

GEN Z – FUTURE OF THE MORTGAGE MARKET

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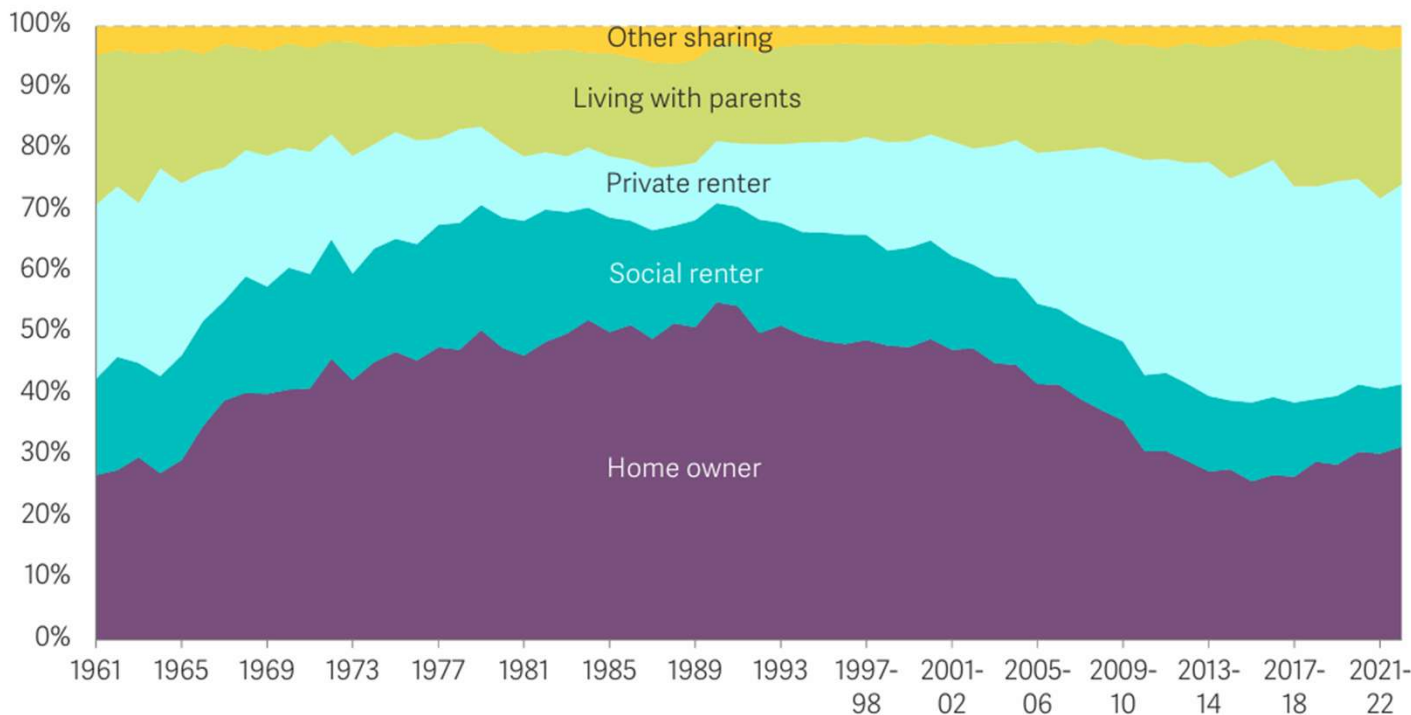
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HOUSING TRENDS FOR YOUNG PEOPLE OVER TIME



Housing tenure for family units aged 25-34



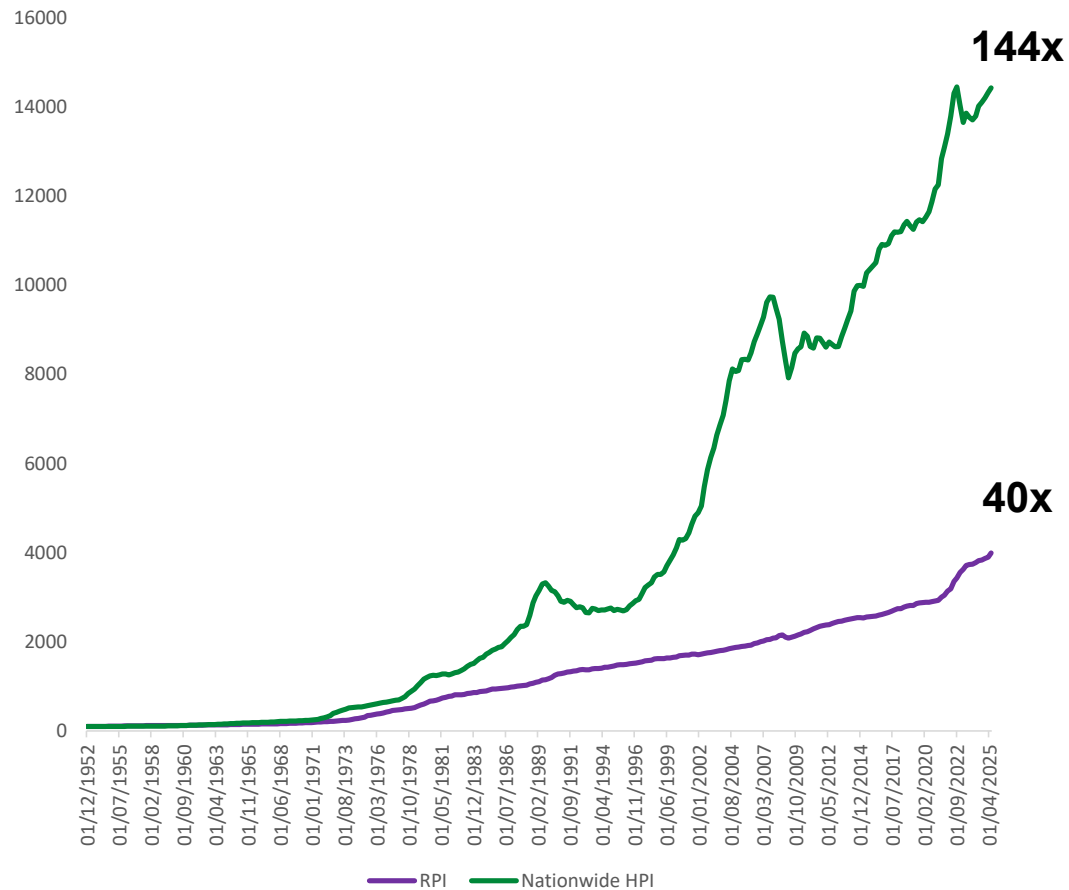
Source: Resolution Foundation

- Home ownership peaked at 55% in 1990 for this age group – 24 percentage points above its current level.
- More than half (53%) of baby boomers born between 1961-1965 were homeowners by the age of 30, compared to less than a third (27%) of millennials born between 1981-1985.
- Fall in homeownership coincides with large increase in private renting.
- FTBs are buying homes later (average age 34).
- Recent increase in homeownership for the younger generations

THE REALITY OF HOUSE PRICE GROWTH



RPI vs HPI



Source: ONS, Nationwide

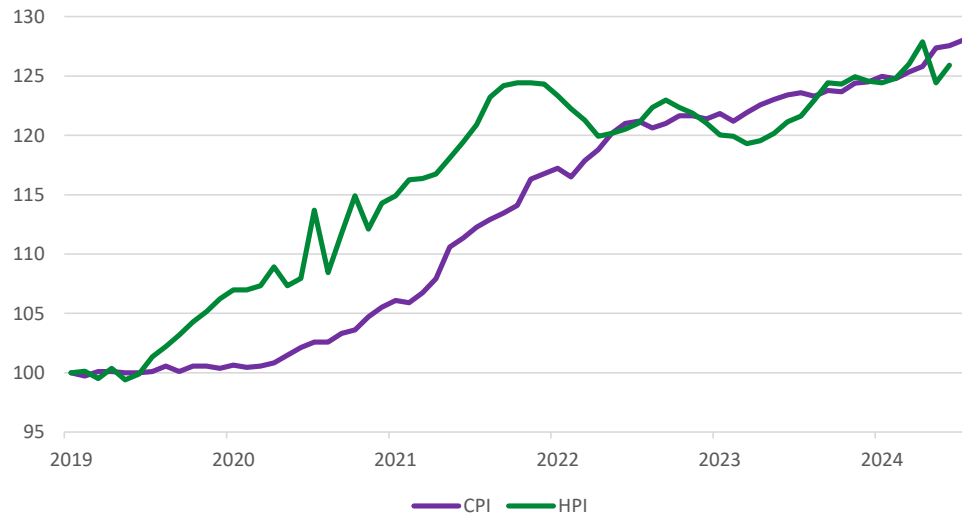
Confidential

- Cost of houses in the UK have soared over time, making them less affordable for future FTBs.
- Large increase in demand – population growth, living for longer, more households.
- Lack of housing supply – UK have 30m homes, France have 37m.

THE REALITY OF HOUSE PRICE GROWTH



2020 Onwards – ONS HPI vs CPI



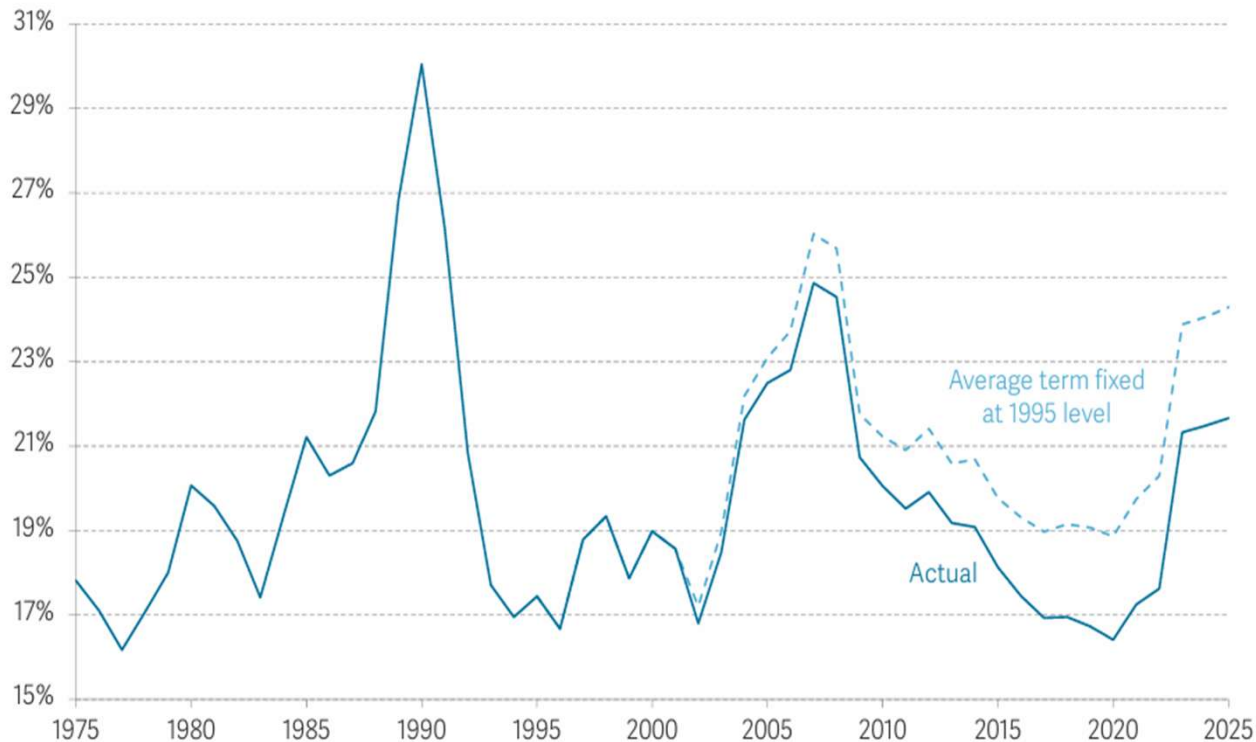
UK FTB house price earnings ratio



MORTGAGE REPAYMENTS HISTORICALLY HIGH



FTB mortgage repayments as a proportion of gross income over time



Source: Resolution Foundation

- Despite stable house prices in real terms, mortgage costs have increased dramatically.
- Even more so if you ignore the trend to higher mortgage terms (see dashed line).
- Mortgage repayments as a % of income only ever this high historically immediately before a house price crash.

DECLINE MORE ACUTE FOR LOWER INCOME HOUSEHOLDS



Number of people in mortgaged families by income quintile indexed to 2008



Notes: Income quintiles are based on equivalised net household income before housing costs. Before housing costs income is used to eliminate shifts in after housing costs income quintiles due to falling interest rates.
Source: RF analysis of DWP, Households Below Average Income.

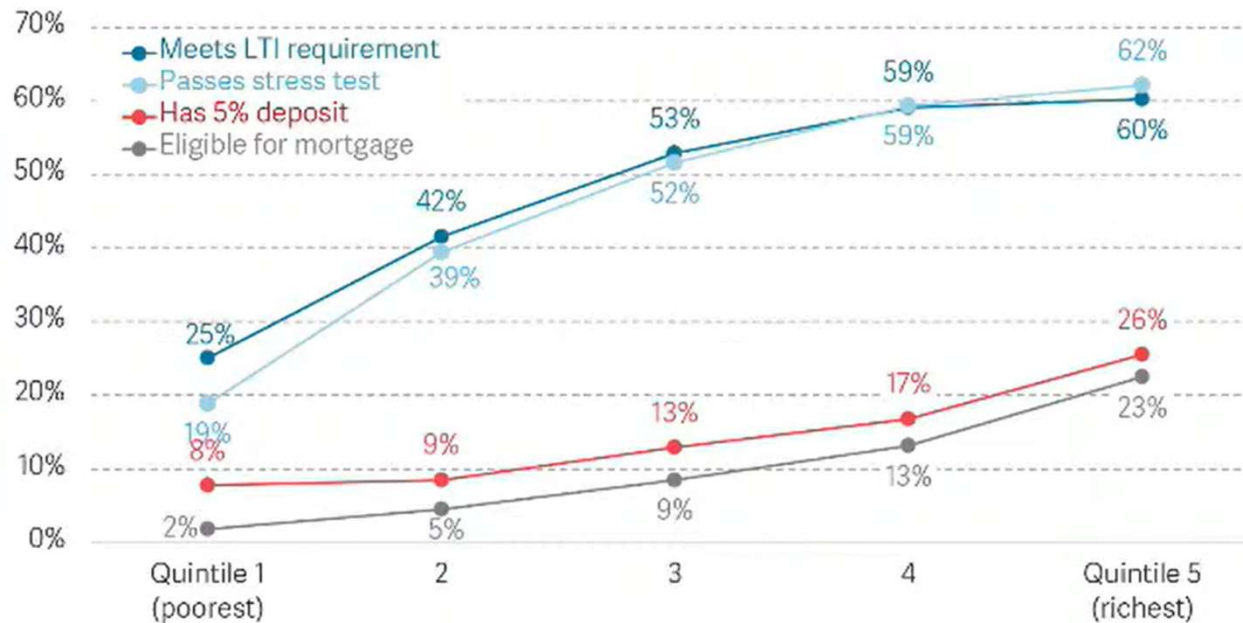
@resfoundation

- Resolution Foundation found lower income households have been the worst impacted since the financial crisis.
- House prices unaffordable for many.
- Unable to borrow enough money.
- Unable to save for a deposit.
- Not everyone has access to Bank of Mum and Dad

MAIN DRIVERS FOR LACK OF HOUSING AFFORDABILITY



Proportion of potential FTB households with income and/or savings to access a mortgage for a starter home in their region



Source: RF analysis of DWP, Households Below Average Income; HM Land Registry, Price Paid data; Registers of Scotland, House price statistics.

- Research from the Resolution Foundation identified 8.3m potential FTB families.
- Look at the cost of a starter home: the lower quartile price of a terraced home in each region.
- They modelled 3 barriers to be able to buy the starter home:
 1. 5% deposit
 2. Maximum LTI of 4.5x or 6x (depending on income level)
 3. Lenders' affordability tests
- IFS research published this month found most non-homeowners in early 2010s were constrained by income, not deposits, by thinking about deposit raising differently.

SAVING FOR A DEPOSIT TAKING LONGER



Value of a 5% deposit on a starter home as a proportion of the median gross income by region



NOTES: The chart shows a 5 per cent deposit for a starter home as a proportion of median gross annual earnings in each region.

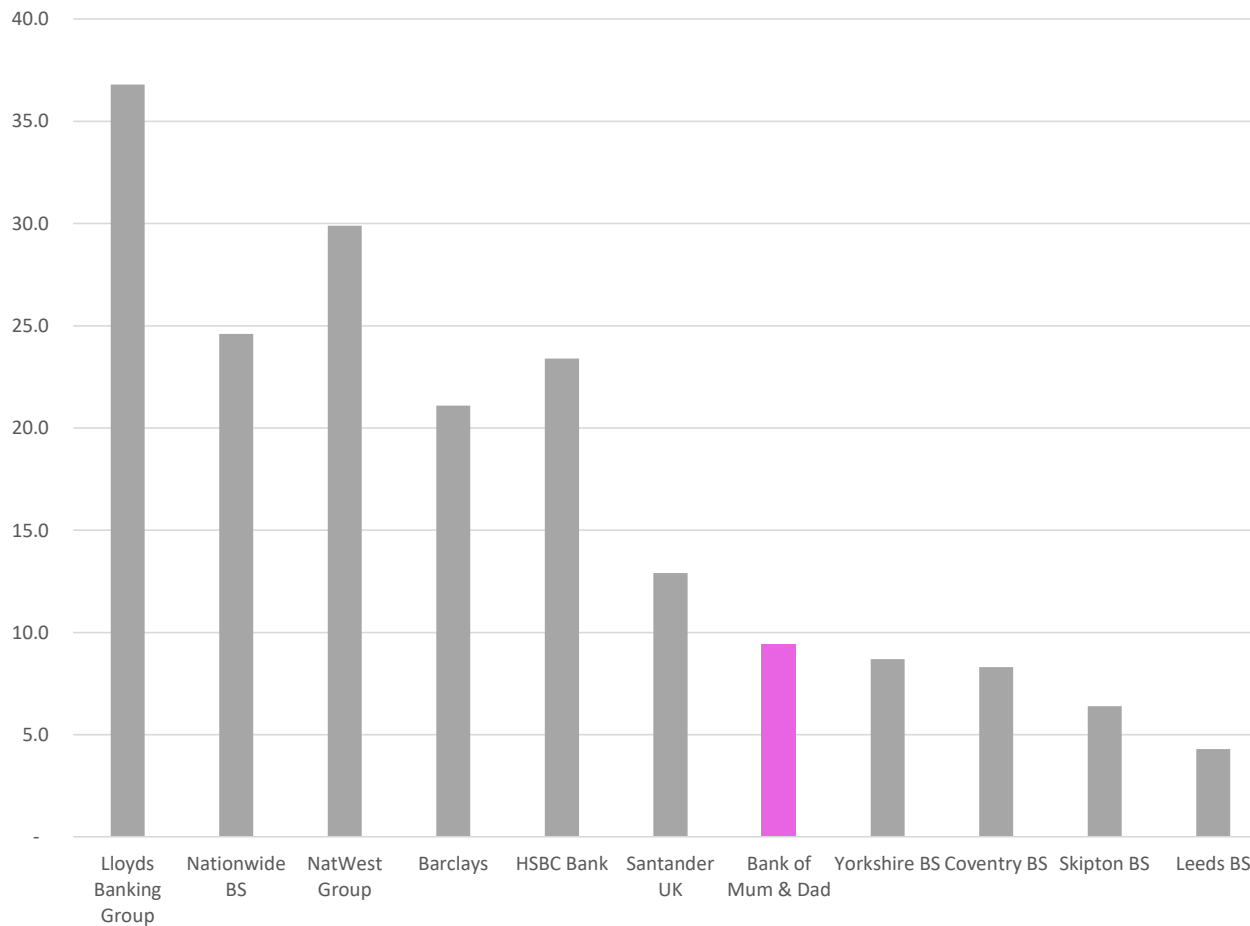
SOURCE: RF analysis of ONS House price (existing dwellings) to workplace-based earnings ratio; ONS, Annual Survey of Hours and Earnings; HM Land Registry, Price Paid data.

- One-fifth of potential home buyers would need to save for at least a decade to have enough for a deposit.
- Assuming families set aside 5 per cent of their disposable income and leverage Lifetime ISAs (LISAs) it would take the typical potential buyer five years to save for a deposit.
- High rental payments, student loan repayments, pension contributions and taxes reduce saving capability.
- Australia allows potential FTBs to use a portion of their pension pot to contribute towards their deposit.

BANK OF MUM & DAD



Gross Mortgage Lending (£bn) (2023)

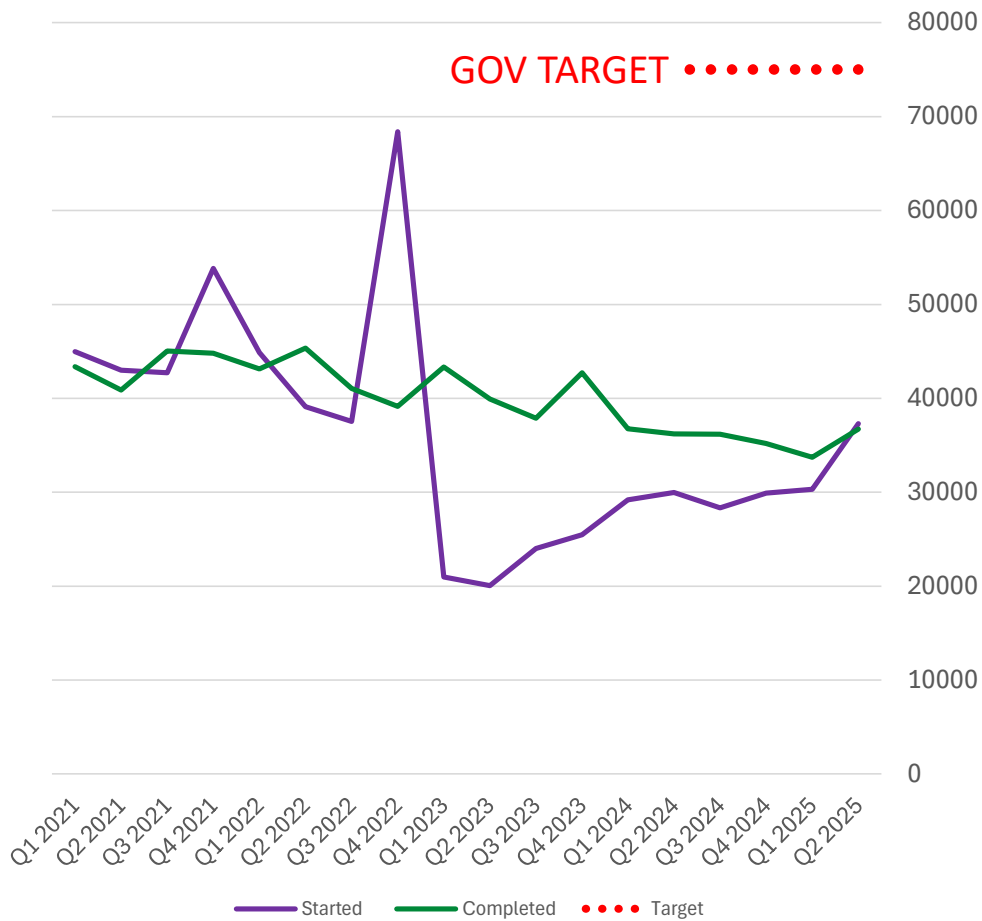


- Intergenerational wealth transfer becoming more important for FTBs.
- According to the ONS, 36% of FTBs in England reported being helped by family and friends in 2022-23. A YouGov survey puts the proportion even higher: it found that between 2015 and 2020, 54.4% of FTBs in the UK received financial help from their parents.
- Zoopla estimates that the average deposit paid by a FTB was £72,000 in the south-east and £144,500 in London. Across the UK, the average deposit for a FTB has risen from £16,000 in 2000 to £60,000 in 2023.
- Gifts and loans from the Bank of Mum & Dad (BOMAD) totalled £9.4 billion in 2023, according to Savills (equivalent to 7th biggest lender!)

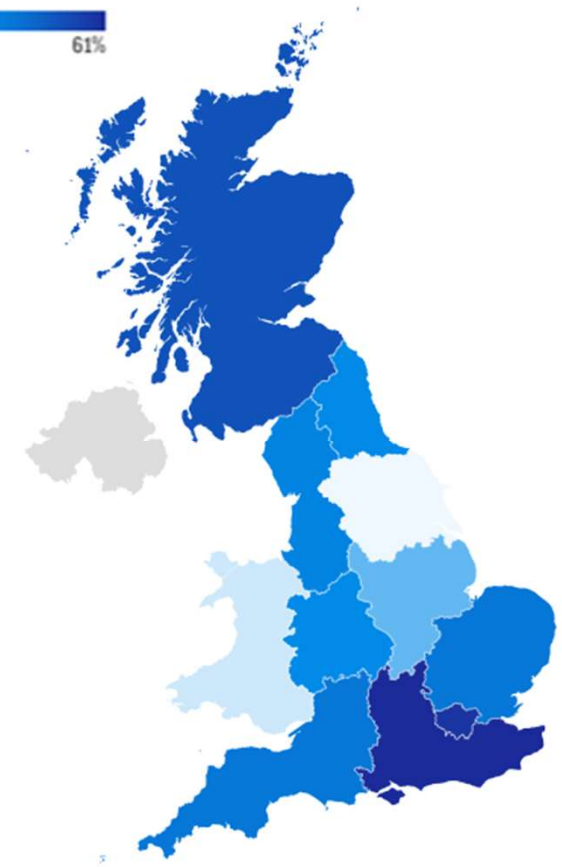
INCREASING FTB HOUSING SUPPLY



ONS - New Build Starts and Completions



Average price gap between FTB home and second step

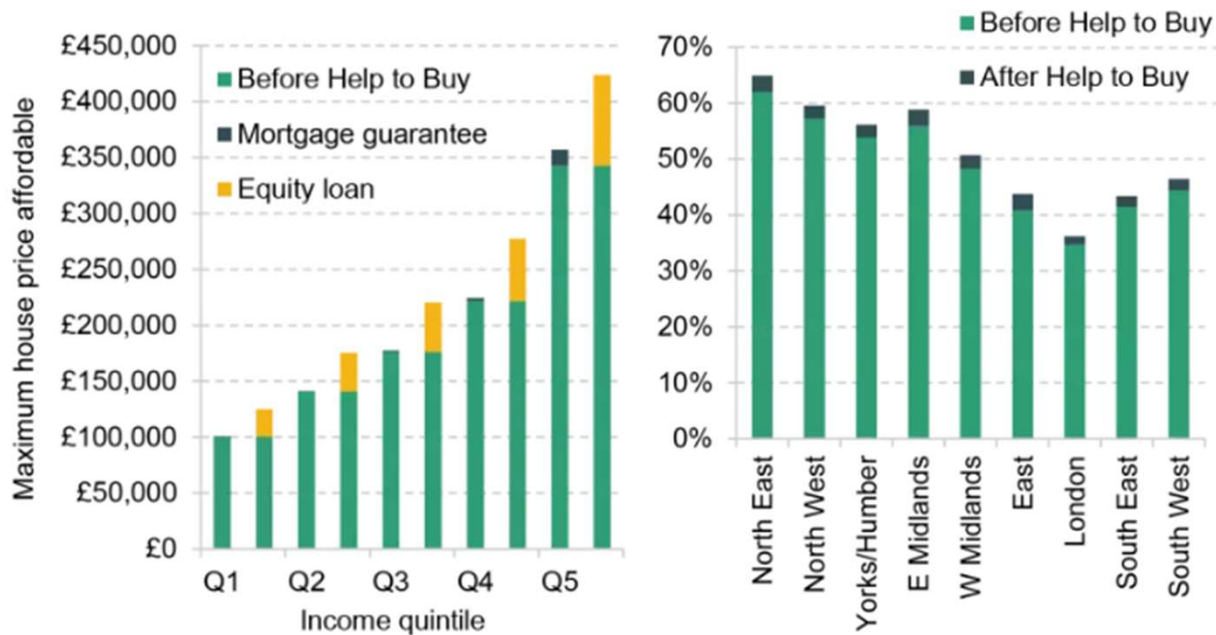


Source: Telegraph analysis of Rightmove data

MORE SUPPORT NEEDED FOR LOW-INCOME HOUSEHOLDS



Maximum house price affordable before and after Help to Buy, by income quintile & share of homes affordable by region.



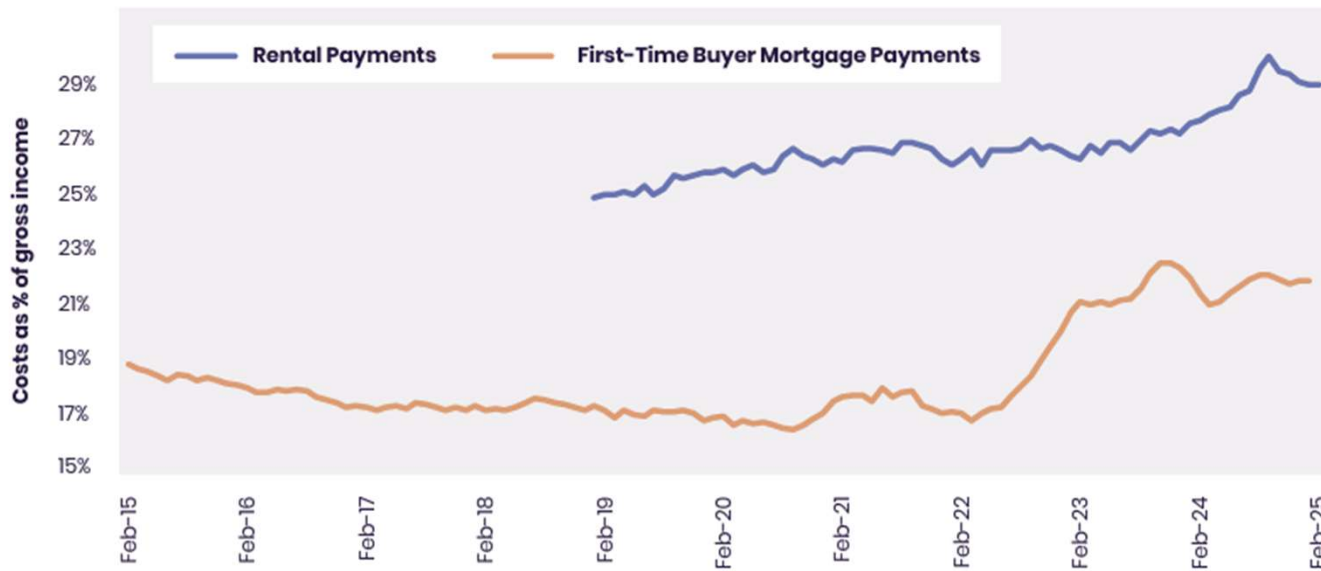
Source: IFS

- Research from the IFS suggests recent HTB schemes have favoured higher income households.
- This is due to these households being deposit, rather than income, constrained.
- Those on lower incomes would be restricted by maximum LTI regardless of the HTB scheme.
- Schemes that offer more generous subsidies to those with lower incomes could help extend the benefits of Help to Buy to the less well-off.

NEED FOR AN AFFORDABLE RENTAL MARKET



Comparison of FTB repayments and private rental payments a % of household income



Source: BSA, JRF

- Rents as a share of income have increased substantially since the late 1970s (from 11% to c30% of gross household income).
- In London, on average private renters were spending 46% of their incomes on rents in 2023-24.
- For private renters in the lowest income quintile, the average proportion of household income spent on rent in 2023-24 was 63%.
- Germany have a higher proportion of private renters (c50%), with more affordable renting (according to the ECB).

SUMMARY OF INDUSTRY CHALLENGES



- Housing unaffordable for many – both LTI and deposit.
- Lack of housing supply.
- Barriers for home movers.
- Expensive rental market.
- Challenges for lower income households.
- Need for intergenerational wealth transfer.