Resolution Foundation
BRIEFING

House of the rising son (or daughter)

The impact of parental wealth on their children's homeownership

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Acknowledgements

Summary

The rise in house prices in over the last two decades means that homeownership is out of reach for a significant proportion of people. Hypothetically, it would currently take a 27-30 year old first time buyer around 18 years to save for a deposit if they relied solely on savings from their own disposable income.[1] This is up from 3 years two decades ago. Unsurprisingly many first time buyers (FTBs) rely on family or friends to help with the deposit on their first home. Increasingly such support has been dubbed the 'Bank of Mum and Dad' (BOMAD).

Figures from Legal and General give a sense of the scale of the BOMAD: last year parents, family and friends contributed £5.7 billion to help people become homeowners, supporting around two in three of those under 35 purchase their first home. It will not come as a surprise to anyone that homeownership amongst the young is related to parental wealth and these figures give some sense of the numbers of people and the sums involved. However, they do not tell us the *strength* of the relationship between parental support and people's chances of becoming homeowners.

Working out just how important parental wealth is matters. Obviously from an individual's point of view it is interesting to ascertain just how important the resources of their parents are to the chances they will be able to purchase their own home. Moreover though, from society's point of view such things matter for social mobility. Despite this there has been relatively little analysis of the extent to which parental wealth determines the likelihood that someone is able to become a homeowner and how much this has changed over time and through the life cycle. This paper gets to the heart of these issues.

Our analysis reveals two key findings. The first is that **at the age of 30 those without parental property wealth are approximately 60 per cent less likely to be homeowners**. Secondly we find that the amount of property wealth your parents have increases the chances that you yourself will become a homeowner. **Moving from the median amount of property wealth up to the 75th percentile increases the probability that someone's children will, in a given year, become a homeowner by over 11 per cent. Moving down to the 25th percentile reduces the probability by approximately 7 per cent.**

[1]   Calculated by applying median first time buyer loan-to-value ratio to average first time buyer house price in each year. Levels of saving based on putting aside 5 per cent of disposable income a year at five-year average interest rate. Appropriate stamp duty charges are added to the cost of the required deposit.

However homeownership, earnings and wealth are deeply intertwined. Those with wealthier parents are more likely to become homeowners themselves, but they are also more likely to attend university and earn more. Because all these things are also closely related to the likelihood that someone is able to purchase their first home, the BOMAD, it seems, pays out more than once in life.

Therefore to properly understand the direct effect of parental wealth on homeownership we need to isolate its impact from these other factors. **When doing so we find that moving from the median amount of property wealth up to the 75th percentile still increases the probability that, in a given year, someone's children will be homeowners by 9 per cent. Moving down to the 25th percentile now reduces the probability by approximately 6 per cent**. This is a large effect, increasing in importance towards that of someone's earnings. Moving from the median to the 75th percentile of the salary distribution increases the probability that someone is a homeowner by 15 per cent.

We also estimate that the impact of BOMAD has increased over time. **In the 1990s and early 2000s 30-year olds with parental property wealth were approximately twice as likely to be homeowners as those without. From the mid-2000s we estimate that those with parental property wealth were almost three times as likely to be homeowners**. We find that this effect continues to hold even once we take people's earnings into account.

It is clearly natural for parents to want to support their children and older homeowners have weathered house price falls and periods of high interest rates while also benefitting from large windfall gains in property wealth.[2] But we should all be concerned that the housing prospects of many young people are so increasingly tied to the amount of wealth that their parents have. Our findings underscore the need to do more to address these inequalities alongside the traditional focuses of those concerned with social mobility and inequality on earnings and incomes. Failing to do so is likely to see a strengthening of the existing reality that one of the key determinants of someone's living standards is who their parents are.

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[2]   C D'Arcy & L Gardiner, *The generation of wealth: asset accumulation across and within cohorts*, Resolution Foundation, June 2017

We do not know how important the 'Bank of Mum and Dad' is

There's long been interest in the extent to which someone's life chances are determined by the relative position of their parents. This is obviously an important question and answering it will tell us something about inherited privilege and social mobility. Moreover because housing is an increasingly important determinant of people's living standards there are particular concerns about low homeownership rates and high housing costs for today's younger generation. Only around a third of 'Millennials' (those born between 1981 and 2000) owned their own home by the age of 30, compared to around half of those born between 1966 and 1980 ('Generation X') and almost 60 per cent of 'Baby boomers' (1945-1965). This is not just about people's desires going unfulfilled, renting in the private rented sector is often more costly and certainly more insecure.

Given low-interest rates monthly mortgage payments are not an obstacle for many potential buyers, rather the highest hurdle is the deposit. Hypothetically, we estimate that it would currently take a 27-30 year old first time buyer around 18 years to save for a deposit if they relied solely on savings from their own disposable income.[3] All this has focussed attention on the degree to which parental wealth affects the housing market: how important is the 'Bank of Mum and Dad' (BOMAD) in driving homeownership amongst the young?

But data on the BOMAD are scant, with conflicting evidence on its importance. Legal and General (L&G) has estimated that last year parents, family and friends contributed £5.7 billion to help people become homeowners. This equated to a quarter of homeowners in total, but 59 per cent of those under 35.[4] This is consistent with evidence from the Council of Mortgage Lenders (CML), which estimated that 60 per cent of first-time buyers purchased their property with assistance, down from a peak of around 80 per cent in the years following the financial crisis.[5] Other studies suggest the impact is smaller, however. The *English Housing Survey* estimates that 27 per cent of first-time buyers get help from family or friends.

Although this a commonly discussed topic, deeper evidence on the impact of parental wealth on children's homeownership remains difficult to find. Many studies have shown that people's socio-economic status, earnings and incomes and educational attainment are linked to their parent's.[6] There is also evidence that on a range of measures relative and absolute social mobility has stagnated since the 1980s and may have even declined.[7] Three recent studies have attempted to gauge the role played by parents in their children's home ownership:

The first sought to quantify how much homeownership rates can be explained by observable factors (income, geography, sex, age, education, job, marital status, etc) and how much can be explained by parental occupation. It found that a parent's occupation had an independent effect on homeowner rates, but only increased the homeownership rates of those with parents in higher paid occupations by, at most, 6 per cent.[8]

[3]   A Corlett & L Judge, *Home Affront: housing across the generations*, Resolution Foundation, September 2017

[4]   Legal & General, *Bank of Mum and Dad 2018*, 2018

[5]   Council of Mortgage Lenders, *New CML data shows nearly half of first-time buyers didn't use the 'bank of mum and dad'*, March 2015

[6]   A recent paper using a similar approach to the one we make use of is E Karagiannaki, '*The effect of parental wealth on children's outcomes in early adulthood*', *The Journal of Economic Inequality*, 15, 2017

[7]   J Blanden & S Machin, *Recent Changes in Intergenerational Mobility in Britain*, Sutton Trust, 2007

[8]   J Cribb, A Hood & J Hoyle, *The decline of homeownership among young adults*, IFS Briefing note BN224, 2018

Another paper (using similar data to that used in this paper) found that between two birth cohorts (those born in 1958 and 1970) homeownership rates (in adulthood) had declined and that – most importantly – the decline disproportionately affected people whose parents did not own their own home when they were children. The implication is that over time whether or not someone's parents owned their home has become a better predictor of whether they do.[9]

Finally recent work using the census (and therefore limited to the period before 2011) found that people whose parents were owner-occupiers were between 5 and 10 per cent less likely to be social tenants in their 30s than people whose parents were social tenants. It also found that the relationship between parental tenure and their children's had increased over time.[10]

Our novel dataset shows property wealth is strongly related to other forms of wealth

It is difficult to directly observe the BOMAD. As already discussed above a range of public and private surveys ask people if they have provided support to a relative or friend. However these surveys do not collect data on givers *and* receivers and they do not track people over time so that we can compare how moves into homeownership differ for those benefitting from the BOMAD versus people without such support.

This is because there is no readily available UK dataset that directly links adults and their parents, unless they happen to be living in the same household. But, by exploiting the long time-series of the *British Household Panel Survey* (BHPS) and its successor, *Understanding Society* (USoc) we have created one. This is done by taking advantage of the fact that the BHPS and USoc track young adults who originally joined the sample via their parents' household.[11] As we are interested in the purchasing of someone's first home we drop people from our sample once they become homeowners.[12] After doing this we are able to link around 4,500 children and parents in the BHPS and a further 8,000 in USoc, although we have less longitudinal data on the latter as USoc was only introduced in 2009.

This provides us with information on children and their parents, whether they are homeowners or not and how much their home (if they own one) is worth. One issue is that BHPS and USoc do not regularly collect data on other forms of wealth (such as financial) and do not record transfers of wealth. This could be problematic given the most recent L&G survey showed that the most common source of funds for people assisting family and friends purchase a home was cash savings (71 per cent of responses) and only around 41 per cent of responses referred to using the wealth tied up in their home.[13]

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[9]   J Blanden & S Machin, *Home Ownership and Social Mobility*, CEP Discussion Paper No 1466, January 2017

[10]   R Coulter, '*Parental background and housing outcomes in young adulthood*', *Housing Studies,* 2016

[11]   L Gardiner, *The million dollar be-question: inheritances, gifts, and their implications for generational living standards,* Resolution Foundation, December 2017
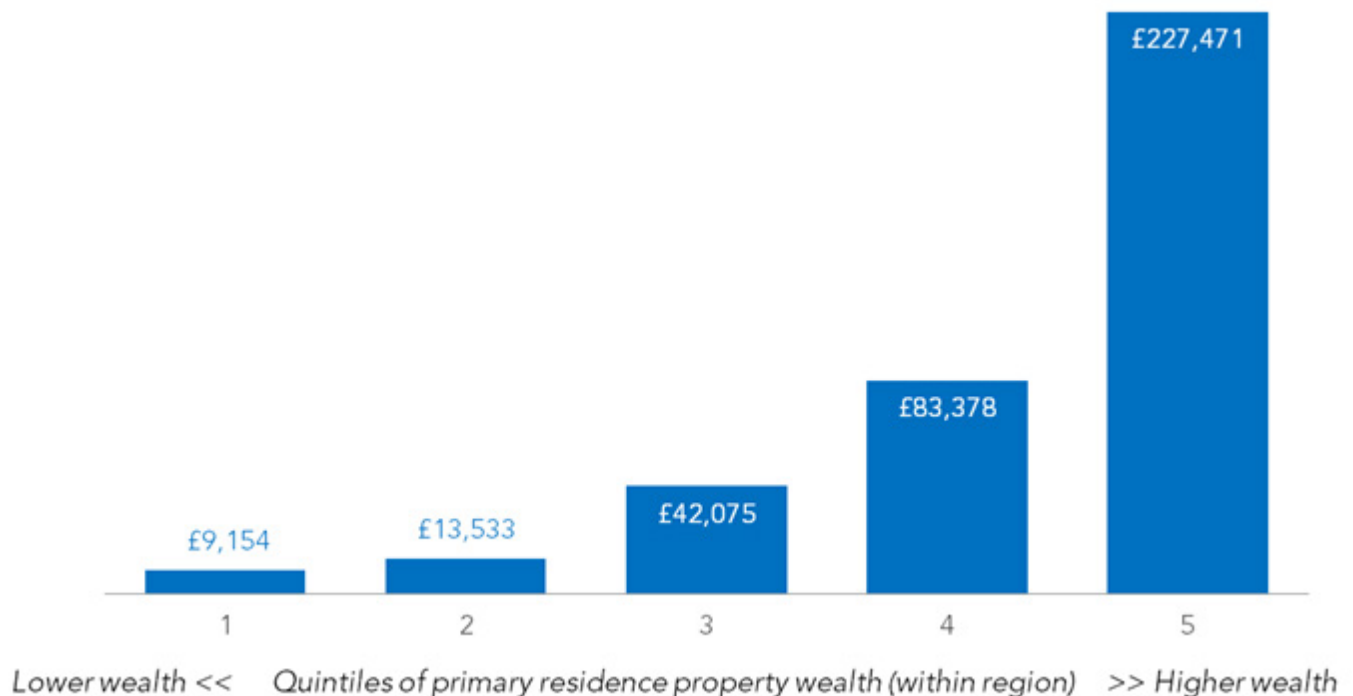
[12]   This does mean we ignore those who become homeowners and then move out of homeownership, this happens to around 10 per cent of our sample. Including these people makes our modelling – particularly our survival analysis – a lot more complicated. Nevertheless we have tested how much our estimates change if we include these people and the coefficient on our parental wealth variable only drops from 1.4 per cent to 1.1 per cent.

[13]   20 per cent of responses stated that they had downsized their home, 14 per cent had used equity release and 7 per cent had remortgaged.

Reassuringly however this is not a problem because the amount of property wealth people have in their primary residence is a strongly related to the amount of other forms of wealth that they have. Figure 1 shows that households whose property wealth places them in the top 20 per cent within their region[14] have, on average, £227,500 worth of financial wealth.[15] Figure 1 gives us reason to be confident that parents who have property wealth are also more likely to have other forms of wealth which may be used to help their children purchase a home. It is also possible that, all things being equal, people with significant amounts of property wealth are more willing to run-down other forms of wealth helping their children.

Figure 1: Property wealth is strongly correlated with financial wealth

Gross financial wealth (nominal terms, 2016)

Lower wealth << Quintiles of primary residence property wealth (within region) >> Higher wealth

Source: RF analysis of ONS, *Wealth and Assets Survey*

Even if we didn't think that someone's property wealth is a good proxy for their other forms of wealth, it's worth noting that it's becoming easier for parents to make use of their property wealth to support their children. Lenders are increasingly developing products to enable parents to leverage their property wealth either to help with the deposit or reduce the interest paid on a loan. Industry analysis indicates that 59 per cent of building societies will accept funds from family members or friends as a deposit, 33 per cent allow using the property of family members as collateral to reduce interest payments and 10 per cent offer family offset mortgages.[16]

[14]   Quintiles are estimated within each region and bought together so that we can be confident that each quintile includes people from across the country and that the higher quintiles are not dominated by households in London and the South East.
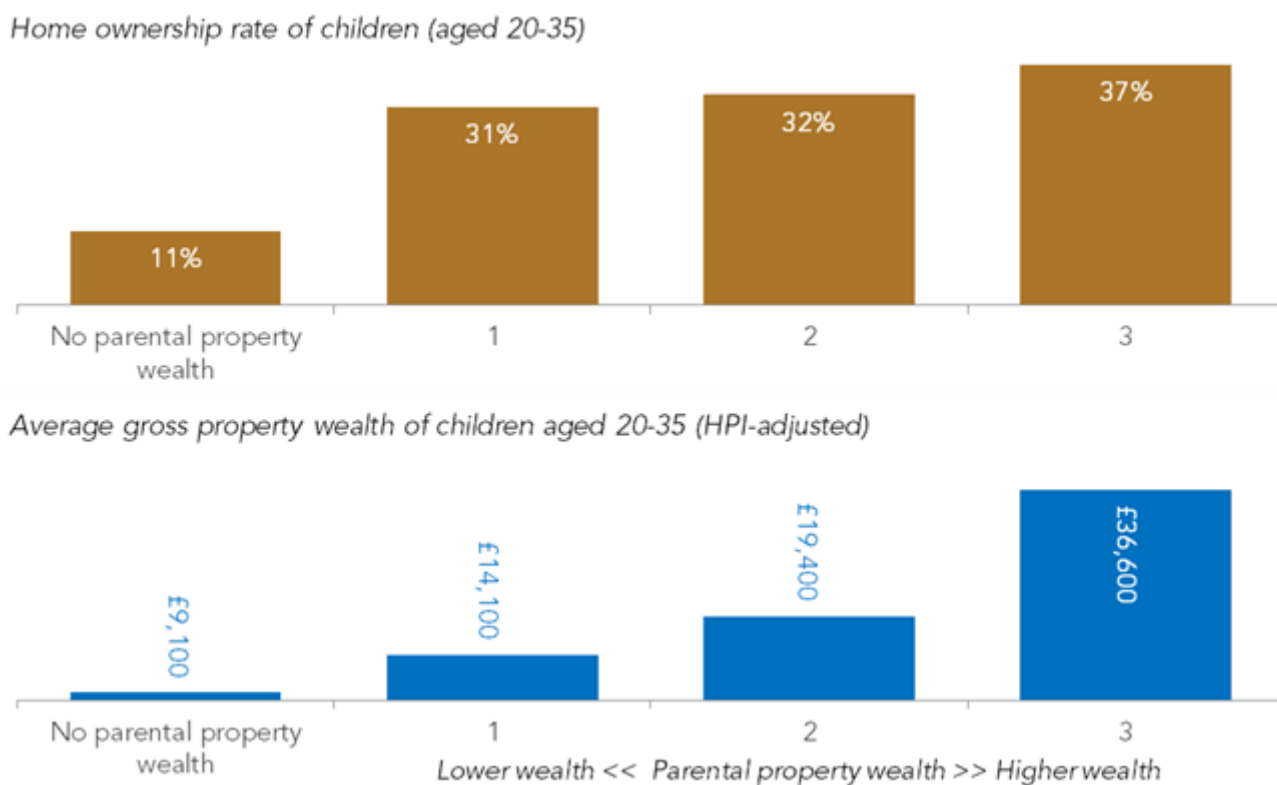
[15]   Financial wealth refers to the values of any financial assets held including both formal investments, such as bank or building society current or saving accounts, investment vehicles such as Individual Savings Accounts, endowments, stocks and shares, and informal savings

[16]   Building Societies Association, *Building on the Bank of Mum and Dad*, November 2018

Children of parents with property wealth are more likely to be homeowners themselves and own more expensive homes

Before we turn to more detailed modelling of the relationship between parental property wealth and children's homeownership, it is worth establishing the basic link between people whose parents own their own home and homeownership. Figure 2 provides home ownership rates (gold bars) for four groups of young adults aged 20 to 35. The first group's parents have no property wealth, while the three others are split into those who parent's wealth puts them in the bottom, middle or top third of the housing wealth distribution. Figure 2 suggests that the probability of someone owning a home increases as the amount of property wealth that their parents have increases. However, it also suggests that the biggest difference is between those whose parents have property wealth and those that do not.

Figure 2: Children of homeowners are more likely to be homeowners themselves and own more expensive properties

Home ownership rate of children (aged 20-35)

| No parental property wealth | 1 | 2 | 3 |
| 11% | 31% | 32% | 37% |

Average gross property wealth of children aged 20-35 (HPI-adjusted)

| No parental property wealth | 1 | 2 | 3 |
| £9,100 | £14,100 | £19,400 | £36,600 |

Lower wealth << Parental property wealth >> Higher wealth

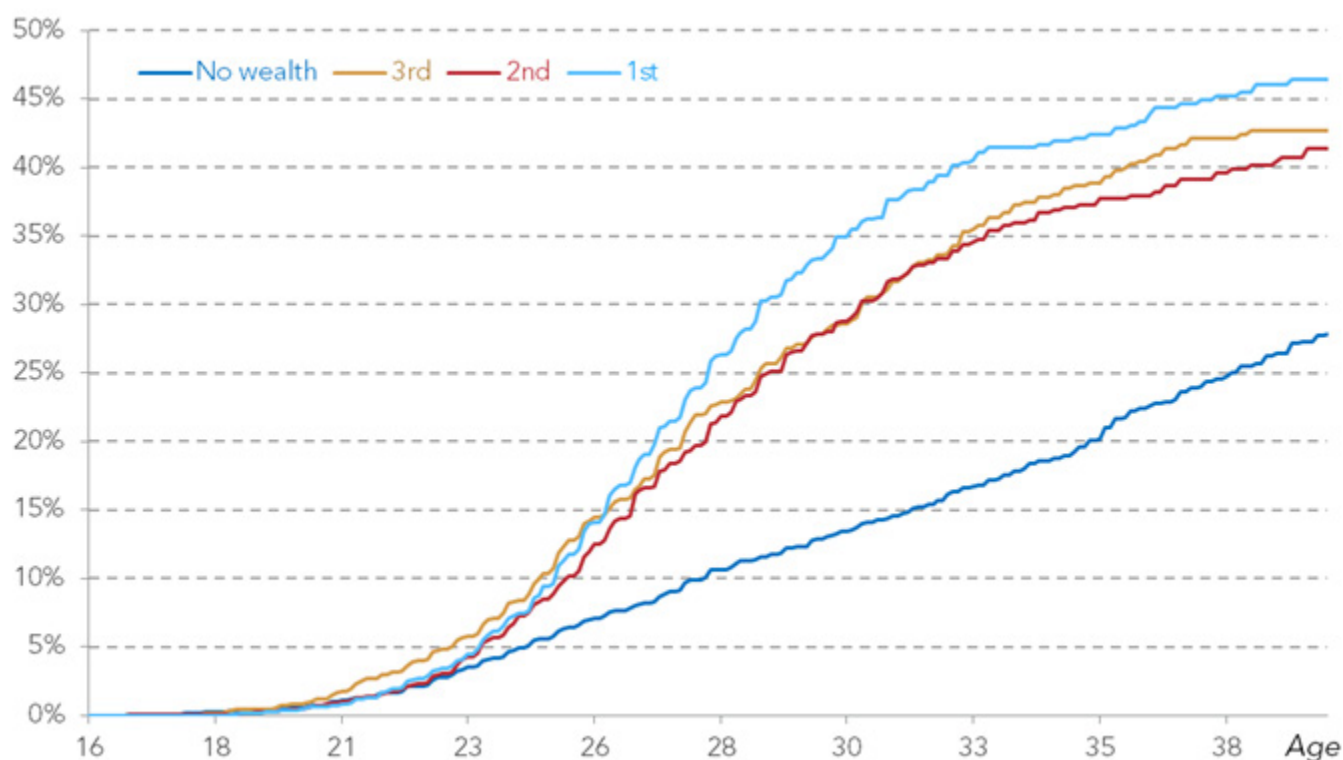Source: RF analysis of *British Household Panel Survey* and *Understanding Society*

For the four different groups Figure 2 also shows the average amount of property wealth that people have (blue bars). The figures are relatively low because this is an average of all people, including those who aren't homeowners, who (as the gold bars show) are a majority. However, the differences between the groups is broadly the same (although the figures are larger) if we restrict the analysis to homeowners. It shows that those whose parents have higher housing wealth also tend to have more wealth themselves.

People whose parents are in the top third of the property wealth distribution have gross property wealth of, on average, £36,600, compared to £9,100 for those whose parents have no property wealth.[17]

Children whose parents are homeowners, and those who have parents with higher amounts of parental wealth, become homeowners sooner. The Kaplan-Meier plots in Figure 4 show the proportion of subjects reaching homeownership by a certain age.[18] The chart shows that by 30, on average, approximately 13 per cent of people whose parents have no property wealth are homeowners compared to around 33 per cent for people whose parents are in the top third of the wealth distribution. This suggests that those without parental property wealth are approximately 63 per cent less likely to be homeowners by that point. By 40 this differential has narrowed but remains very significant - those with parental property wealth are still 34 per cent more likely to be homeowners.

Figure 3: People whose parents have property wealth become homeowners sooner than those without

Proportion of homeowners (inverse of Kaplan-Meier survival estimates), no parental wealth and tertiles

Source: RF analysis of *British Household Panel Survey* and *Understanding Society*

[17]   It is important to take into account region in this analysis, if not then there is little difference in the amount of property wealth held by those whose parents have no wealth and those whose parents are in the bottom two-thirds of the wealth distribution. This reflects the fact that region is a strong predictor of property wealth and one that is inversely related to homeownership rates. Those who are able to become homeowners in parts of the country with high property values will have more housing wealth than those elsewhere, irrespective of if their parents were homeowners. However within regions where property prices are high there is still a strong relationship between the property wealth of someone's parents and their own (this is tested econometrically below).

[18]   E L Kaplan & P Meier, '[Nonparametric Estimation from Incomplete Observations]', *Journal of the American Statistical Association* 53 (282), 1958

So Figure 3 shows that people whose parents have property wealth become homeowners sooner. This is consistent with what we know about the BOMAD, which may reduce the time it takes to accumulate the deposit needed for a house by supplementing people's savings with additional capital. It also shows that those with the richest parents (in terms of property wealth) are most likely to become homeowners, but there is little difference, if any, between those whose parental wealth puts them in the second or third tertiles of the wealth distribution. Below we will test how far the amount of parental wealth affects the likelihood of children becoming homeowners.

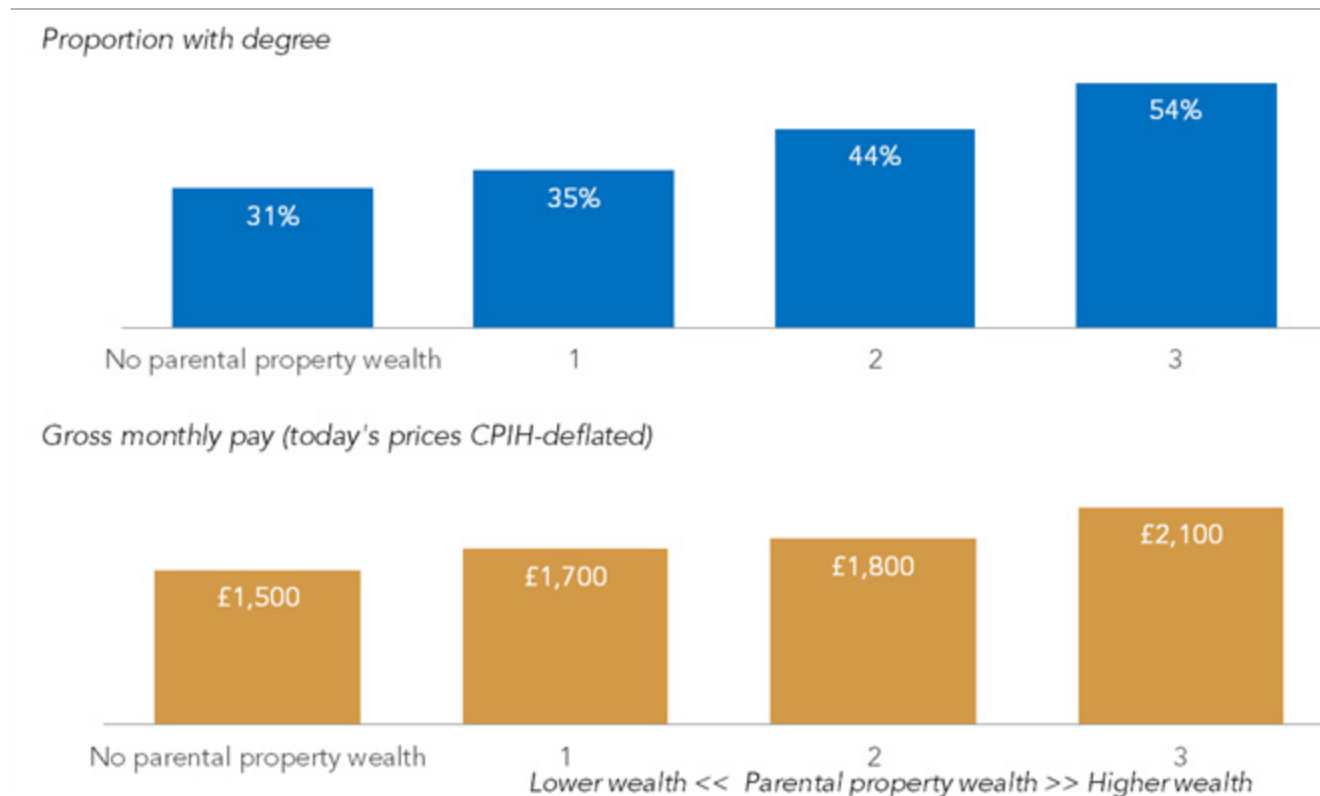## The Bank of Mum and Dad is about more than just homeownership

We have some evidence that parental property wealth increases the likelihood that children will be homeowners and that the effect is stronger at younger ages. It also appears that, although the differences narrow over time, they do not disappear: those with parental property wealth are always more likely to be homeowners themselves.

However this could be because people with wealthier parents benefit from this wealth directly when buying a home or because wealth is related to other characteristics that make it more likely that people will become homeowners. There may not be any direct link between parental property wealth and the probability that their children are homeowners. Rather the link may be indirect, it could be that these people tend to be better educated or earn more and it is these things – particularly the latter – that may be the real driver.

Figure 4 shows that there is a clear positive relationship between the amount of property wealth someone's parents has and their education and earnings. 54 per cent of people whose parents put them in the top third of the wealth distribution have a degree compared to 31 per cent for people whose parents have no property wealth. Likewise and probably relatedly those with the richest parents earn, on average, over £500 more per month than those whose parents have no property wealth.

It could be that having wealthier parents does not confer any independent direct advantage when it comes to becoming a homeowner, rather wealth may confer advantages upon people that then help them when it comes to purchasing their own home. The data above suggests that those with wealthier parents are certainly more likely to attend university and get a higher paying job. It could be these advantages, not the BOMAD, that may be more important. To test this we will now estimate the relationship between parental wealth and homeownership controlling for various other factors.

Figure 4: Parental property wealth is strongly related to children's education and earnings: age 25 - 35

Source: RF analysis of *British Household Panel Survey* and *Understanding Society*

Parental property wealth exerts an independent effect upon the probability that their children will be homeowners

In order to be confident that parental wealth exerts an independent effect upon children's homeownership we need to estimate the relationship between homeownership and parental property wealth while *controlling* for factors that may also be associated with homeownership.

To do this we construct a series of extended Cox models.[19] We calculate how likely it is that someone becomes a homeowner, if they were not one previously. We then test which factors (parental wealth, their own earnings, etc) have the biggest effect on this.[20]

In these models we use a continuous variable to measure parental property wealth which is the net property wealth of parents deflated using the house price index.[21] This includes those with no property wealth, but excludes the few observations of negative net property wealth. Turning to the results, the first column of Table 1 show that – before controlling for anything – a 10 per cent increase in the property wealth of someone's parents is associated with a 1.8 per cent increase in the probability that they will become a homeowner in a given year. To get a sense of the size of this effect consider that around two-thirds of parents in our sample have property wealth between £10,000 and £1.2 million. The other third

[19]   C Ruhe, 'Estimating survival functions after stcox with time-varying coefficients', *The State Journal 16 (4),* 2016

[20]   These are extended Cox models because unlike regular Cox models or proportional hazard models we assume that some of our covariates (parental wealth, monthly pay and relationship status) change over time.

[21]   We use the house price index, rather than a general consumer price index such as CPI, to take into account the large increase in house prices over this period.

have no property wealth and less than 1 per cent have more than this. Of these 66 per cent the typical family has £200,000 in property wealth, the one at the 25th percentile has £120,000 and one at the 75th percentile has £325,000. Therefore moving from the median up to the 75th percentile increases the probability that someone's children will become homeowners by over 11 per cent. Moving down to the 25th percentile reduces the probability by approximately 7 per cent.

Moving along the columns (2-6) we add in control variables and the size of the coefficient on the parental property wealth variable decreases but not by much, so that in the full model (the last column) we estimate that a 10 per cent increase in parental property wealth still increases the probability that someone will become a homeowner by 1.4 per cent. To put this in perspective using a similar example to that above, moving from the median up to the 75th percentile increases the probability that, in a given year, someone's children will become homeowners by over 9 per cent.

Below the normal coefficients are the 'time-varying' effects, these are the variables whose effect we assume varies over time and we can use them to calculate how much the effect of our variables changes over time. They show that the importance of parental wealth diminishes over time and the impact of earnings and being in a couple increases. Using the time-varying result (-0.05 per cent in row 17 of column (6)) we can estimate that after 10 years the impact falls to 1.1 per cent[22]

Table 1 also shows that other factors increase the likelihood that someone will become a homeowner. In model 6, a 10 per cent rise in someone's gross monthly pay is associated with a 3.3 per cent increase in the probability they will be a homeowner (although this effect is not well identified, so the coefficient is not significant). In our sample the typical monthly salary is £1,100 and 99 per cent of people in our sample have monthly pay of £4,000 or less. Moving from the median to the 75th percentile of the salary distribution increases the probability that someone is a homeowner by 15 per cent, moving from the median down to the 25th percentile reduces the probability by 17 per cent. Although not directly comparable this indicates that, in financial terms at least, parental wealth has a similar-sized effect to their salary. Furthermore this doesn't take into account the impact that parental wealth has on someone's earnings, which as we have already seen is likely to be significant.

Having established that parental wealth increases the likelihood their children will be homeowners we can test if parental and child property wealth are related: do the children of richer parents have more expensive houses, controlling for other factors? To do this we construct a series of Tobit models[23] which estimate the linear relationship between children and parental property wealth taking into account the fact that many children and parents do not have any property wealth.[24]

Our models (results in Table 2) find that parental and child property wealth are related. The first model (1) shows that a 10 per cent increase in parental wealth is associated with a 1 per cent increase in the gross property wealth of their children. However once we control for region (models 2-6) we find that the relationship between parental and child property wealth increases. This is because the regions with the highest levels of property wealth (South East and London) also have the highest proportions of children who are not homeowners, which biases down our estimate.

[22]   To estimate how the effect varies over time, we exponentiate the hazard ratio of both our main coefficient and the time-varying one and then multiply the main coefficient by the time-varying one raised to the power of the number of periods you want to test the effect at (in this case 10 years).

[23]   Tobit models are censored regression models. See Annex for full details.

[24]   It is important to include these people in our model, failing to do so would likely bias down our estimate.

Table 1: People whose parents are homeowners are over twice as likely to be homeowners themselves

	[1]	[2]	[3]	[4]	[5]	[6]
Dependent variable: Whether or not someone is a homeowner						
A 10% increase in parental property wealth (logged)	1.8%	1.8%	1.4%	1.4%	1.3%	1.4%
	(0.0145)	(0.0145)	(0.0180)	(0.0182)	(0.0242)	(0.0245)
Female		66.9%	70.7%	74.5%	68.6%	61.9%
		(0.0401)	(0.0474)	(0.0484)	(0.0626)	(0.0636)
A 10% increase in gross monthly pay (logged)			*1.9%*	2.8%	*2.7%*	*3.3%*
			(0.150)	(0.146)	*(0.234)*	*(0.238)*
Degree (compared to GCSE)				69.5%	74.6%	74.3%
				(0.0682)	(0.0842)	(0.0853)
A-Level (compared to GCSE)				44.8%	37.7%	37.7%
				(0.0752)	(0.0987)	(0.0996)
Other (compared to GCSE)				22.1%	*10.5%*	*10.5%*
				(0.115)	*(0.132)*	*(0.134)*
None (compared to GCSE)				-46.7%	-63.6%	-64.7%
				(0.146)	(0.175)	(0.178)
Being in a couple					-39.3%	-39.3%
					(0.272)	(0.275)
Time-varying effects						
A 10% increase in parental property wealth (logged)	-0.06%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%
	(0.000483)	(0.000483)	(0.000606)	(0.000611)	(0.000826)	(0.000833)
A 10% increase in gross monthly pay (logged)			0.09%	*0.04%*	*0.08%*	*0.08%*
			(0.00501)	*(0.00483)*	*(0.00815)*	*(0.00822)*
Being in a couple					3.6%	3.3%
					(0.00953)	(0.00963)
Observations	146,555	146,555	39,784	38,920	19,503	19,353

Notes: Insignificant coefficients shown in grey and italicised. Standard errors in parentheses. Model 6 includes region effects which we assume are time-invariant. We have three covariates that may change over time: parental property wealth, an individual's gross monthly pay and whether or not someone is in a couple. We assume the effects of the other covariates are constant over time. See Annex for full details of modelling.

Our most complete model (6) shows that, even controlling for a range of possible confounders (region, pay, sex, education, partnership status), the effect of parental on child property wealth is still strong. A 10 per cent increase in parental wealth is associated with a 1.1 per cent increase in the property wealth of children.

Comparing this model and the one above suggests that parental wealth may have a stronger relationship with the likelihood that someone will become a homeowner than how valuable the home they purchase is. This may be because earnings has a more important role in determining the value of the property people are able to buy, while parental wealth may play more of a role in helping people amass the deposit.

Table 2: The children of richer parents have more property wealth

Dependent variabe: Gross property wealth of children (aged 16+)						
	[1]	[2]	[3]	[4]	[5]	[6]
A 10% increase in parental property wealth (logged)	1.0%	1.5%	1.5%	1.6%	1.5%	1.1%
	(0.00860)	(0.00858)	(0.00816)	(0.00809)	(0.00825)	(0.00821)
A 10% increase in gross monthly pay (logged)			63.9%	70.1%	65.1%	52.8%
			(0.0633)	(0.0655)	(0.0685)	(0.0653)
Female				3245%	2694%	1909%
				(0.0815)	(0.0820)	(0.0774)
Degree (compared to GCSE)					1528%	1220%
					(0.117)	(0.112)
A-Level (compared to GCSE)					84%	21%
					(0.106)	(0.0993)
Other (compared to GCSE)					242%	-25%
					(0.184)	(0.162)
None (compared to GCSE)					246%	*-4%*
					(0.215)	*(0.189)*
Being in a couple						-73%
						(0.307)
Constant	1.82	2.08	-40.5	-46.5	-44.1	-35.8
	(0.370)	(0.358)	(0.549)	(0.571)	(0.586)	(0.542)
Observations	134,251	104,543	86,775	86,775	86,120	56,138

Notes: Insignificant coefficients shown in grey and italicised. Standard errors in parentheses. All models run controlling for survey wave. Models 2-6 include region effects. See Annex for full details of modelling.

Table 2 also shows that a range of other factors matter. Someone's pay has a large effect. Column 6 shows that for every 10 per cent increase in someone's gross monthly pay their property wealth increases by 52.8 per cent. Being female, having a degree (compared to someone with only GSCEs) and being in a couple all significantly increase someone's property wealth. The first is perhaps the most surprising, but is down to the fact that young men are less likely to be homeowners because young women are more likely to form partnerships than their male peers.[25]

[25]   S Bayrakdar & R Coulter, '*Parents, local house prices, and leaving home in Britain*', *Population Space and Place*, 2017
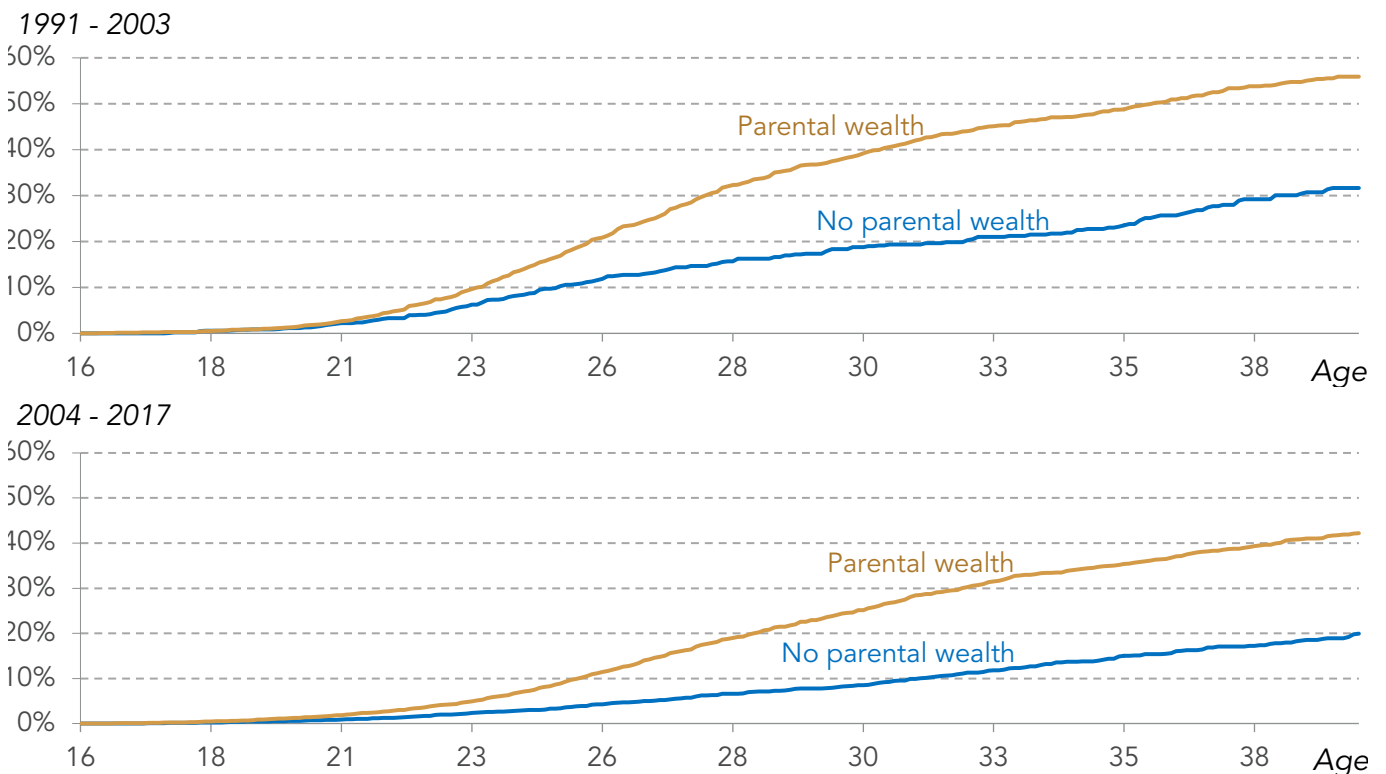
The importance of parental wealth has increased

Given the increase in the money that lenders report is being given to children and the proliferation of newspaper articles on the subject, there is clear sense that the BOMAD and the importance of parental wealth has increased over time. The data that we do have shows that the proportion of people benefitting from financial support from family and friends is higher than it was a decade ago (although not as high as in the immediate aftermath of the crisis).[26]

Below we test if the effect of parental property wealth has increased over time. Figure 5 compares the rate at which people (those with parental property wealth and those without) become homeowners in two periods: 1991 to 2003 and 2004 to 2017. It is noticeable that in the earlier period the proportion of people who became homeowners was far greater. Approximately 40 per cent of people in our sample whose parents were homeowners had become homeowners themselves by the time they were 30. In the later period this figure falls to 25 per cent. The equivalent figures for those without parental property wealth are 19 per cent and 9 per cent.

Figure 5: It has become harder to become a homeowner over time

Proportion of homeowners (inverse of Kaplan-Meier survival estimates), by binary parental wealth indicator

Source: RF analysis of *British Household Panel Survey* and *Understanding Society*

Figure 5 can also give us some sense of the relative importance of parental wealth in the two periods. In the earlier period those whose parents were homeowners were twice as likely to be homeowners themselves at age 30 while in the second period those with parental wealth are three times as likely to be homeowners. It would appear that the importance of parental wealth has increased.

[26]   Council of Mortgage Lenders, *New CML data shows nearly half of first-time buyers didn't use the 'bank of mum and dad'*, March 2015
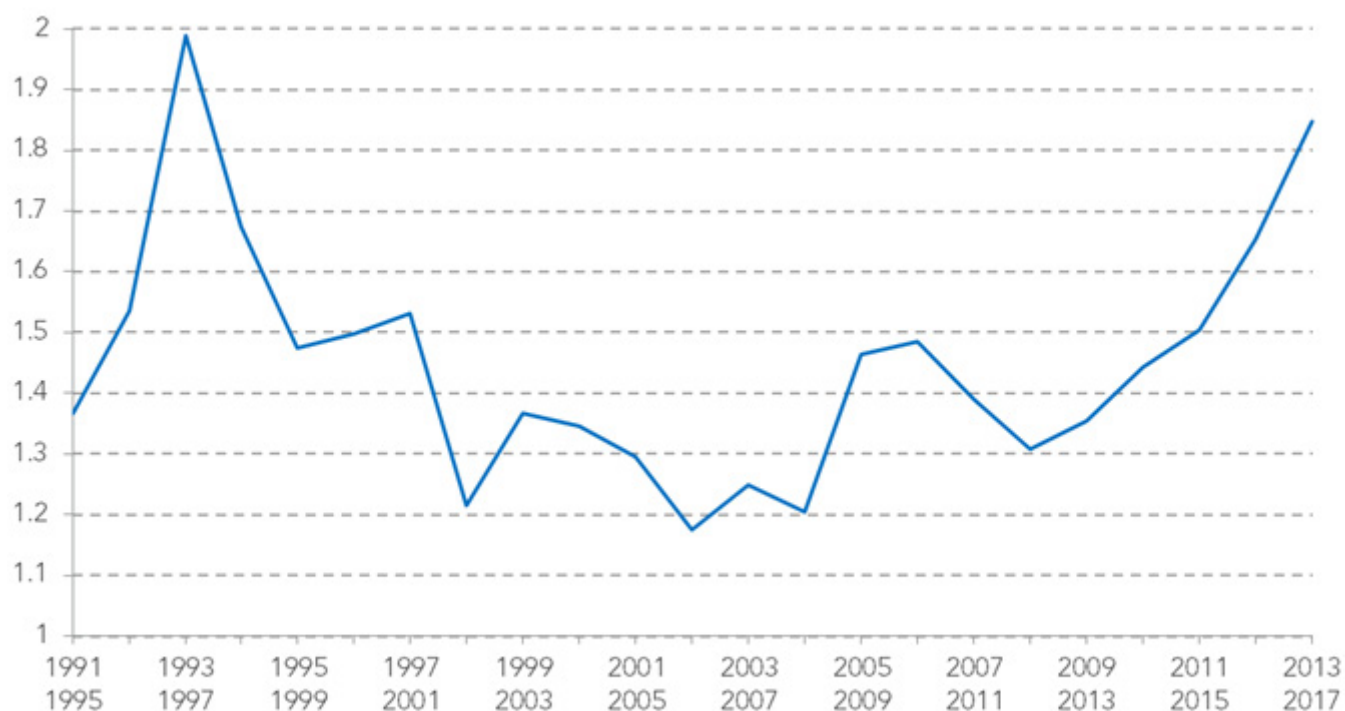
We can test this more formally by running a series of models (similar to the ones in Table 1) over successive five year periods.[27] For this analysis we used a binary indicator denoting parental property wealth.[28] The binary measure allows us to test if having parental property wealth has had a stronger (or weaker) effect upon children's homeownership over time.

Figure 6 shows that the relationship between parental and child home ownership is at its strongest since the early 1990s. From the mid-1990s onwards those with parental property wealth were on average 1.3 times more likely to be homeowners than those without. From 2008 the relationship rises and we estimate that those with parental property wealth are now almost twice as likely to be homeowners.

There are a number of reasons why this may have occurred. Clearly following recessions it becomes a lot harder for people to purchase property. Lenders are less willing to extend credit and people less willing to borrow, both because they may be poorer but also because they may be more pessimistic about their ability to keep up mortgage repayments. In such a climate those with greater capital may find it easier to access credit. This may explain the rise in the mid-1990s and the rise more recently.

Figure 6: The relationship between parental wealth and children's homeownership has increased since the 2000s

Increase in likelihood of being a homeowner if one's parents are homeowners

Notes: Figure shows the coefficient on the parental wealth dummy in series of rolling proportional hazard models in which the model is run over successive five-year windows starting between 1991 and 1995 and finishing in 2013 to 2017. Models include a control for monthly pay. Full details are given in the Annex.

[27]   We tested a few different period lengths but settled on five years so as to have enough observations to identify the relationship but short enough to capture any post-crisis effects.

[28]   We experimented with a continuous measure of parental wealth (as used in Table 1) however we found that with a smaller sample the relationship was harder to identify, though the shape of the results using the both the binary and continuous variable are similar. Results using continuous variable given in Annex.

As well as the state of the economy the regulatory environment also makes a difference. The downward trend from the late 1990s to the financial crisis is likely to be partly a function of financial deregulation and an easing of credit conditions. From the mid-1990s until the financial crisis the average first-time buyer was advanced 91 per cent of the value of their property. Yet in recent years credit conditions have tightened. In the last five years the average first-time buyer was advanced 83 per cent, indicating that first-time buyers now need a deposit of around 17 per cent compared to below 10 per cent before the crisis.[29]

Although it is difficult to disentangle changes in economic fundamentals and changes in the regulatory environment, it is clear that in a world in which lenders are more cautious or less able to lend, those able to access support from family and friends are at an advantage. They may be able to find the money for a deposit or at least come up with such deposits quicker, Figure 5 shows that the increased likelihood of becoming a homeowner, if your parents have property wealth, rises for people in their 20s, and peaks around 30.

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i   Box 1: Lessons for 'Help to Buy'

Our findings emphasize the role that parental wealth plays in the housing market. One conclusion could be that governments need to try and level the playing field, particularly in an environment when the biggest hurdle for many potential homeowners is not their ability to afford the mortgage payments but a lack of enough money for a deposit. The government's 'Help to Buy' (HTB) policy, which tries to help first time buyers who lack the necessary deposit purchase a home by providing an equity loan, could be one way to achieve this.

Unfortunately the most recent evaluation indicates that half of HTB users could have bought a property without the scheme, suggesting that it could be better targeted.[1] HTB should be restricted to those that have an annual household income of less than £60,000 per year (currently a quarter of HTB recipients have incomes above this). This would partly address the fact that those with higher incomes need less support. However, our analysis also shows that other than someone's income, the resources their friends and family have are also important. One possible response is that HTB should also consider someone's family wealth or income as well as their own. Nevertheless our analysis shows that trying to limit the impact of parental wealth is likely to be very difficult. Furthermore, fundamentally schemes like HTB are about helping those who are close to being able to afford their own home. In order to improve homeownership prospects for the majority of younger people more concerted action to raise supply and rebalance demand is needed.

[1]   Department for Communities and Local Government, *Evaluation of the Help to Buy Equity Loan Scheme 2017*, October 2018

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[29]   UK Finance, Table ML2 First-time buyers, new mortgages and affordability

Conclusion

Interest in the BOMAD has perhaps never been higher. As well as interest in the topic there is also clear evidence that the scale of financial support and the number of people making use of the resources of friends and family has been on the rise. Until now though there has been limited evidence of the strength of the relationship between the financial resources of parents and the chances that their children will become homeowners.

This paper provides this evidence. We find that children of wealthier parents are much more likely to become homeowners themselves, and sooner. We find that this relationship continues to hold even once we take into account someone's salary, their education, where they live and whether they are in a couple or not. We also find that the relationship between parental wealth and their children's homeownership has risen over time.

The majority of young people say they want to own their own home, yet on current trends it is likely that many will miss out. Although we all know it is natural for parents to want to support their children, we should also all be concerned if the housing prospects of many young people are so increasingly tied to the amount of wealth that their parents have. Although it will come as a surprise to no one that parental wealth matters when it comes to homeownership the strength of this relationship and the fact that it has increased over time should give pause for thought. The warning from this research is that if current trends continue it is likely that whether or not someone is able to own their own home will be increasingly decided by who their parents are.

Annex

Regression model of Table 1

Having collected data on children and parents (at various different waves of the survey) we observe children once they exit the family home and form new households. We include in our sample all those who are living outside the family home but are not homeowners themselves and then record the length of time that each individual remains a non-homeowner. In this case our data is right censored (there are a significant proportion of people who never achieve homeownership in the time frame we are analysing).

Because we want to estimate the relationship between the time it takes to become a homeowner, while also including those who never become homeowners, we construct an extended Cox model of the form:

$\text{Log}(H(t)/H_0(t)) = \text{Log of gross property wealth of parent}_i\, \delta * \text{time} + \text{Log of gross monthly pay}_i\, \rho * \text{time} + \text{couple}_i * \text{time}\, \omega + X'_{ij}\, \beta + \varepsilon_i$

Where the right-hand term is the hazard ratio of being a homeowner (H) compared to not being one (H_0) at time (t) and the coefficient (δ) can be interpreted as the instantaneous relative risk of the event (become a homeowner) at any time (t) for an individual with a higher level of parental property wealth. This is interacted with time to give us a time-varying coefficient which gives the interactive effect between parental property wealth and time. Gross monthly pay is also interacted with time as is whether or not someone is in a couple, other factors (X') are assumed to be time-invariant.

Regression model of Table 2

Again, because our data is left censored (a significant proportion of people have no property wealth), to estimate the relationship between parental and child gross property wealth (Table 2) we construct a standard Tobit or censored regression model of the form:

$Y^*_i = \text{Log of gross property wealth of parent}_i\, \delta + X'_{ij}\, \beta + \varepsilon_i$

Where Y_i is the natural logarithm of the gross property wealth of child $_i$

Where X' is a matrix of $_j$ control variables for $_i$ observations including wave, region, gross monthly pay, education and a binary indicator denoting if someone is in a couple or not. We take the average of our key financial variables over time (property wealth and pay) to smooth any possible fluctuations in wealth while also controlling for survey wave to control for the expansion of the sample when Understanding Society was introduced as well as any changes in the value of our financial variables not captured by deflating them. Because of this the model is essentially a cross-sectional one whereby the average amount of property wealth of the child is related to the average amount of property wealth of the parents. Pay is expressed in real (CPIH-adjusted terms) and property wealth is deflated by the ONS and Land Registries House Price Index.

However because our continuous variables of interest (property wealth and pay) are log-normally distributed (other than those observations that equal 0) we want to estimate the above using the natural logarithms of property wealth and pay. Unfortunately we cannot take the natural logarithm of 0 and so we add a constant (in this case 1) to each observation and then take the natural logarithm. We choose this constant so that those observations that were 0 in our untransformed variable are 0 in transformation (because ln(1)=0). We believe that this is the best solution to the problem given that our censored observations are not missing or unobserved values (where a Heckman Selection model

may be more appropriate) and we do not wish to transform our dependent variable into an ordinal variable.

Because this is a Tobit model:

$Y_i = Y_i^*$ if $Y_i^* > 0$

$= 0$ if $Y_i^* \leq 0$

The result is that when we estimate the elasticity of child with respect to parental wealth we are in fact estimating the relationship between our regressors and an uncensored latent variable not the censored version of our outcome variable. As a result the coefficients δ and β determine the marginal effect of a change in Gross parental property wealth or our control variables on the probability of observing a positive outcome and the expected value if Y_i is positive. The coefficients give us the marginal effect of a change in our regressors on our outcome variable taking into account the probability of having a positive outcome.

Rolling regressions for Figure 6

In order to test the relationship between parental wealth and the likelihood that their children are also homeowners we construct a regular Cox model of the form:

$\text{Log}(H(t)/H_0(t)) = \text{Whether parent is homeowner}_i \, δ + \text{Log of gross monthly pay}_i \, ρ \, * \, \text{time} + ε_i$
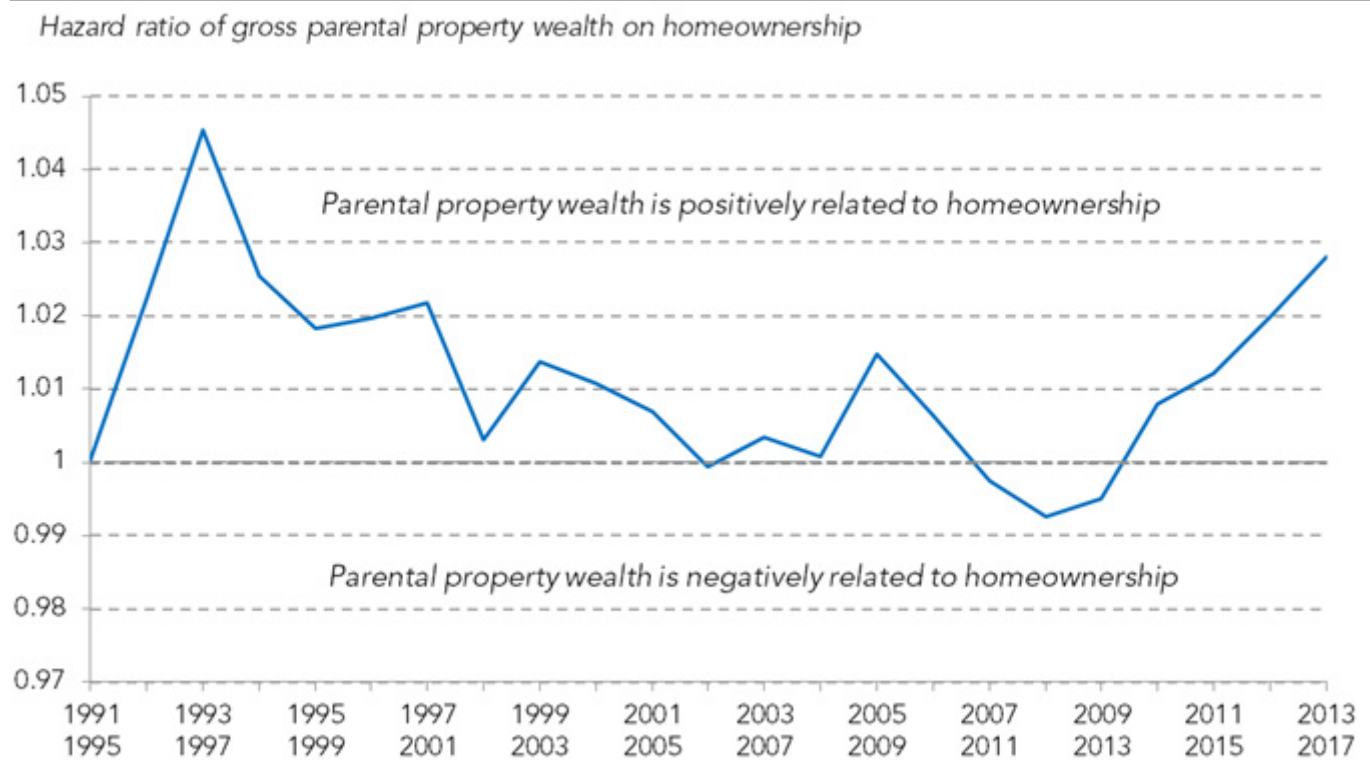
Where the right-hand term is the hazard ratio of being a homeowner (H) compared to not being one (H_0) at time (t) and the coefficient (δ) can be interpreted as the instantaneous relative risk of the event (become a homeowner) at any time (t) for an individual whose parents are homeowners, controlling for the effect of their gross monthly pay (ρ). We run this model over successive five year periods starting in 1991 to 1995 and finishing 2013 to 2017.

We also tested the relationship between gross parental property wealth and children's homeownership:

$\text{Log}(H(t)/H_0(t)) = \text{Log of gross property wealth of parent}_i \, δ + \text{Log of gross monthly pay}_i \, ρ \, * \, \text{time} + ε_i$

Again we run this model over successive five year periods starting in 1991 to 1995 and finishing 2013 to 2017. The results are given in Figure 7, these show that for most of the period parental property wealth is positively related to the likelihood that their children will be homeowners, but the relationship does not change as much over time as the relationship between whether or not parents are homeowners and children's homeownership (shown in Figure 6). Furthermore over the short window some of the coefficients (those between 1997 and 2009) are insignificant (they are close to 1).

Figure 7: The relationship between parental property wealth and the likelihood that their children are homeowners has increased in recent years

Hazard ratio of gross parental property wealth on homeownership

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» *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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