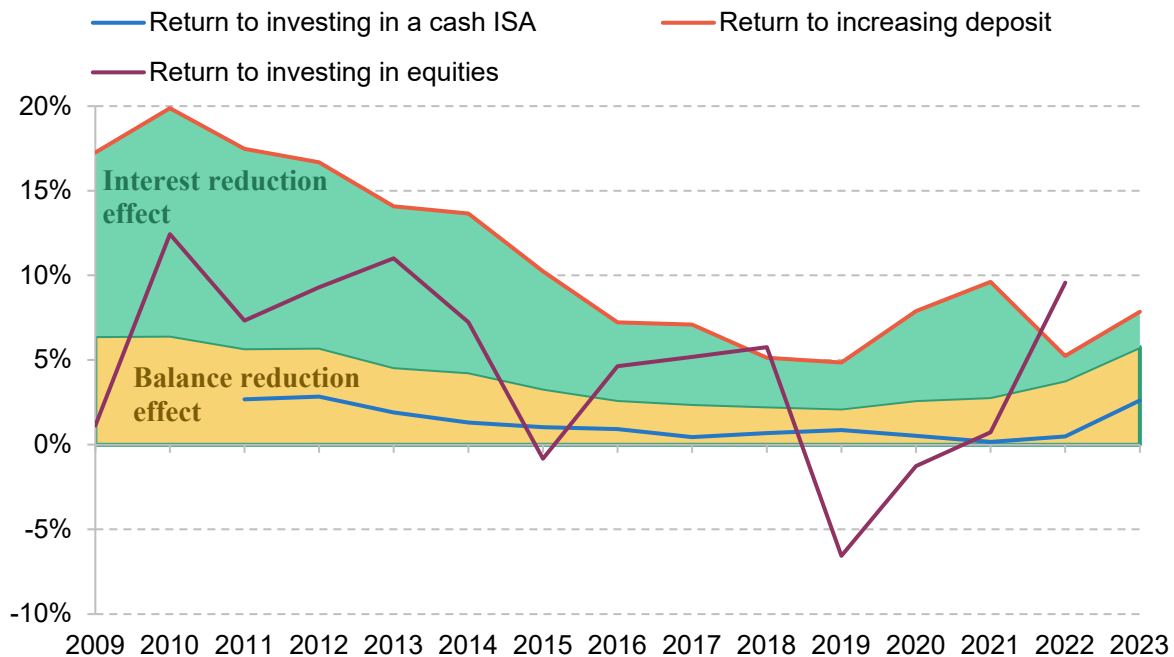
Consequences of lower loan-to-value ratios and higher deposits

Putting down a larger deposit will reduce the total mortgage interest that is paid, because buyers have borrowed less so the interest is being charged on a smaller principal sum. But putting down a larger deposit can have a further impact on interest paid. Mortgages interest rates typically vary with the level of the loan-to-value and loan-to-income ratio, with a lower loan size resulting in lower interest payments. For example, in October 2023, the Bank of England quoted a typical two-year fixed interest rate of 6.1% on a 90% loan-to-value mortgage. This compares to a rate of 5.6% on a 75% loan-to-value mortgage. This spread, currently 0.5 percentage points, has reduced over time. Between 2010 and 2014, it varied from 2 to 3 percentage points. Because this lower interest rate applies to the whole mortgage amount, this second effect of increasing the size of the deposit on a house can be large. Putting these two effects together, the effective returns to putting additional money down in a deposit can potentially far exceed the returns from investing that money in a cash ISA or the stock market.

Figure 15 shows the results of an illustrative calculation of the annual returns to investing a transfer in different ways. A typical home value for someone in our sample of FTBs is around £156,000. The average transfer received by someone who received a transfer when becoming a homeowner is £25,000. This is enough to reduce the mortgage taken out on such a home from 90% of the value of the home to 74% of the value of the home. Suppose, therefore, that someone received a transfer that would, if put into their deposit, reduce their loan-to-value ratio from 90% to 75%. The yellow area shows the ‘direct’ effect of the reduction in the mortgage balance by 15 percentage points, holding the interest rate constant. The green area shows the effect of the reduction in the interest rate on the remaining mortgage. The sum of these two areas gives the return in the first year to using this transfer to reduce the deposit. We see that the returns to using a transfer to increase the size of a home deposit and so reduce its loan-to-value ratio can be very large: between 2009 and 2015, it exceeded 10%.

This return is shown alongside the rate of return to investing the same amount of money in a cash ISA and to investing it in equities. Mortgage interest rates on a 90% loan-to-value mortgage are higher than typical cash ISA interest rates, so paying down a mortgage is always better than holding the same amount in a cash ISA, even when just taking account of the ‘balance reduction’ effect. For much of the period, increasing the deposit would have had a higher return even than investing in equities, and is far less risky than this option. The return to using this sum to increase the value of the home purchased can be very large and has, in general, exceeded the return from increasing the deposit. However, this is also a very volatile rate of return and may not be preferred to the (certain) reduction in interest from increasing the deposit.

Figure 15. Annual nominal return to alternative uses of transfers (increasing deposit from 10% to 25% of home value, investment in equities, investment in cash ISA), by year



Note: The rate of return to assets used to increase the deposit on the purchase of a given home is composed of two effects. The balance reduction effect is the part of the return attributable to having a lower mortgage, for a given interest rate. The interest rate effect is the part of the return attributable to the reduction in the interest rate that occurs because of the reduction in loan-to-value ratio from 0.9 to 0.75.

Source: Mortgage interest rates are Bank of England quoted interest rates for two-year fixed rate mortgages. The cash ISA interest rate is the Bank of England quoted interest rate on cash ISA (including unconditional bonuses). The return to equities is the three-year rolling average of the total return to equities series from the Jordà–Schularick–Taylor Macrohistory Database up to 2015 (see Jordà et al., 2019) and the growth in the FTSE All-Share Index from 2016 onwards.

One way of putting this into perspective is to consider the implications for total wealth accumulation over a five-year period of using a transfer to reduce the loan-to-value ratio at which a home is purchased. Over the last years of our data (2019–20), a typical interest rate on a five-year fixed mortgage at a loan-to-value ratio of 90% was 2.8% while a typical interest rate on a five-year fixed mortgage at a loan-to-value ratio of 75% was 1.8%. If someone was to use a typical transfer of £25,000 to reduce the size of their mortgage on a typical property (worth £156,000) from 90% to 74%, this would imply a reduction in mortgage interest paid over a five-year period of around £8,500 or a total real return of 15%. This compares to a cumulative return of £850 if the equivalent amount was invested in a cash ISA from 2018 to 2023, representing a total real return of –11%. While, in earlier periods, inflation was lower and therefore real returns to a cash ISA were higher, the interest rate spread between higher and lower loan-to-value mortgages was also higher.

Summary

In this section, we have considered the effects of transfers on the homeownership decision, beyond the impact on the decision of whether or not to buy. Among buyers with similar other financial resources, those who received larger transfers tended to put down larger deposits. Our analysis is consistent with three-quarters of the additional money received being used to reduce how much is borrowed rather than increase the value of the house purchased. Putting down a larger deposit can have very high effective returns because it reduces the interest rate paid on the entirety of the mortgage taken out. This will tend to be a better investment than investing in a cash ISA and, over much of the period we look at, gave a better return even than investing the money in the stock market.

6. Mortgage guarantees

One proposal for supporting home purchase among younger groups is to facilitate FTBs purchasing homes at a higher loan-to-value ratio. In 2021, the government introduced a mortgage guarantee scheme, currently planned to be in place until June 2025, which supported mortgage lenders in offering 95% loan-to-value mortgages.⁴ The broader macroeconomic implications of this sort of support for homebuyers is beyond the scope of this report. We can investigate, though, which groups might be helped by a reduction in the deposit requirement from 10% to 5% of a property price, holding all else constant. This gives a sense of who might be enabled to buy a home through this sort of scheme. It also gives a sense of how one proposed type of support for homebuyers through the government, rather than through parental transfers, might affect groups differently. It is worth noting that at the current levels of mortgage interest rates, for some potential buyers the repayments on a mortgage that is 4.5 times income will be prohibitively high, and remaining in rented accommodation preferable.

In general, to be enabled to buy a house through a scheme of this sort, renters must be relatively close to the threshold of affordability. Here, as above, ‘affordability’ is defined as meaning that they must have sufficient savings for a deposit of the requisite size (either 10% or 5% of the house price), and their savings plus a mortgage of 4.5 times their income must equal or exceed the house price. Those with incomes and savings far below this threshold will not be helped. The specific constraint affecting those close to the threshold is also crucial: where incomes are sufficiently low that a mortgage of 4.5 times income plus savings does not cover the house price, a lower deposit requirement will have no effect on affordability. Where savings are the constraint, with a maximum mortgage plus savings equalling the house price, but savings being less than a 10% deposit, a lower requirement could make a difference.

⁴ See the policy paper, ‘The mortgage guarantee scheme’ at <https://www.gov.uk/government/publications/the-mortgage-guarantee-scheme>.

Figure 16 shows the proportion of renters aged 25–39 in 2018–20 who could not afford to buy a relatively cheap house in their local authority only because they could not meet a requirement to put down a 10% deposit. This figure gives an upper bound on the proportions who could be affected by schemes reducing the effective deposit requirement below 10%. By ‘relatively cheap house’, we mean a house at the 25th percentile of house prices in the local authority in which the person lives. We say that someone could not afford to buy such a house only because of the requirement to put down a 10% deposit if a mortgage of 4.5 times income plus their savings (more than) covers the house price but their savings are less than 10% of the house price. Those for whom this does not apply will not be able to afford a relatively cheap house no matter the deposit proportion required.

Figure 16 shows that, overall, 18% of renters aged 25–39 are held back from being able to buy only by the 10% deposit requirement and therefore could potentially be helped by a policy that reduces deposit requirements. This proportion is higher among those at older ages: more than a quarter of renters in their late 30s who cannot afford to buy are held back by the deposit requirement alone. This is because more of them have high enough income and savings so that their savings plus a mortgage could cover a relatively cheap property in their local authority. For the same reason, the proportion potentially helped by the reduction in deposit requirements is slightly higher among those with homeownership parents compared with those whose parents were renters. Regional differences are particularly stark, with 29% of those in the North and a quarter of those in the Midlands who cannot buy being constrained by the deposit requirement alone. The equivalent figure is 9% for those in the South of England, reflecting the fact that much higher house prices compared to incomes mean that the deposit requirement is less often the only barrier to buying there.

We then turn to consider the impact on the ability of different groups to buy of reducing the deposit required from 10% to 5% of purchase price. In Figure 17, we split all renters aged between 25 and 39 into three (mutually exclusive and exhaustive) categories: those who can afford a house at the 25th percentile of prices in their local authority with a 10% deposit; those who cannot afford this house with a 10% deposit, but who can afford with a 5% deposit; those who cannot afford even with a 5% deposit.

Figure 17 shows that among all renters aged 25–39, 88% could not afford to buy in their local authority even with a lower deposit requirement. 9% could afford with a 10% deposit, so would not be enabled to buy as a result of a lower deposit requirement. This leaves 3% for whom buying a house would become affordable due to a reduction in the deposit requirement from 10% to 5%. More of those at relatively older ages would be helped by such a change. The change would mean that a home became affordable for 5% of those in their late 30s, compared to 2% of those in their early 30s and 3% of those in their late 20s. This reflects the above analysis: incomes are higher at older ages relative to house prices.

Figure 16. Proportion of renters aged 20–39 who cannot afford a 25th percentile house in their local authority with a 10% deposit limit for whom the deposit limit is the only constraint

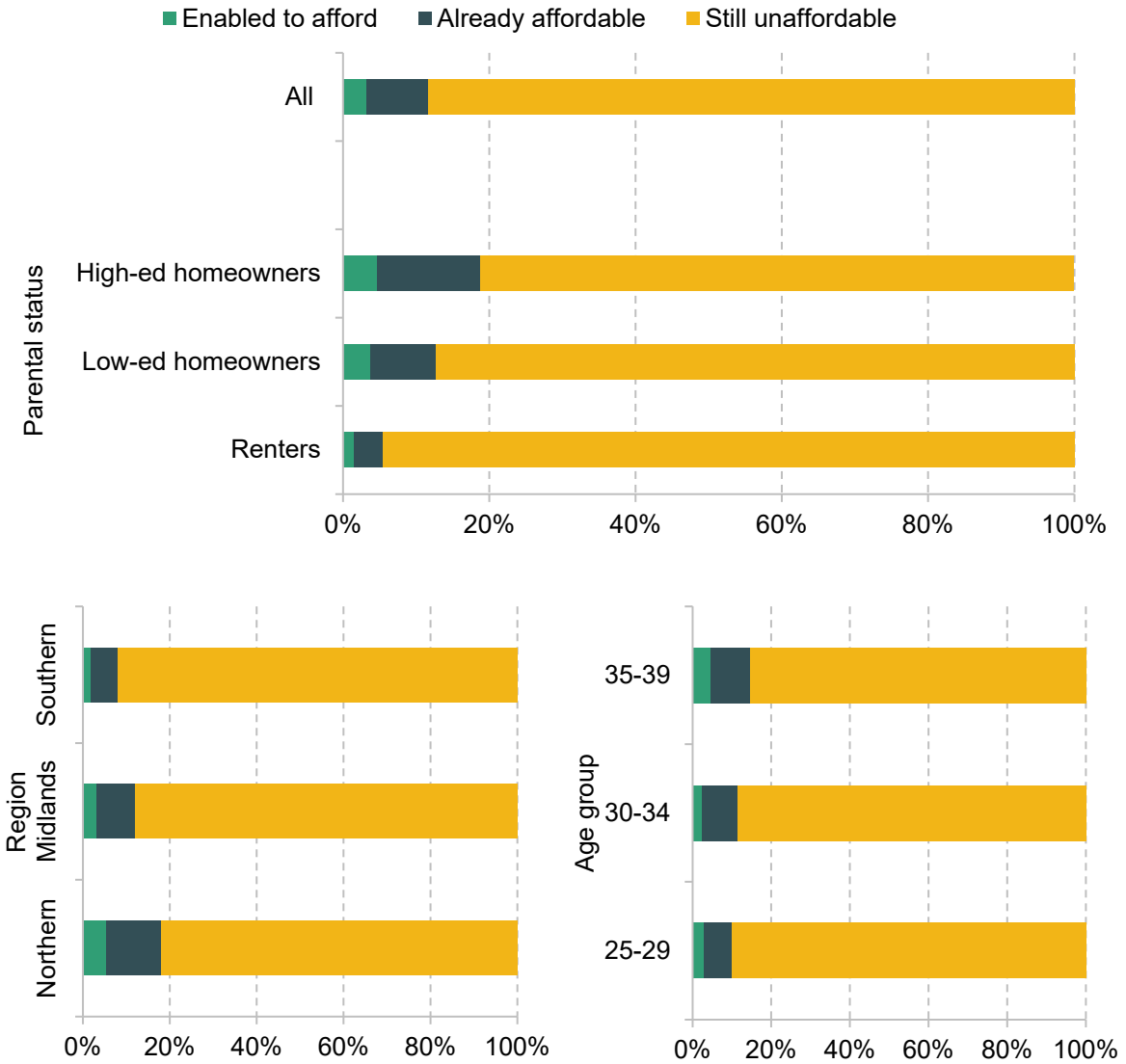


Note: ‘Cannot afford’ here refers to the situation where an individual or couple’s financial wealth does not cover a 10% deposit on a 25th percentile house in their local authority, and/or a mortgage of 4.5× their income plus their financial wealth does not cover the price of this house.

Source: Authors’ calculations using the WAS, round 7.

More of those with better-off parents would be helped by a reduction in deposit requirements from 10% to 5% and a greater proportion would benefit in the North compared with the Midlands and the South. 5% of those with highly educated homeowners would be helped by the lower requirement, compared to 4% of those with homeowners who did not attend university, and 2% of those with renting parents. 5% of those in the North would be enabled to buy as a result of the lower deposit limit, compared to 3% of those in the Midlands and 2% of those in the South. Again, this is largely a function of the fact that incomes are higher among those renters with better-off parents and that incomes are higher compared to house prices in the North of England.

Figure 17. Proportion of renters aged 20–39 enabled to afford a 25th percentile house in their local authority by a reduction of the minimum deposit limit from 10% to 5% of house price



Source: Authors' calculations using the WAS, round 7.

Summary

Overall, a scheme that reduces the deposit required from 10% of the house price to 5% would be likely to change affordability calculations for some would-be FTBs. Renters for whom savings are the only constraint, and who are already relatively close to being able to afford to buy, are the ones helped in particular. We have seen that this is disproportionately those in their 30s, whose parents are better off, and who are buying in the North of England. Among those who cannot already afford to buy, larger proportions of these groups could potentially be helped by any change in the required loan-to-value ratio. Those who are younger, those whose parents are less well off and – in particular – those who live in the South of England are much more likely to have low income constraining what they can afford. These groups remain unable to get a sufficiently large mortgage, and so a smaller deposit requirement will not change whether a house is affordable.

7. Conclusion

This report has examined patterns of financial help for homeownership in Great Britain, aiming to shed light on how differences in homeownership rates might be widened by transfers and, more broadly, to examine the relationship between receiving financial help and buying a house. Understanding different channels of influence is increasingly important, given the falls we have seen in the homeownership rate among younger groups since its highs in the late 1980s, and given the large, growing gaps in homeownership rates between those whose parents are homeowners and those whose parents are renters (Corlett and Odamtten, 2021; Cribb and Simpson, 2018).

We have shown that financial help at the time of home purchase is significant, and is concentrated among certain groups: those who are younger, those with wealthier parents, and those who live in London and the South East all receive larger transfers as proportions of the deposit they put down. While this does not necessarily cause these people to be able to move into homeownership, or widen gaps we see in homeownership rates between different groups, these disparities will have some implications for the way in which these groups are able to get onto the housing ladder and to accumulate wealth.

We find that some of the gaps in homeownership rates between those with better-off and worse-off parents can be explained by direct financial assistance from parents. When controlling for transfer receipt, and specifically for the amount received in transfers, the gap in the probability of moving into homeownership between those with different parental backgrounds narrows. But not all the gaps are explained. We find that those who have parents with higher socio-economic status are more likely to be receiving money when they can already ‘afford’ homeownership in some sense, and that the money they receive has less of a multiplicative effect on the house they can afford.

It is likely that more people of this group are being helped by transfers in different ways: we show that those receiving a transfer more are likely to use the additional money to put down a higher deposit, and that this use of additional money is likely to have high returns relative to alternative uses. Separately from their effect on gaps in homeownership rates, transfers may in this way be affecting gaps in wealth accumulation between different groups.

Those buying a house in London and the South East are similarly more likely to receive a transfer when they can already afford to buy a house, and the transfers they receive – in particular, the transfers received by those buying in London – have a much less dramatic effect

on the size of the house that they can afford. Again, this group may be enabled to put down a higher deposit rather than buy a house earlier, with implications for geographical gaps in wealth accumulation.

Government schemes that lower the required deposit homebuyers must put down are more likely to help current renters who are relatively older, who have better-off parents, and who live in the North and Midlands. These groups, on average, have higher incomes compared to the house prices they face, meaning that they are more likely to be constrained only by the required deposit.

Future research could investigate the wealth accumulation of renters before they buy a house, to test whether those who receive transfers anticipate these by saving less. The wealth accumulation of those who receive and don't receive transfers *post*-purchase could also be examined, to see the impacts of potentially putting down a higher deposit on gaps in wealth accumulation.

Appendix

Table A1. Association between receiving a transfer and various outcomes, controlling for individual characteristics, among all FTBs

	House price (£)	Deposit put down (£)	Loan-to-value ratio (%)	Average price in local authority (£)
Transfer received	2,030.749 (14,235.127)	-345.837 (7,755.333)	-0.058 (0.048)	14,956.486 (14,767.064)

Note: The table shows the results of four linear regressions, controlling for lagged wealth quintile, age decade, income quintile, marital status, educational level and ethnicity. Standard errors are in grey parentheses.

Table A2. Association between amount received and various outcomes, controlling for individual characteristics, among FTBs who received a transfer

	House price (£)	Deposit put down (£)	Loan-to-value ratio (%)	Average price in local authority (£)
Amount received (£)	0.151 (0.295)	0.765 (0.278)	-0.0004 (0.00009)	-0.043 (0.096)

Note: The table shows the results of four linear regressions, controlling for lagged wealth quintile, age decade, income quintile, marital status, educational level and ethnicity. Standard errors are in grey parentheses.

References

- Agrawal, S and Phillips, D., 2020. Catching up or falling behind? Geographical inequalities in the UK and how they have changed in recent years. IFS Report, <https://ifs.org.uk/publications/catching-or-falling-behind-geographical-inequalities-uk-and-how-they-have-changed>
- Boileau, B and Sturrock, D., 2023a. Who gives wealth transfers to whom and when? Patterns in the giving and receiving of lifetime gifts and loans. IFS Report R243, <https://ifs.org.uk/publications/who-gives-wealth-transfers-whom-and-when-patterns-giving-and-receiving-lifetime-gifts>
- Boileau, B and Sturrock, D. 2023b. Who gives and receives substantial financial transfers in Britain? IFS Working Paper 23/08, <https://ifs.org.uk/publications/who-gives-and-receives-substantial-financial-transfers-britain>
- Bourquin, P., Brewer, M. and Wernham, T., 2022. Trends in income and wealth inequalities. IFS Deaton Review of Inequalities, <https://ifs.org.uk/inequality/trends-in-income-and-wealth-inequalities/>.
- Bourquin, P., Joyce, R. and Sturrock, D., 2021. Inheritances and inequality over the life cycle: what will they mean for younger generations? IFS Report R188, <https://ifs.org.uk/publications/inheritances-and-inequality-over-life-cycle-what-will-they-mean-younger-generations>.
- Corlett, A. and Odamtten, F., 2021. Hope to buy: the decline of youth homeownership. Resolution Foundation Report, <https://www.resolutionfoundation.org/app/uploads/2021/12/Hope-to-buy.pdf>.
- Cribb, J. and Simpson, P., 2018. Barriers to homeownership for young adults. IFS Green Budget, Chapter 9, <https://ifs.org.uk/books/barriers-homeownership-young-adults>.
- Davenport, A., Levell, P. and Sturrock, D., 2021. Why do wealthy parents have wealthy children? IFS Report R196, <https://ifs.org.uk/publications/why-do-wealthy-parents-have-wealthy-children-0>.
- Jordà, O., Knoll, K., Kuvshinov, D., Schularick, M. and Taylor, A. M., 2019. The rate of return on everything, 1870–2015. *Quarterly Journal of Economics*, 134, 1225–98.
- Mayer, C. and Engelhardt, G., 1996. Gifts, down payments, and housing affordability. *Journal of Housing Research*, 7, 59–78.
- Office for National Statistics, 2018. Intergenerational transfers: the distribution of inheritances, gifts, and loans, Great Britain: 2014 to 2016, <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/intergenerationaltransfersthedistributionofinheritancesgiftsandloans/2018-10-30>.