



Bee Boileau, IFS and UCL
David Sturrock, IFS and UCL

12 December 2023

@TheIFS

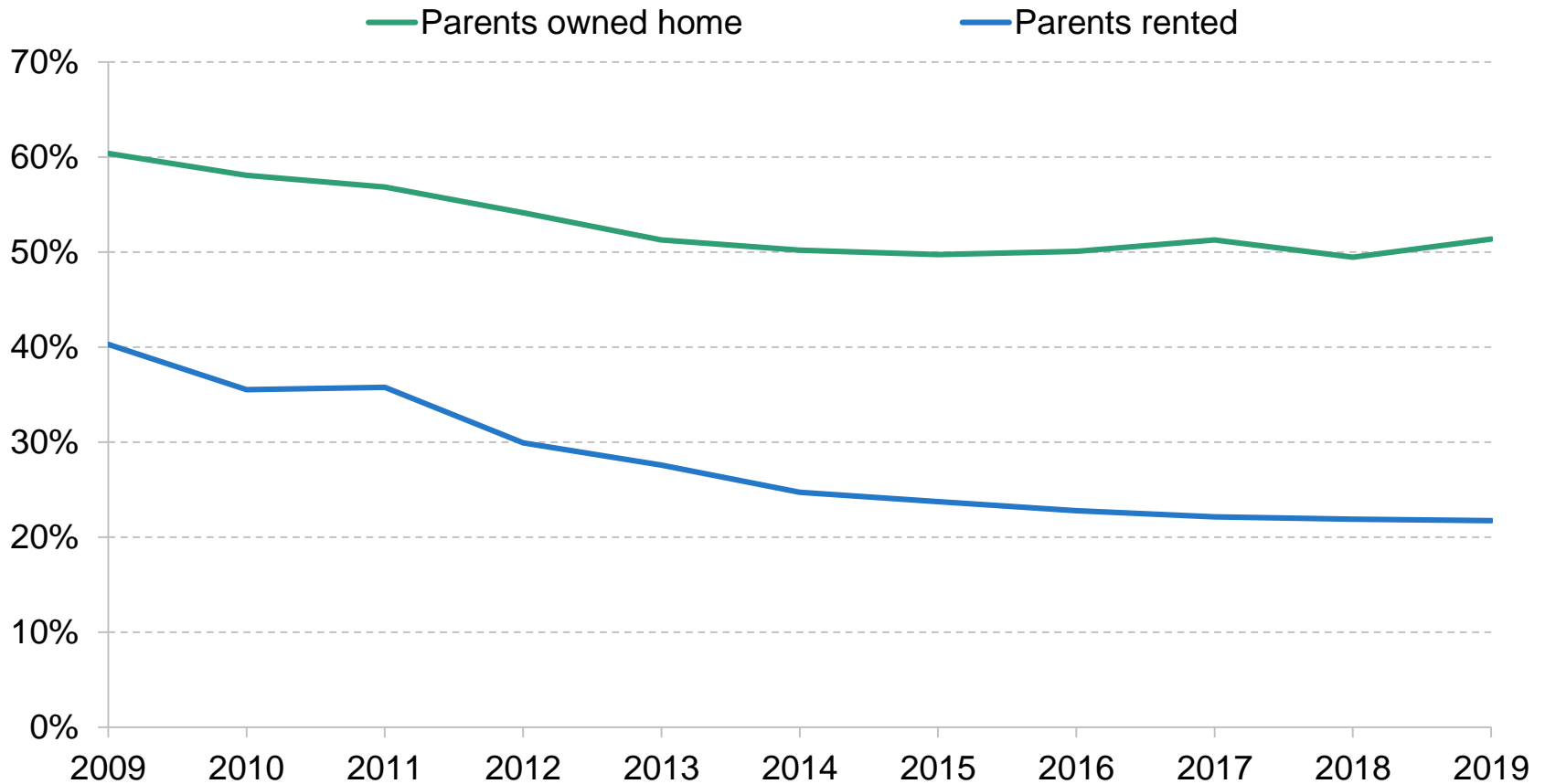
Intergenerational transfers and homeownership



Economic
and Social
Research Council

Falling rates of homeownership

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



Source: Figure 1, 'Help onto the housing ladder: the role of intergenerational transfers', Boileau and Sturrock, IFS Report 289

Gifts and loans from parents playing a role here?

- An increasing share of first-time buyers (FTBs) say family members helped them to buy a house
 - 22% in 1995–96 → 29% in 2015–16
- More than half of the flow of gifts and loans in the UK reported to be used for homeownership
- Those with homeownership parents more likely to receive money, and receive more

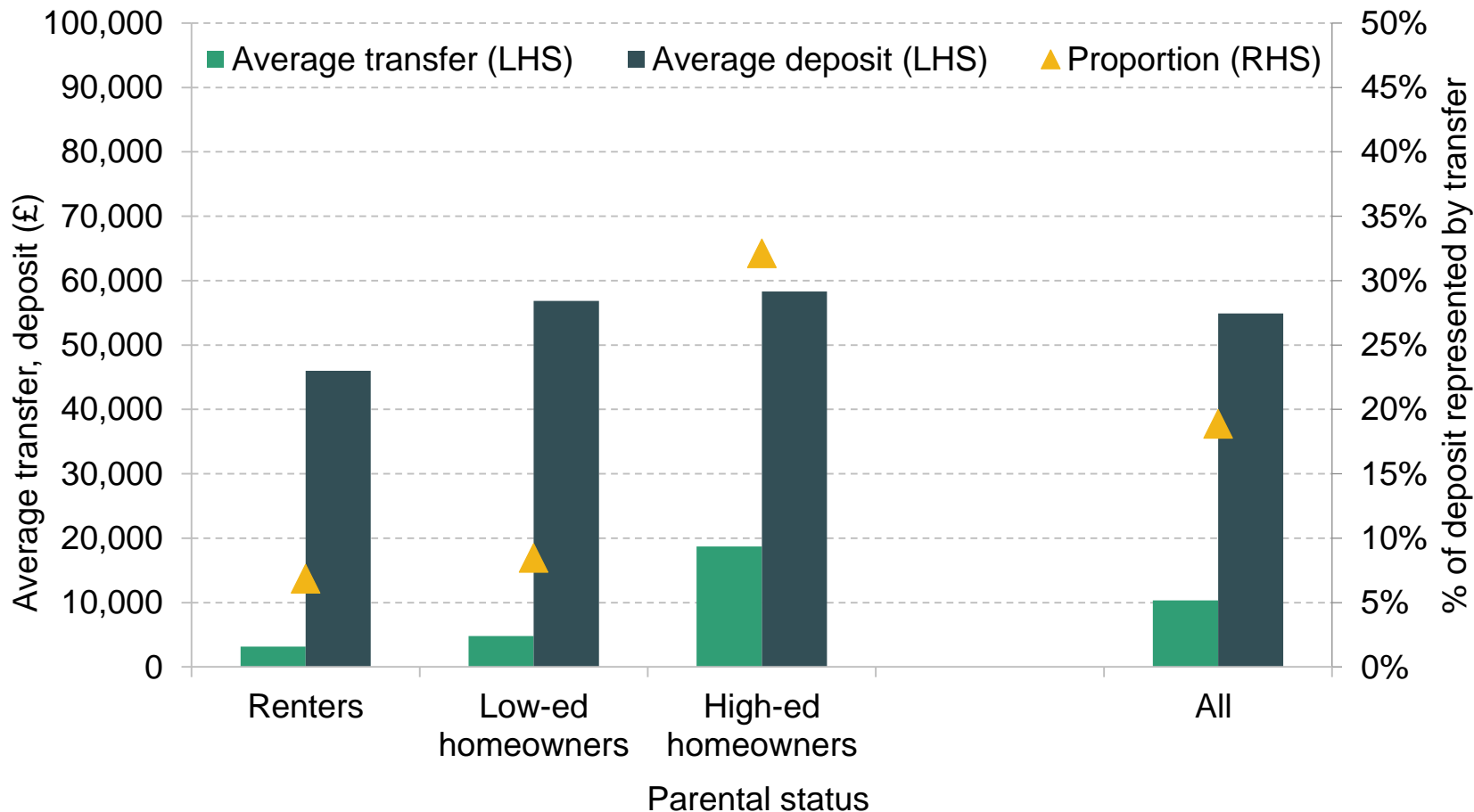
- **How important are direct transfers of wealth in driving increasing inequalities in homeownership?**
- **What role do transfers of wealth connected with home purchase play in wealth accumulation?**
- We use the Wealth and Assets Survey (WAS) to investigate these questions

Who receives help to buy a house?

- Around **four in ten** first-time buyers got a gift or loan in the four years surrounding home purchase
- Help averaged around £25,000 for those who received
- More of those who are **in their 20s** receive
- More of those **whose parents are better off**
- More of those buying **in the South East**, compared to the Midlands and North

Proportion of deposit

Mean transfer, mean deposit and share of deposit represented by transfer, among all FTBs, by parental status



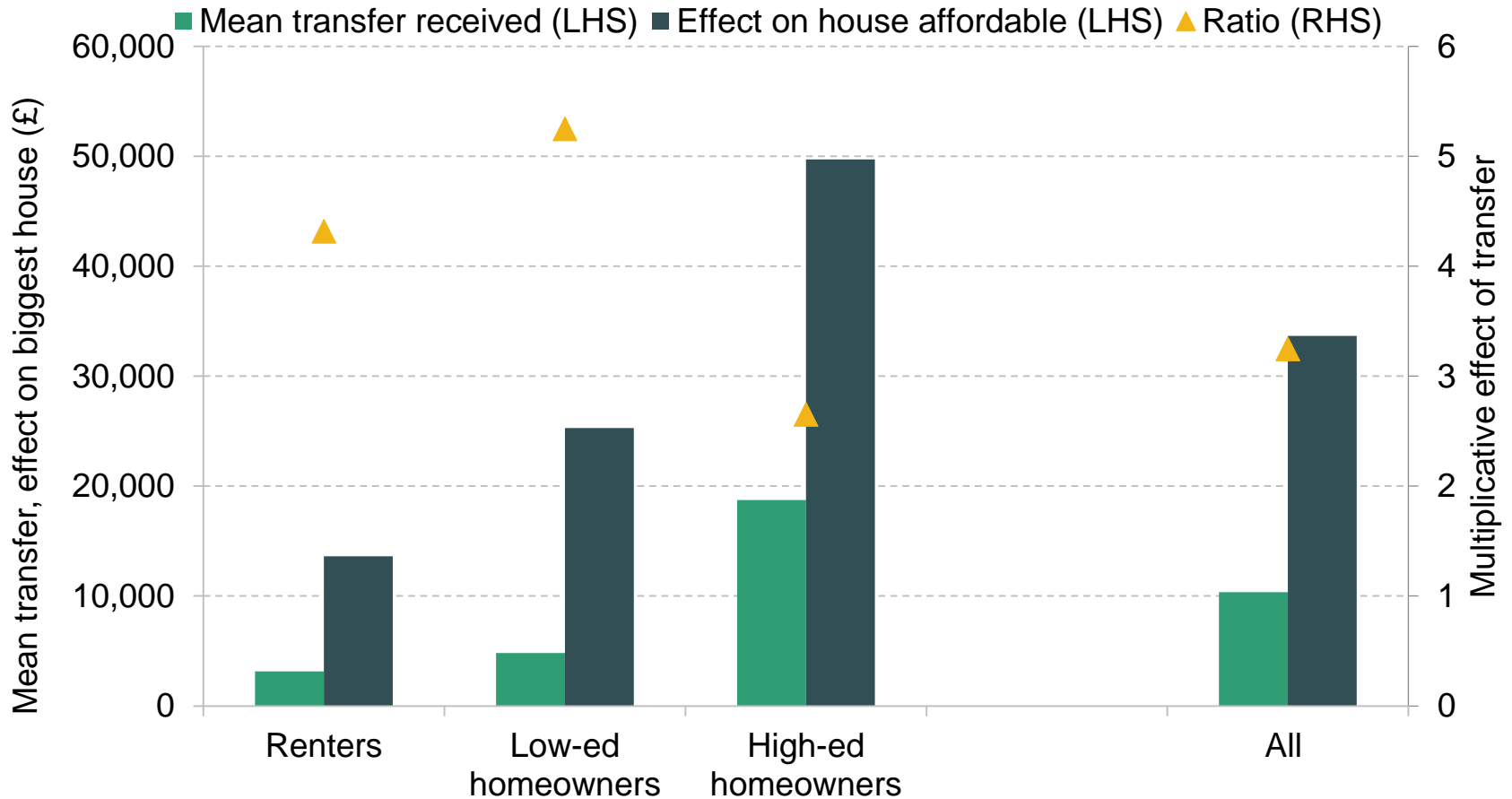
Source: Figure 5, 'Help onto the housing ladder: the role of intergenerational transfers', Boileau and Sturrock, IFS Report 289

Effect of transfers depends on constraint faced

- Two constraints on buying a home:
 - **Savings**: assume 10% of house price must be put down as a deposit
 - **Income**: can take out a mortgage of up to 4.5x earnings
- For those constrained by savings:
 - Additional money means they can **borrow more**: each £1,000 of transfers has a £10,000 effect on the biggest house affordable
- For those constrained by income:
 - Additional money just adds to deposit: each £1,000 of transfers has a £1,000 effect

Transfers make more difference for those with relatively low savings

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



Source: Figure 11, 'Help onto the housing ladder: the role of intergenerational transfers', Boileau and Sturrock, IFS Report 289

A gift or loan could mean the receiver chooses to...



Buy a house sooner rather than later (or never)

Mean that a 10% deposit is attainable
Mean that a mortgage of 4.5x income covers the rest of the desired house price



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

Do transfers help you get onto the housing ladder sooner?

- A substantial minority of those who receive are receiving while they could **already afford to buy**
 - Have a deposit saved of 10% of the purchase price
 - A mortgage of 4.5x income plus non-transfer savings covers the rest of the house

Not all transfers helping receivers get onto the housing ladder

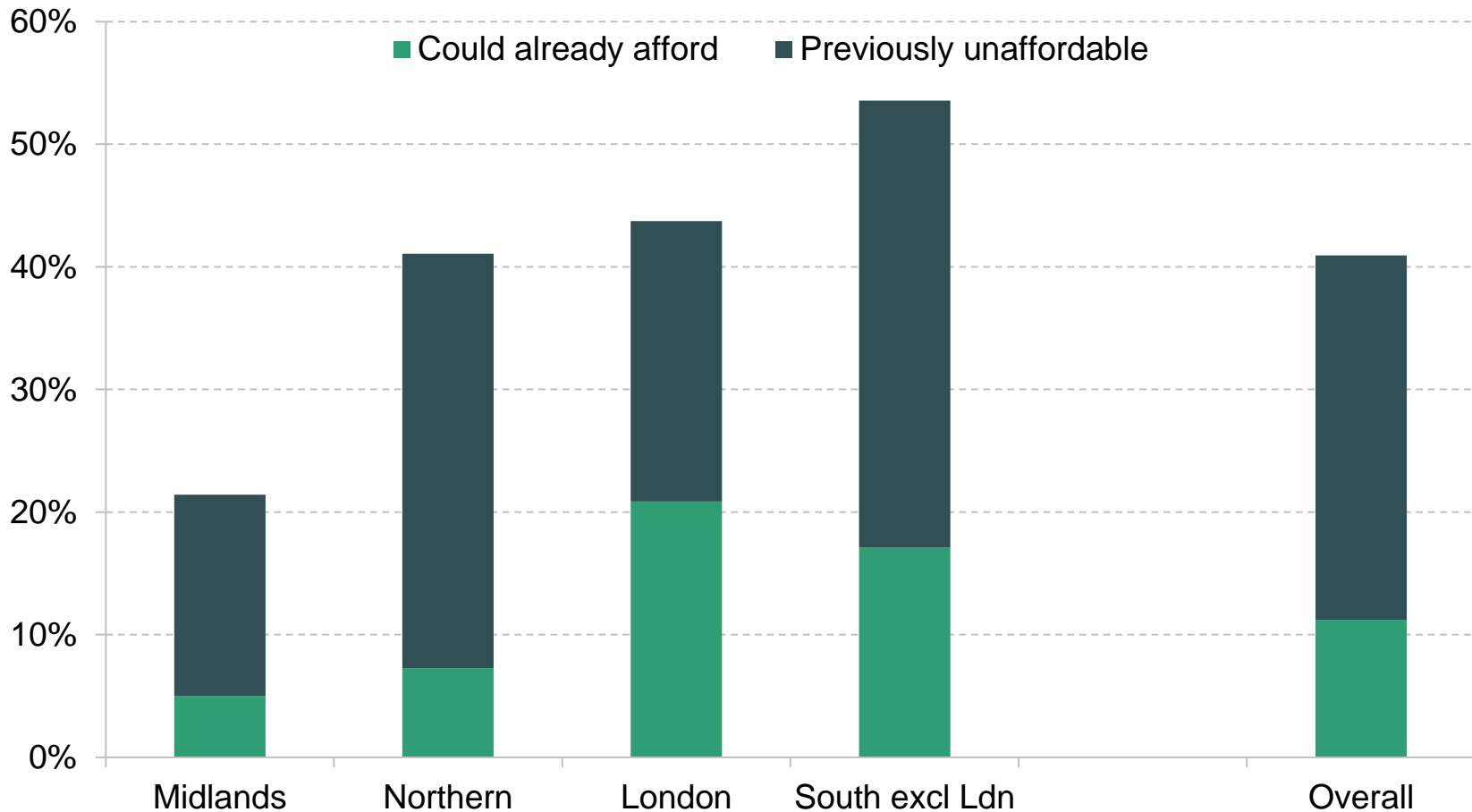
Proportion of people who received a transfer, split by whether they could or couldn't previously afford the house we see them buy, by region



Source: Figure 12, 'Help onto the housing ladder: the role of intergenerational transfers', Boileau and Sturrock, IFS Report 289

Not all transfers helping receivers get onto the housing ladder

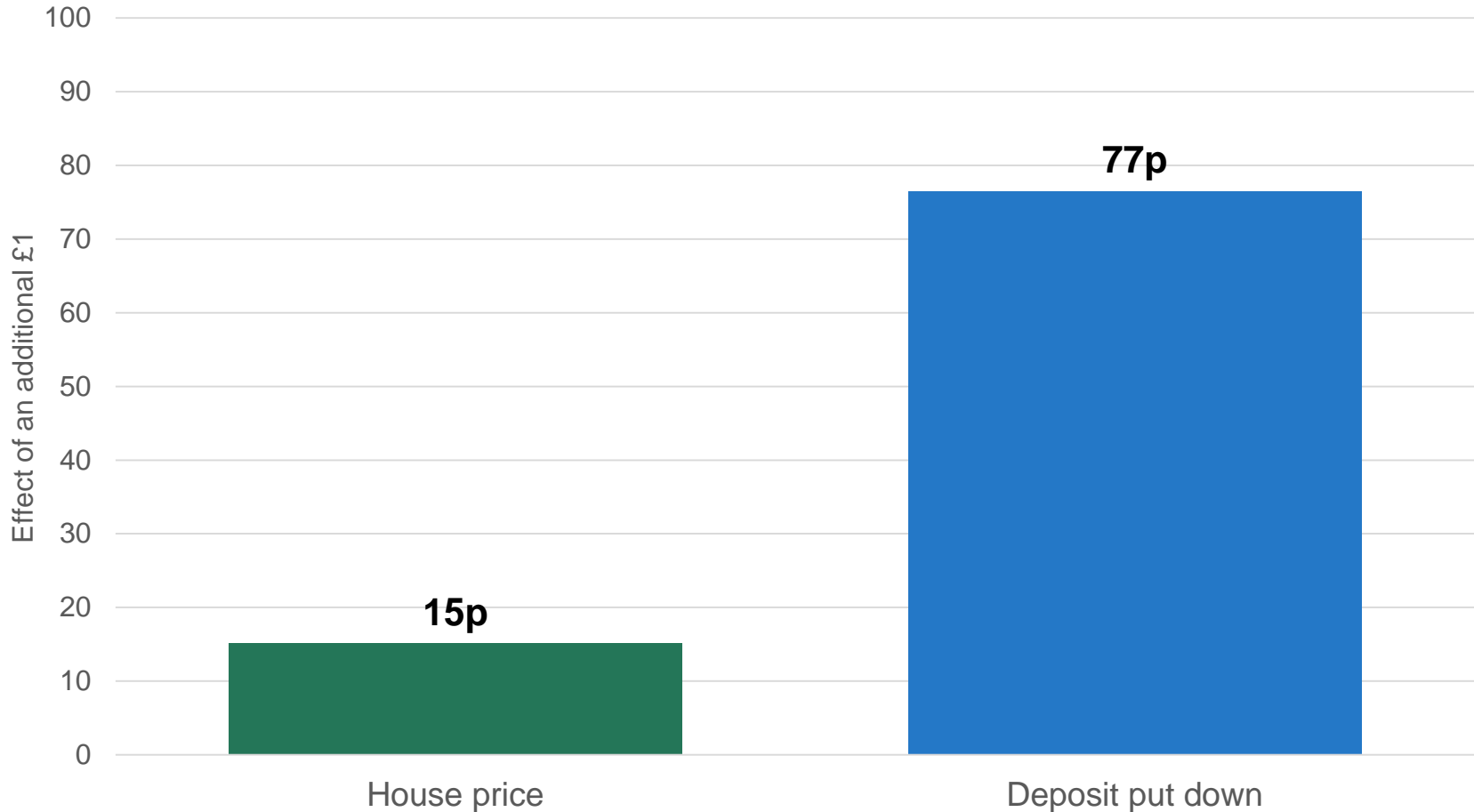
Proportion of people who received a transfer, split by whether they could or couldn't previously afford the house we see them buy, by region



Source: Figure 12, 'Help onto the housing ladder: the role of intergenerational transfers', Boileau and Sturrock, IFS Report 289

Other ways transfers can have an effect

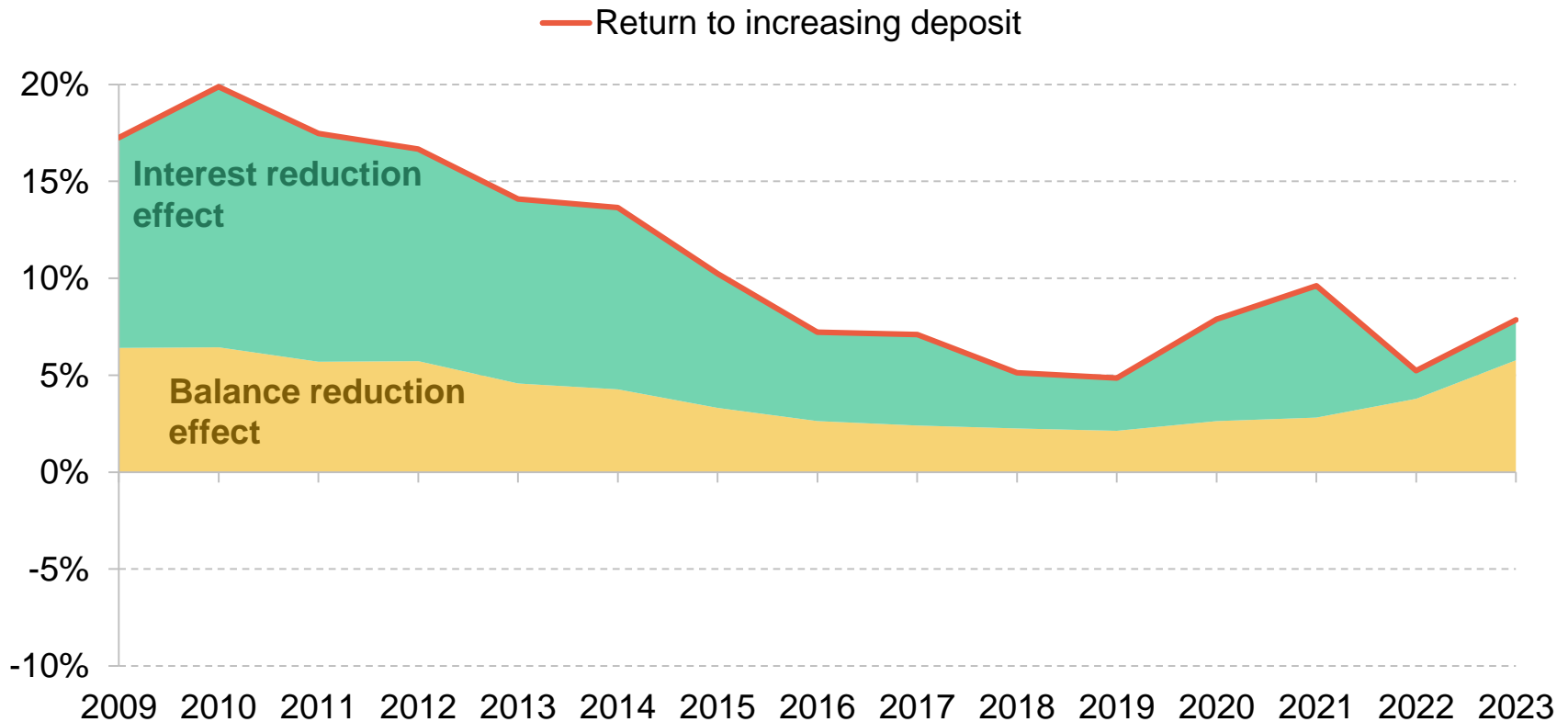
Association between amount received in transfers and the house price and deposit paid, among FTBs who received a transfer



Source: Table A2, 'Help onto the housing ladder: the role of intergenerational transfers', Boileau and Sturrock, IFS Report 289

High returns to increasing deposit

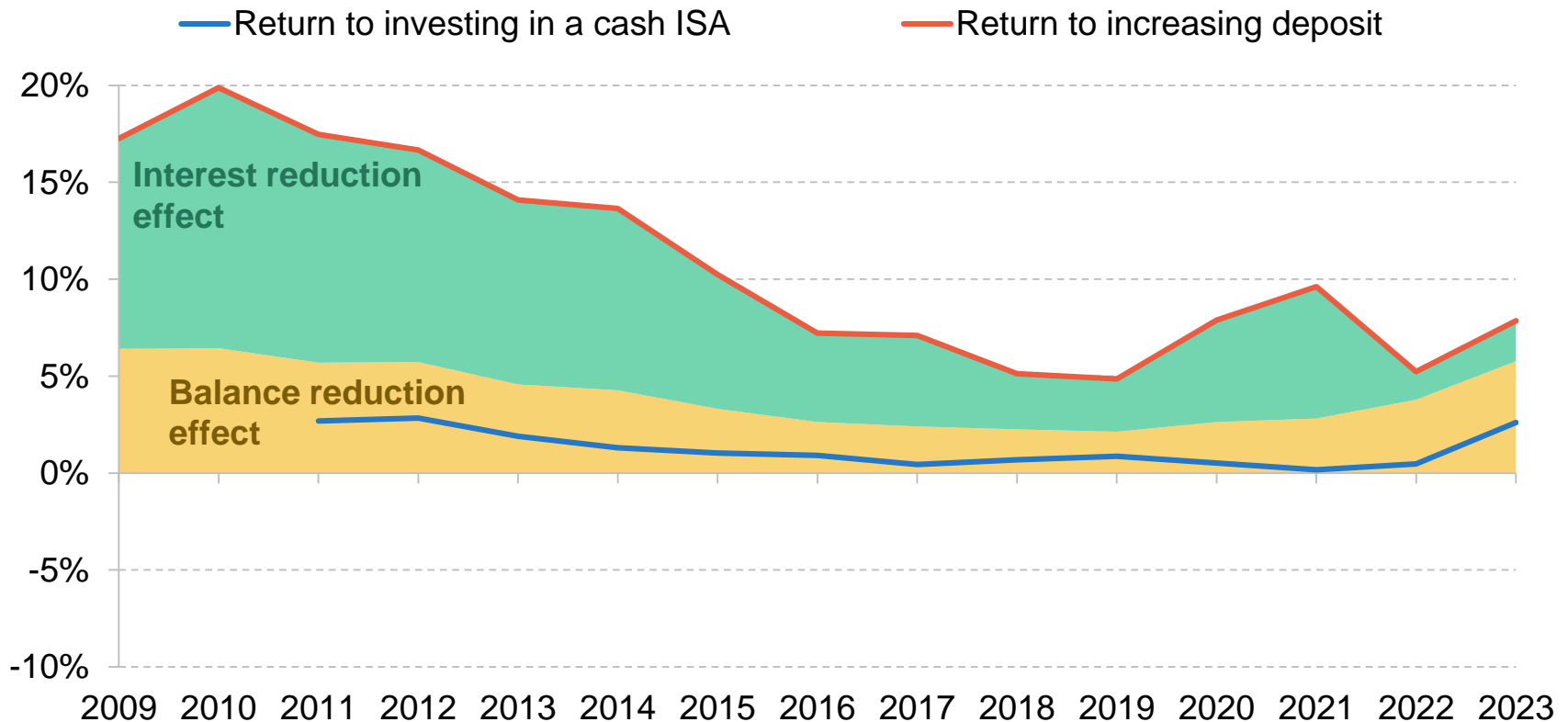
Annual nominal return to alternative uses of transfers (increasing deposit from 10% to 25% of home value, investment in equities, investment in cash ISA), by year



Source: Figure 15, 'Help onto the housing ladder: the role of intergenerational transfers', Boileau and Sturrock, IFS Report 289. 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.

High returns to increasing deposit

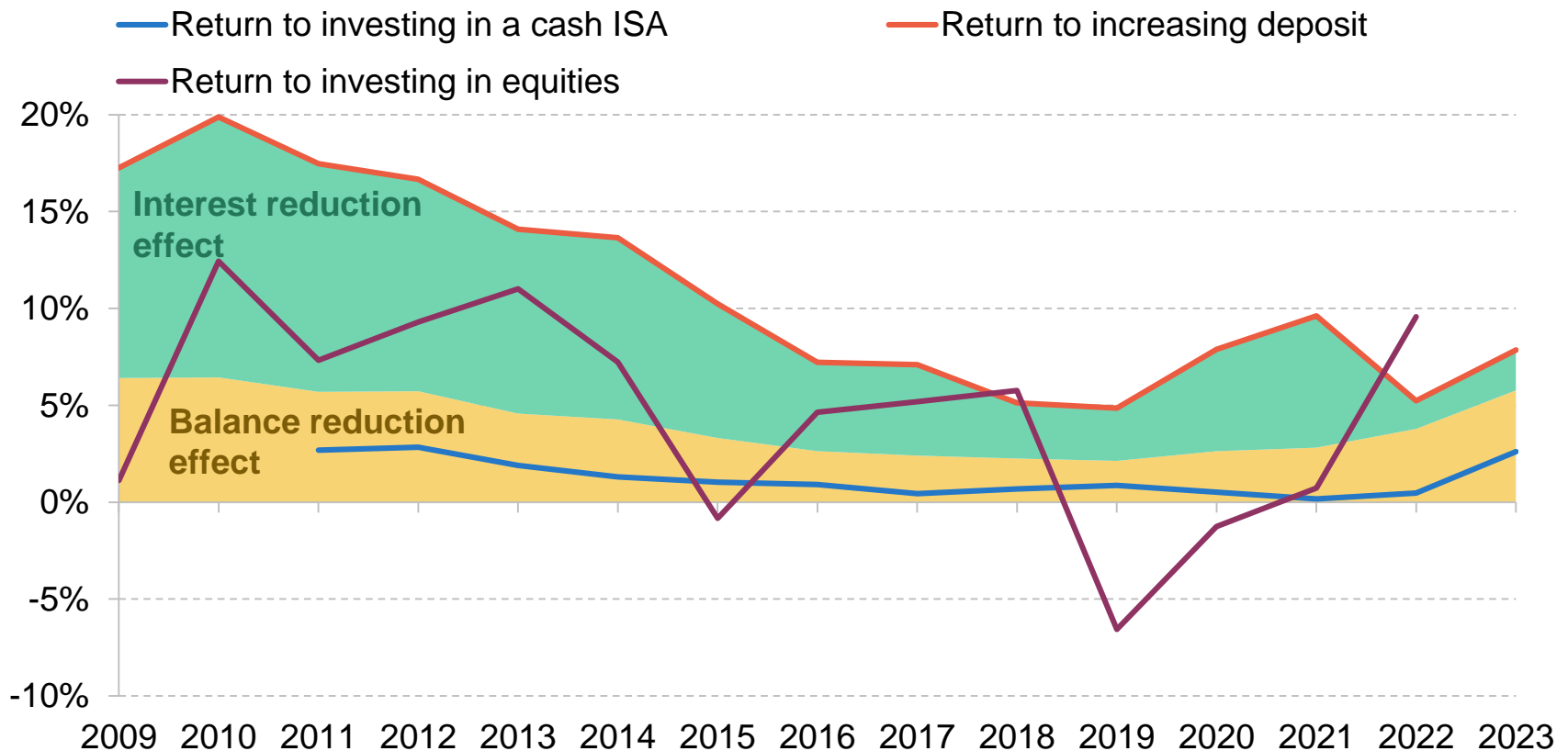
Annual nominal return to alternative uses of transfers (increasing deposit from 10% to 25% of home value, investment in equities, investment in cash ISA), by year



Source: Figure 15, 'Help onto the housing ladder: the role of intergenerational transfers', Boileau and Sturrock, IFS Report 289. 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.

High returns to increasing deposit

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



Source: Figure 15, 'Help onto the housing ladder: the role of intergenerational transfers', Boileau and Sturrock, IFS Report 289. 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.

Conclusion

- Homeownership rates fallen steeply – in particular for those whose parents don't own their own home
- Parental transfers playing a role in driving homeownership inequalities
 - Particularly large for those whose parents are better off, and who are buying in London
 - But have less of a transformative effect on home-buying power for these groups
- Those who receive *more* using it to put down bigger deposits, which tends to have very high financial returns
 - Likely to drive differences in wealth accumulation

The Institute for Fiscal Studies
7 Ridgmount Street
London
WC1E 7AE

www.ifs.org.uk



Mortgage guarantee helps those relatively close to affordability

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

