May 2025

First-time buyers: keeping it in the family?

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When first-time buyers begin their journeys in home-ownership they also provide vital liquidity in the housing market, enabling housing chains to form. As housing becomes an ever more expensive commodity, however, the routes into home-ownership are evolving. Here, we look in detail at the shifting landscape for new buyers and how family background is playing an increasingly important part in determining the opportunities open to aspiring new buyers.

"Lifeblood of the housing market"

First-time buyers (FTBs) hold a prominent role in the UK housing market. Although not everyone will own property in their lifetime, surveys consistently show that upwards of 80 per cent who do not yet own intend to become a homeowner eventually. As the totemic first step that households take into home-ownership, FTB numbers are often used as a bellwether, not only for the market's ability to satisfy this aspiration, but also for the overall health of the market.

This is because, from a broader market perspective, FTBs are a key source of liquidity into the housing market. By definition, they do not have property already, so do not need to sell in order to buy. They then take the essential role of the first link, enabling housing chains to form above them.

By the same token, however, FTBs have no accumulated property wealth to use to fund their purchase, in contrast to those further up the housing ladder, where the sale of the previous property allows the staircasing up to larger, more expensive properties.

Lifeblood transfusions

The housing crisis facing the UK has seen demand outstripping supply for decades, driving housing costs ever higher. This has been further exacerbated since 2022 by higher mortgage rates and cost of living pressures. The ongoing crisis provides a backdrop here, as it does for just about every discussion relating to housing or mortgage lending.

In the face of ever-tighter affordability pressures, FTBs have faced increasing challenges over time which, on occasion, look to reach breaking point. Despite this, however, FTBs never vanish completely from the buying landscape. This is, in no small part, due to the range of help that many receive when buying for the first time.

Help for FTBs can take many forms, including tax breaks, public and private assisted buying schemes, or direct assistance in providing a deposit. This direct assistance, be it in the form of a loan or a gift, is most likely to come from parents or grandparents - the "Bank of Mum and Dad," for those lucky enough to have an account there.

Measuring help

The most **recent results** from the English Housing Survey suggest that, in 2023-24, some 31 per cent of FTBs received deposit help from friends or family, and a further nine per cent used money from inheritance.

As the report notes, whilst the proportion receiving help fluctuates from year to year it has been increasing over time. The long-term increase reflects those tightening affordability pressures, but what drives those fluctuations within the long-term trend is, perhaps, of equal importance.

To look at this in more detail, we use a modelling framework for our loan-level data to estimate which FTBs are buying with deposits they could have reasonably saved in their lifetimes, given their income[1]. For those where the size of deposit looks to be in excess of this, we can reasonably infer that they must have had help of some kind in raising this amount of money.

The picture is somewhat muddied by the potential for this help to have come via formal assistance schemes. Probably the most significant of these, in terms of overall numbers, are the government's Shared Ownership and the now-defunct Help-to-Buy Equity Loan schemes. However, there are also private sector versions of these products, as well as targeted products such as guarantor mortgages.

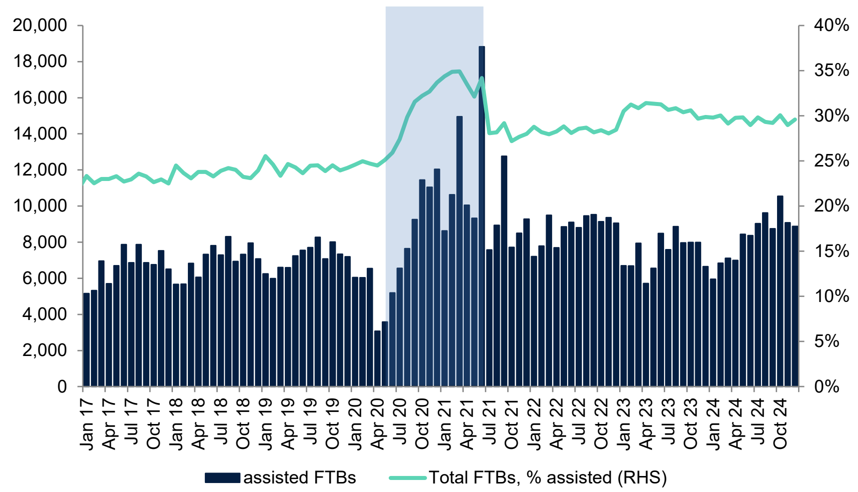
Since 2015, these loan products are now identifiable within our data set and so we are able to better isolate those buyers who, given the size of deposit provided, are most likely to have had help from friends and family, rather than funded through a formal assistance scheme or product.

Throughout the remainder of this article, we refer to "assisted FTBs" as those getting such help from family or friends, distinct from other formalised methods of buying assistance. Conversely, "unassisted" means any FTB whose deposit looks to have been within the limits of their likely lifetime savings, and who are also not accessing any targeted assistance scheme or product.

It is important to note that the results shown here estimate which borrowers are most likely to have had help, but the total numbers and proportions shown should be taken as illustrative. It is possible that some in this category did in fact come by these deposits through their own funds, perhaps from a large salary bonus or other windfall over and above regular income. Equally, some who provide deposits that look to be within their own means may still have been gifted the money. Notwithstanding these exceptions, however, at the aggregate level this allows us to estimate orders of magnitude and draw out trends within the profile of buyers.

[1] Modelling framework for "assisted first time buyers" first set out in *Council of Mortgage Lenders Housing Finance, 2006:* "Will the Real First-time buyers please stand up?" (Tatch, 2006)

***Chart 1: Assisted First-time buyers*[1]**



Source: UK Finance

Notes:
1. "Assisted" refers to those buyers putting down deposits greater than potential lifetime savings at time of purchase, who are not accessing other defined assistance schemes

Chart 1 shows the estimated numbers of assisted FTBs since 2017.

Like the English Housing Survey results, we can observe a gradual increase in the proportion receiving assistance over time. The estimated proportion is somewhat lower, however, at around 30 per cent in 2024.

The different numbers may be at least partly attributed to our earlier observation that those who could have bought within their own means may nonetheless receive help anyway. That is, within EHS numbers, some of those reporting that they had deposit help from family and friends could actually have saved for this deposit themselves and didn't necessarily need that help in order to buy.

Boosting demand may also boost assistance…

Within the long-term upward drift in assistance, we can see considerable fluctuation. This by far the most pronounced, however, within the period identified by the shaded region in ***Chart 1***. Throughout this period, we can see a very pronounced upward shift in both the numbers and proportions of FTBs getting assistance.

In fact, the start and end of this period of increased assistance coincides precisely with the Stamp Duty holiday (on property purchases up to £500,000) introduced during the pandemic, intended to stimulate activity in the housing market.

An increase in the *numbers* of assisted FTBs through this period could be explained as a natural – and intended – consequence of the Stamp Duty holiday. However, assisted buyers also took a significantly higher share of total FTB activity. This suggests that there was an associated impetus for parents to boost their children's finances in order to help them onto the housing ladder whilst the Stamp Duty saving was available. In other words, the tax measure may have provided more financial benefit to those who, by virtue of generous friends and family, already had access to a helping hand.

…and may also fuel equity withdrawal

When thinking of the Bank or Mum and Dad, it might be tempting to picture a scenario of well-off parents with substantial savings, and the deposit assistance is a simple transfer of funds from their own savings account to their child's. Whilst this will be the case for some, the reality for many households is that they don't have a massive savings pot, and their largest store of wealth is their own property.

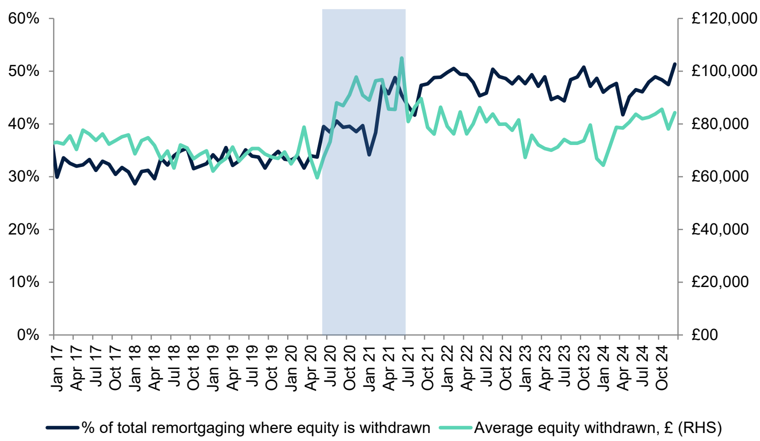
The issue with this wealth store, however, is that it is not as simple to draw on as a savings account. Accessing housing wealth either involves a sale and trading down (which would seem excessive even for the most devoted of parents) or some form of mortgage equity withdrawal.

Throughout the same period (of the Covid Stamp Duty Holiday, June 2020 – July 2021) we saw an increased share of remortgaging where money was taken out at the same time (as opposed to simple pound-for-pound remortgages). This could of course have been driven by a whole range of behavioural shifts, particularly since this was a period of profound societal disruption, through the worst of the pandemic and the tightest social restrictions. It is also the case that this increase came during a period of very low mortgage rates, which provided an added incentive to borrow against housing equity, although rates had been very low for some time before this without an accompanying increase in equity withdrawal.

Our data is able to identify where equity is withdrawn for home improvement or debt consolidation, but other reasons are not uniquely identified.

Stripping out these two categories, ***Chart 2*** shows the incidence of equity withdrawal for unspecified "other purposes," together with the average amounts of additional money borrowed.

Chart 2: Remortgage with money withdrawn, purpose unspecified[1]



Source: UK Finance

Notes:

1. Includes all remortgage equity withdrawal excluding those where the purpose is for home improvement or debt consolidation

This shows a clear and significant increase in the proportion of remortgage equity withdrawal that was for these unspecified reasons. Again, there could be a range of reasons, either related to the pandemic or otherwise, that led to this shift. However, when we look at the amounts of money involved, we can see that, from a broadly-stable average £70,000 since 2017, this rose sharply from the beginning of the Stamp Duty holiday June 2020 to reach over £105,000 just before its end in June 2021. The amounts withdrawn then fell back and have remained significantly lower ever since.

On a regional basis, the amounts of equity withdrawn add further context. In the Northern region of England, where property prices are some of the cheapest, the average assisted FTB purchase through this period was around £162,000, and the average equity withdrawn some £60,000. By contrast, the average price paid by an assisted FTB in London was £513,0000, and the average money withdrawn was £176,000, but peaked at almost £250,000.

Given this does not include money taken out for home improvement projects, there are relatively few other obvious uses for funds of this magnitude, particularly when the incidence was so widespread across the country. There is also a possibility that some of this equity withdrawal may also have been used to help fund other property purchases, including second homes and rental investments.

Although it is not possible to establish a direct causal link, the exact alignment of the upwards movements in FTB assistance and money withdrawn, as well as the sums involved, present a consistent narrative.

Taken together, it is highly suggestive of this Stamp Duty holiday period having provided an additional incentive for parents to leverage their own housing equity in order to help their children with their own housing journey.

Today’s FTBs are a patchwork

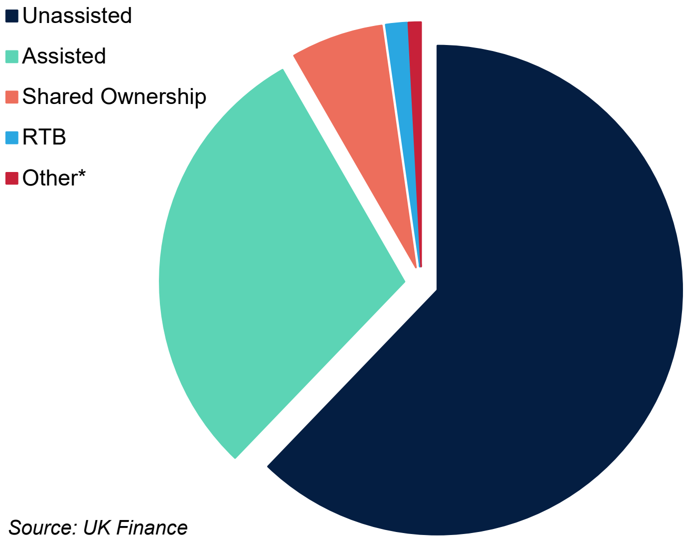
The evolving picture for FTBs has been shaped by decades of increasing affordability pressures, and the public and private sector responses to these pressures to help households realise their home-ownership aspirations, and keep the lifeblood of the market flowing.

Looking at the picture for 2024 as a whole, ***Chart 3*** shows that fewer than two thirds of new homeowners last year were able to buy fully within their own finances.

Of the remainder, the vast majority - 30 per cent - did not access a formal assistance programme and, given the size of deposit they put down, are most likely to have received direct deposit assistance from family.

With the Help-to-Buy Equity loan scheme now closed for new borrowing, the most popular remaining government support scheme for FTBs is Shared Ownership, which accounted for around six per cent of FTB loans last year.

Chart 3: First-time buyers, 2024



Source: UK Finance
**includes guarantor mortgages,shared equity schemes and purchases with three or more borrowers*

Source: UK Finance

It is clear that FTBs are far from a homogeneous cohort and, depending on their particular needs and finances, use a range of sources to help them begin their home-owning journeys. Indeed, looking further at their characteristics we can draw out some distinct differences.

Parental assistance creates a two-speed market

Table 1 shows the consistent differences between those getting help and those buying entirely under their own steam. This paints a stylised picture of two rather different types of buyer. The most glaring difference is, unsurprisingly, in the size of deposits, with assisted buyers providing up to twice the size of deposit as an unassisted buyer in the same region.

Whilst it is easy to use London as the poster child for unaffordable housing, the numbers here are stark. A borrower buying without assistance typically put down a deposit of nearly £150,000 in 2024, but the average deposit size for an assisted buyer in the capital was approaching a quarter of a million pounds.

Beyond the significant differences in deposit sizes, there are other important constrasts between the characteristics of those buying with and without assistance. Unassisted FTBs have higher income (typically around £10,000 per annum higher) but buy somewhat lower-priced properties. Assisted buyers, by virtue of the injection of deposit funds they receive, are able to buy somewhat higher priced properties but with lower incomes.

A final key difference is that the assistance provided enables these households to enter the housing market two and three years ahead of those not getting help.

Table 1: Assisted and unassisted FTBs, 2024, average

	Assisted				Unassisted			
	Income	Purchase price	Deposit	Age	Income	Purchase price	Deposit	Age
East Anglia	£51,698	£286,957	£102,340	30.0	£63,086	£273,723	£56,060	32.4
East Midlands	£44,959	£237,872	£80,486	29.5	£56,206	£229,565	£41,788	32.3
Greater London	£87,895	£546,972	£224,054	31.7	£107,262	£519,880	£145,133	33.9
North	£40,624	£189,455	£66,176	28.7	£49,281	£167,161	£29,918	31.3
North West	£44,971	£231,697	£82,579	29.8	£55,661	£212,871	£40,262	32.2
Northern Ireland	£42,680	£205,514	£87,177	29.9	£51,495	£183,571	£40,165	32.3
Scotland	£42,814	£203,450	£72,267	28.5	£52,003	£182,442	£36,882	31.6
South East	£60,659	£359,719	£127,833	30.7	£75,032	£347,481	£71,951	33.2
South West	£50,290	£288,601	£104,071	30.3	£60,887	£275,911	£58,882	32.5
Wales	£41,824	£212,558	£75,985	29.7	£51,157	£193,640	£35,551	31.8
West Midlands	£45,953	£248,705	£87,239	30.2	£57,048	£235,819	£45,037	32.6
Yorkshire & Humberside	£42,155	£214,354	£75,357	29.2	£51,728	£196,711	£37,809	31.5
UK	**£56,015**	**£317,846**	**£118,073**	**30.2**	**£65,351**	**£279,381**	**£60,741**	**32.5**

Source: UK Finance

Societal implications

As housing in the UK has become a more rationed, less affordable commodity, the role of parental assistance has widened. For increasing numbers, parental support does not necessarily taper off as their children leave home but instead, morphs into a single very significant, sum of money to help them join the UK's "property-owning democracy'.

Whilst a majority of FTBs still manage to do this under their own steam, the proportion who get help is increasing over time, as affordability continues to ratchet up. Further, it is likely that some measures intended to help, like the Stamp Duty holiday of 2020/2021, may have the effect of providing an additional incentive for parents to divert their own funds to help their children buy property. There is even evidence that, by stimulating demand in this way, some parents may be incentivised to draw down their own property wealth to help their children accumulate their own.

The corollary to this, of course, is that those without parents who are both financially equipped and willing to provide this assistance, are "left behind". That is, they will either buy smaller properties later, after having reached a level of income that is materially more than those getting assistance, or for some, that homeownership aspiration may remain out of reach in the longer term.

This then begs a question of whether this is a desirable outcome for society as a whole. Is the property-owning democracy, theoretically open to all, being tilted disproportionately towards those families where the older generations have already accumulated sufficient property and other wealth assets that they are able to pass some onto their children?

At the individual level there is clearly a benefit from parents helping their children out in this way if they want to do so. However, taking a wider societal perspective, it may have the effect of entrenching social divisions, in relation to what is generally the most valuable asset that a household will own, assuming they achieve that ambition.

Whatever the optimal societal outcome, housing supply remains in deficit compared to the growing demand, and whilst this continues, affordability will only ever get tighter over time. As such, we are likely to see parental help take an increasingly prominent role in first-time buyer activity. Our analysis here suggests that the potential for demand stimulus measures adding to this distortion should be considered, when evaluating housing policy proposals.