

Banking on Property

What is driving the housing affordability crisis and how to solve it



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Executive summary

In 2021 house prices in the UK grew at their fastest pace in over a decade, despite the economy still recovering from one of the worst economic contractions in 300 years. The growing disconnect between the housing market and the rest of the economy is a symptom of the UK's longstanding housing crisis. Other symptoms include falling homeownership rates from a peak in the early 2000s, worsening housing conditions, increasing homelessness and declining affordability in the private rental sector. There is now a broad consensus that the UK faces a serious housing crisis. The most striking aspect is the growing gap between house prices and incomes. The median house price in England is now 9 times median earnings, having more than doubled since 1997. In London the picture is even more stark, with house prices 13 times median earnings in 2021.

This report identifies the systemic drivers of rising house prices, and how this has produced a severe housing affordability crisis. This is particularly stark in London, where house prices have grown by a dramatic 326% between 1980 and 2021. We find that the dominant narrative of the problem being rooted in a shortage of supply fails to explain the rapid house price growth of recent decades. Instead, we find that rising house prices are rooted in a series of policy changes, introduced over many decades, that have sought to promote home ownership as the dominant form of tenure and transform housing into vehicles for accumulating wealth. At the same time, the liberalisation of the financial sector and the downward trajectory of interest rates have increased the availability and attractiveness of mortgage credit, which in turn has led to a significant increase in the amount of purchasing power available for buying a house. Although the stated aim of many of these changes was to increase home ownership, in practice they have created a significant structural bias towards housing in the UK economy, transforming housing from a basic need into a financial asset for accumulating wealth.

The result has been the emergence of a powerful feedback loop between government policy, mortgage lending and house prices. Government policies intended to increase home ownership inevitably interact with this structural bias, increasing inflows of money into the property market and pushing up house prices further. While successive governments have tried to help more people onto the 'housing ladder', instead they have ended up pulling the ladder even further out of reach.

Since 1995, the total value of UK housing wealth has increased from just over £1 trillion to over £5.7 trillion in 2020 – accounting for almost 54% of all household wealth accumulated during this period. In the 12 months leading up to February 2022, the average UK house price increased by £27,215¹ – more than the average wage for all workers in 2021 of £25,971². Today the primary determinant of wealth and financial security is not income from work, but property ownership. For the growing numbers of people stuck in the private rental market, the proportion of income spent on rent has risen from around 10% in 1980 to 32% today in England, and 42% for Londoners, among the highest in Europe.

This report also examines the uneven impact of the housing affordability crisis across different demographics in London. Black, Asian and ethnic minorities, the young and lower income groups are being locked out of home ownership due to rapidly rising house prices and are therefore trapped in the private rental sector (PRS). As renters they face higher housing costs, greater insecurity and poorer living conditions. These groups are unable to benefit from the large property wealth gains that existing homeowners and property investors have enjoyed. In London, declining homeownership rates amongst ethnic minorities is contributing to widening wealth disparities. The median household wealth of a Black and ethnic minority household (£87,200) is now 6 times less than the median wealth of a White British household (£524,100). These growing wealth disparities and higher housing costs faced by renters exacerbate existing socio-economic and generational inequalities in London.

YouGov polling commissioned for this report indicates that the majority of the British public – including a majority of homeowners – are in favour of bold reform. Our polling suggests that the majority (54%) of British and (57%) of London homeowners would be happy “if their own home did not rise in value in the next ten years if it meant houses were more affordable for those who don’t own property”. Nearly two-thirds (62%) of the British public and (63%) of Londoners also believe that the “purpose of a house should be mainly a home”, as opposed to “mainly a financial investment”. In each case, there is popular support across all regions of Great Britain, and among supporters of all the main political parties. This indicates a strong appetite for embracing a bold new approach to tackling the affordability crisis.

Everyone should have a home that is affordable, secure and decent. The housing affordability crisis is a result of an economic model and financial system that treats housing as a financial asset rather than a home. This is widening the gap between the housing haves and have nots, both across the UK and London. To protect everyone’s right to a home we need our most powerful public institutions to work together to target more sustainable house prices and tackle the root causes of the housing crisis.

1. Halifax House Price Index February 2022, Available at: <https://www.halifax.co.uk/media-centre/house-price-index.html>
2. Annual Survey of Hours and Earnings (2021)

Summary of recommendations

The primary recommendation of this report is that the UK Government launches a new long-term housing affordability strategy to tackle the systemic causes of unsustainable house price inflation. The overarching goal of the strategy should be to embark on a long-term transition to stabilise house prices and bring the house-price-to-income ratio down to more affordable levels over time. The strategy has 3 main components relating to (i) macroeconomic policy; (ii) market shaping policies; and (iii) alternatives to homeownership, outlined in Table 1.

The recommendations presented in this report focus on national policy levers, because this is where most of the relevant powers lie to break the vicious cycle of rising house prices and declining affordability. Where relevant, we highlight if there is scope to devolve powers to London, in recognition of the particular challenges faced in the capital. Given the systemic nature of the housing crisis, developing an ambitious national strategy, working in partnership with regional and local leaders, will be paramount.

Table 1: List of Recommendations

Area	Policy Proposal
(i) Macroeconomic policy reforms	<p>Require the Bank of England’s main policy making committees, the Financial Policy Committee (FPC) and Monetary Policy Committee (MPC), to support the UK government’s goal of stabilising house prices as part of their secondary objectives.</p> <p>Macroprudential tools and credit guidance</p> <p>Strengthening existing macroprudential tools to help achieve sustainable house prices by dampening expectations of house price inflation and regulating the supply and direction of bank credit.</p> <p>Improved framework for monetary-fiscal coordination</p> <p>Requiring the MPC to communicate whether it is able to meet its primary objectives without increasing the unaffordability of housing with its current toolkit, and whether fiscal policy or alternative policy tools would be more effective. As part of this, the Treasury should also publish an updated review of the monetary policy framework.</p>

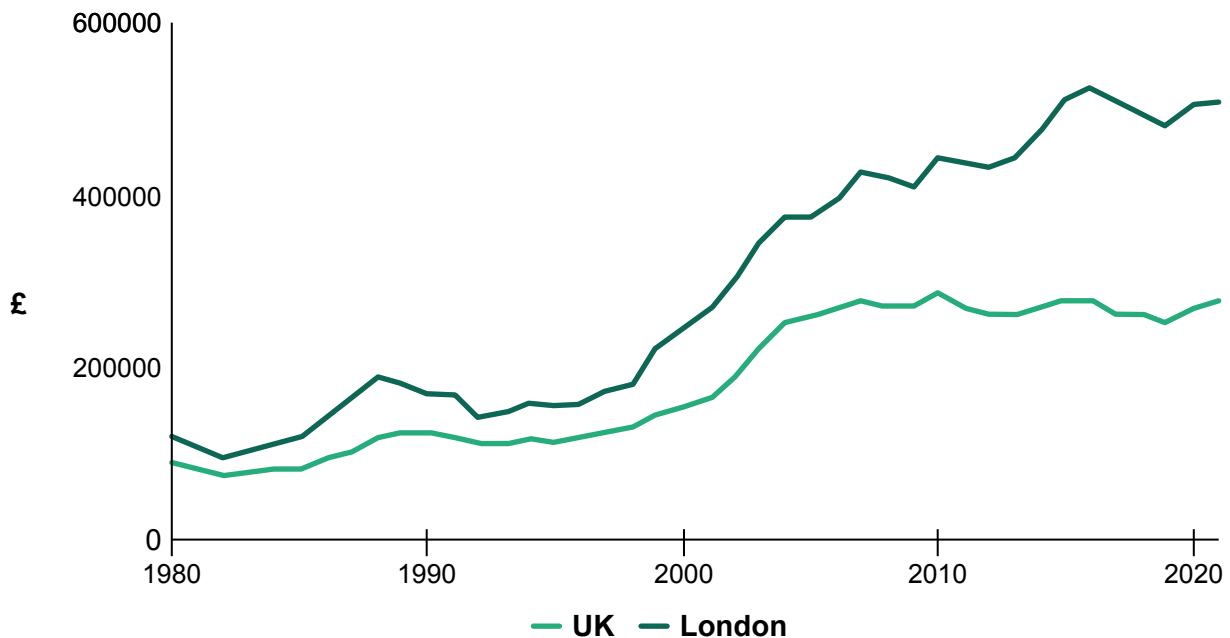
Area <i>continued</i>	Policy Proposal <i>continued</i>
(ii) Market shaping reforms	<p>Promoting a diverse banking system</p> <p>The government and the Bank of England should support the development of different models of banking which would focus on lending to more productive and socially useful activities, such as national and regional development banks and stakeholder banks, rather than mortgage lending.</p> <p>Reforming the property and land tax system</p> <p>Reforming property and land taxation to make it more progressive, thereby dampening investor demand for housing as a speculative financial asset, and increasing public funds available for investment in more social and affordable housing.</p>
(iii) Alternatives to home ownership	<p>The following policies address declining affordability in the Private Rental Sector (PRS) and aim to provide decent and secure alternatives to homeownership. They also directly discourage the treatment of homes as financial assets. Implementing rent controls and strengthening tenants rights in London will require national legislation to devolve powers locally.</p> <p>Rent controls to limit increases in rents and make private renting more affordable.</p> <p>Security of tenure for private sector tenants, including open-ended tenancies.</p> <p>Scaling up non-market alternatives to offer secure and affordable alternatives to home ownership.</p>

1. Introduction

There is now a broad consensus across the political spectrum that the UK has a serious housing crisis. This crisis has several important dimensions, including rising homelessness, weak tenants rights, and an ageing, poorly insulated housing stock. However, the aspects that have pushed housing into the political debate are the dramatic rise in house prices relative to incomes, and the associated decline in home ownership.

In 1980 the average UK house price was £91,270. By 2021 this had increased by 200%, to £274,233. Over the same time period, the average house price in London grew an astonishing 326% (Figure 1). This far outstrips growth in average wages and consumer price inflation. Following the global financial crisis real wages have been either falling or stagnating (Cominetti, 2022). The average house in London has earned more in value in 10 out of the last 20 years than the median pay of a full time worker in the UK (Monbiot et al., 2018:21). Figure 2 shows that the median house price-to-earnings ratio has doubled from 1997 to 2020 for England and tripled for London in the same time period.

Figure 1: Average Real House Prices in London and UK, 1980-2021



Source: Office for National Statistics (ONS) mix-adjusted annual simple averages. Nominal house prices deflated by ONS long term RPI series which is rebased to 2015=100.

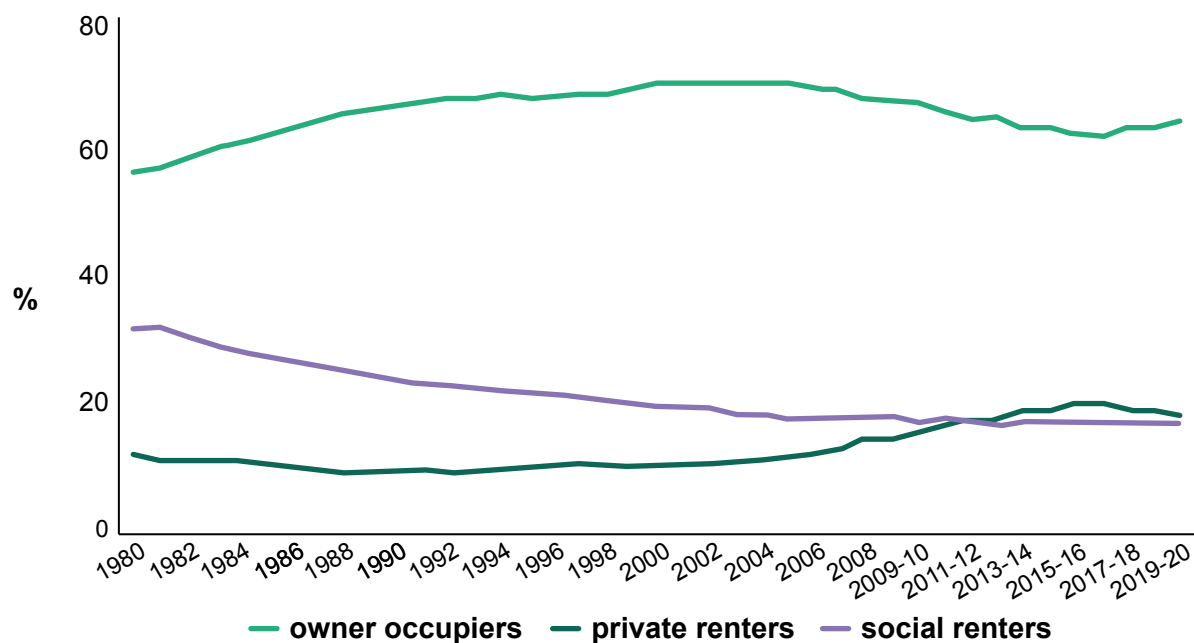
Figure 2: Ratio of Median House Price to Median Earnings, 1997-2021



Source: ONS (2022: table 1C). Median earnings refers to median workplace-based earnings.

The explosion in UK house prices has mirrored a shift in political emphasis towards promoting home ownership as the most desirable form of housing tenure. The goal of achieving a ‘property owning democracy’ began under a Conservative Party government in the 1950s, was dramatically accelerated under Margaret Thatcher’s Conservative governments in the 1980s, and has been broadly continued by Labour and Conservative-led governments ever since. While these attempts to increase home ownership succeeded for a while, eventually a tipping point was reached: prices became so high that a whole generation now finds itself completely priced out of the market and unable to buy a home without support from the ‘Bank of Mum and Dad’. As a result, levels of home ownership in England began gradually falling from its peak of 71% in 2003, and today remains at 65% (MHCLG, 2019/20). The decline in home ownership among young adults has been particularly stark: while in 2003 59% of 25- to 34-year-olds in England owned their own home, today the figure is only 47% (DLUHC, 2020/21:AT1.4). Millennials today are half as likely to own their home at age 30 as the baby boomer generation were when they were the same age (Bangham, 2019).

Figure 3: Trends in housing tenure in England



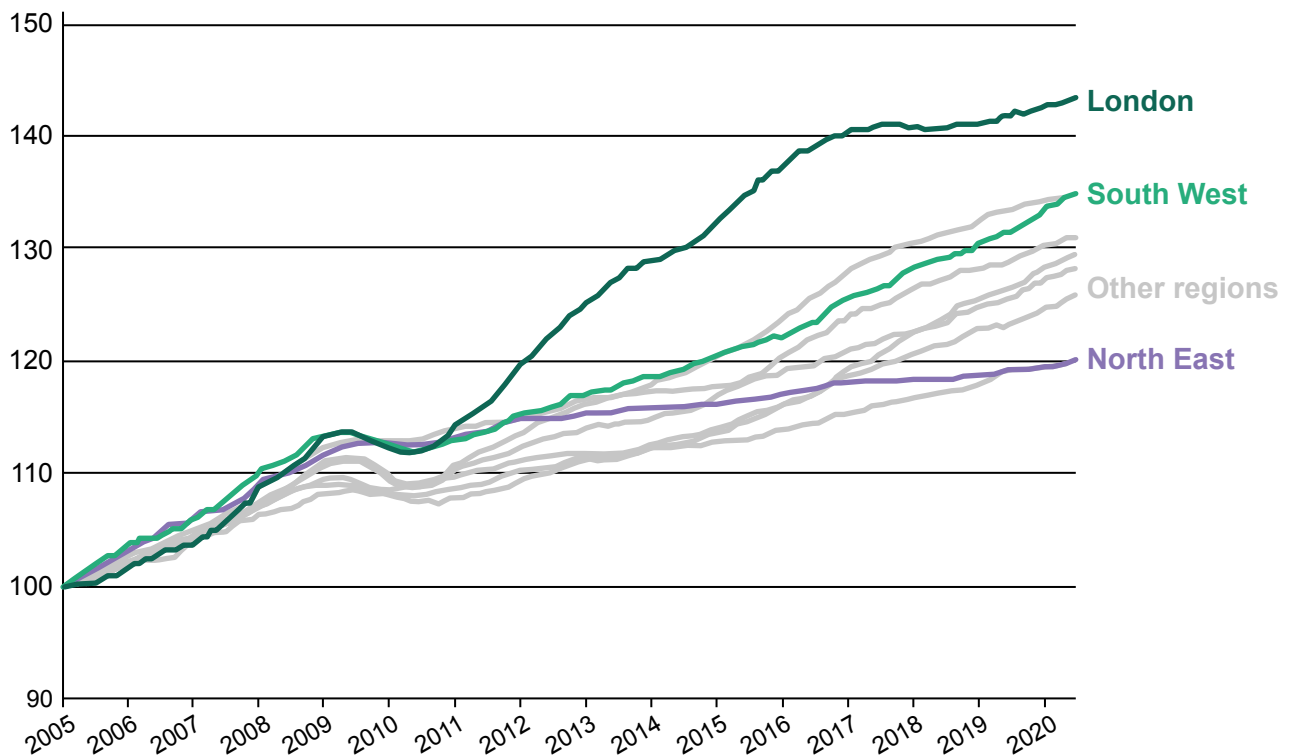
Source: MHCLG (2019/20b).

In the absence of adequate social housing, many have increasingly found themselves with little choice but to rent privately. For the growing numbers of people stuck in the private rental market, the proportion of income spent on rent has risen from around 10% in 1980³ to 32% today in England and 42% for Londoners⁴, among the highest in Europe (OECD, 2021:2). Average private rents in London have risen by 43% since 2005, by far the largest increase of any other English region (figure 4). The median monthly rent for a one-bedroom home in London (£1204) is almost as high as the median monthly rent for a 4 bedroom home (£1300) in England (Cosh and Gleeson, 2020:68). There is considerable variation within London: in some boroughs, the proportion of income spent on renting a two-bed property is as high as 75% for those at the bottom 25% of the income distribution (Tinson et al, 2017:55).

3. Belfield et al., 2015:12.

4. MHCLG (2019/20a).

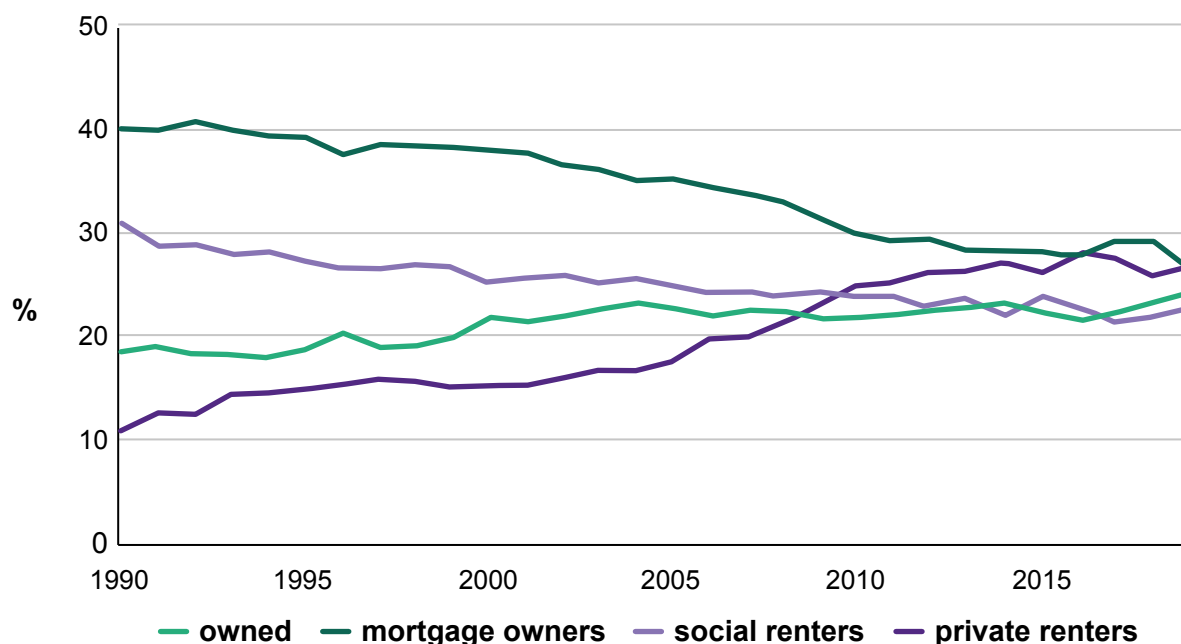
Figure 4: Index of average private rents for London and regions of England (2005 = 100)



Source: Cosh and Gleeson (2020:66).

While the impact of the housing affordability crisis has been felt across the UK, the problems have been most acutely felt in London. House prices and rents in London are considerably higher than in any other region in the UK. A consequence of this has been a falling rate of homeownership in London, at 50.5%, far below the UK average of 65% in 2019-20. Private and social renters account for 49.5% of households in London.

Figure 5: Trends in housing tenure in London, 1990-2019



Source: GLA (2020: table 1.11).

The COVID-19 pandemic has brought the UK's housing crisis into sharp focus. While the real economy experienced a record contraction during the pandemic, house prices surged. In the twelve months between March 2020 and March 2021, house prices increased by 10% while GDP fell by 10% (Ryan-Collins, 2020b). This differed from the economic downturn that followed the Global Financial Crisis and most other historic recessions, where GDP and house prices both fell year on year. As a result, the pandemic has further exacerbated the stark inequalities that exist between those who own property, and those who do not.

In this paper we explore the underlying causes of the UK's housing affordability crisis. We seek to challenge the conventional wisdom that the crisis is mainly a result of a shortage of supply, and instead look at the role of a number of different demand-side factors in driving house prices and housing inequality across the UK, with a particular focus on London.

In Section 2, we examine how the evolution of UK housing policy since the 1970s, driven by the desire to increase homeownership, transformed housing from a basic need to an attractive financial asset.

In Section 3, we explore how this transformation of housing into a financial asset was turbocharged by financial deregulation and the dramatic expansion of mortgage lending.

In Section 4, we examine how the quantitative easing (QE) undertaken by the Bank of England since the Global Financial Crisis has exacerbated the housing affordability crisis and associated inequalities.

In Section 5, we examine how the housing affordability crisis has impacted different demographics over time, including Black, Asian and ethnic minority households, the young and those at the lower end of the income distribution.

In Section 6, we conclude by laying out a strategy for the UK Government to launch a new long-term housing affordability strategy to tackle the systemic causes of unsustainable house price inflation.

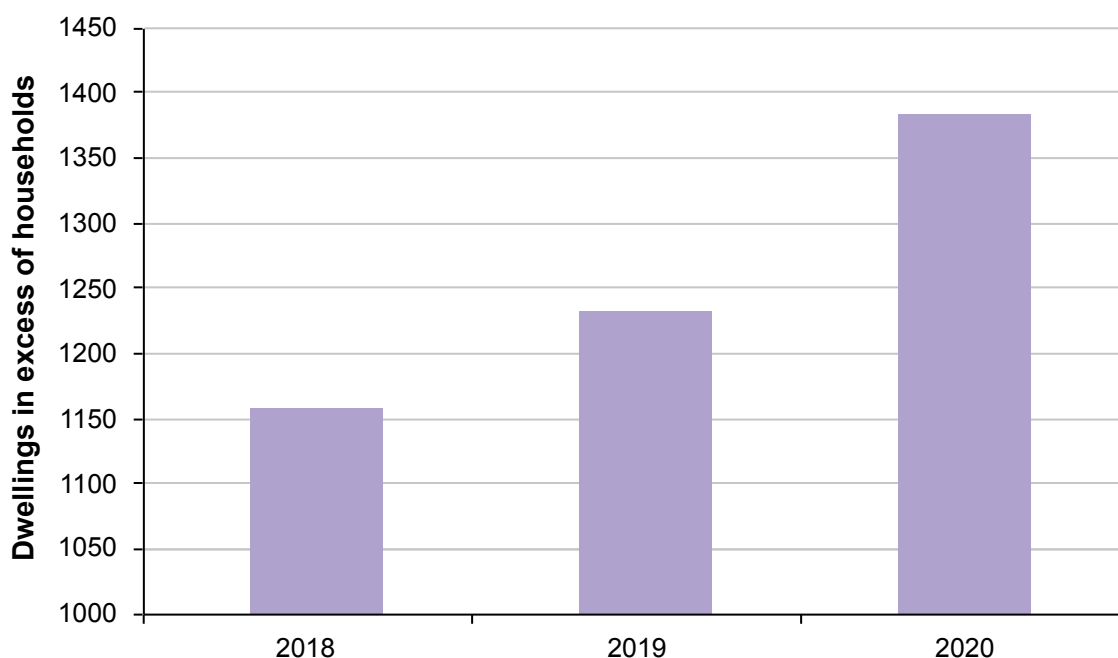
2. From a basic need to a financial asset: a short history of UK housing policy

2.1 The housing affordability crisis is not due to a shortage of supply

The roots of the UK's housing affordability crisis have been the source of significant debate in recent years. Often the crisis is framed as a crisis of supply, stemming from an excessively restrictive planning system and the failure of new housebuilding to keep pace with new household formation.

Although these supply-side arguments may sound plausible, the available evidence indicates that they fail to explain why housing has become so unaffordable for many. In contrast to perceived wisdom, since the mid 1990s – the period that has seen the most rapid house price inflation – the English housing stock has grown by 168,000 units per year on average, while growth in the number of households has averaged 147,000 per year (Mulheirn, 2019). As a result, while there were 660,000 more dwellings than households in England in 1996, this surplus grew to over 1.1 million by 2018. Similar trends are apparent in Scotland, where a surplus of 74,000 in 1996 more than doubled to 169,000 by 2017, and in Wales, where the surplus increased from 56,000 to 92,000. Even over the past three years, when criticism of a perceived housing shortage has intensified, growth in the supply of housing has continued to outpace growth in the number of households in England.

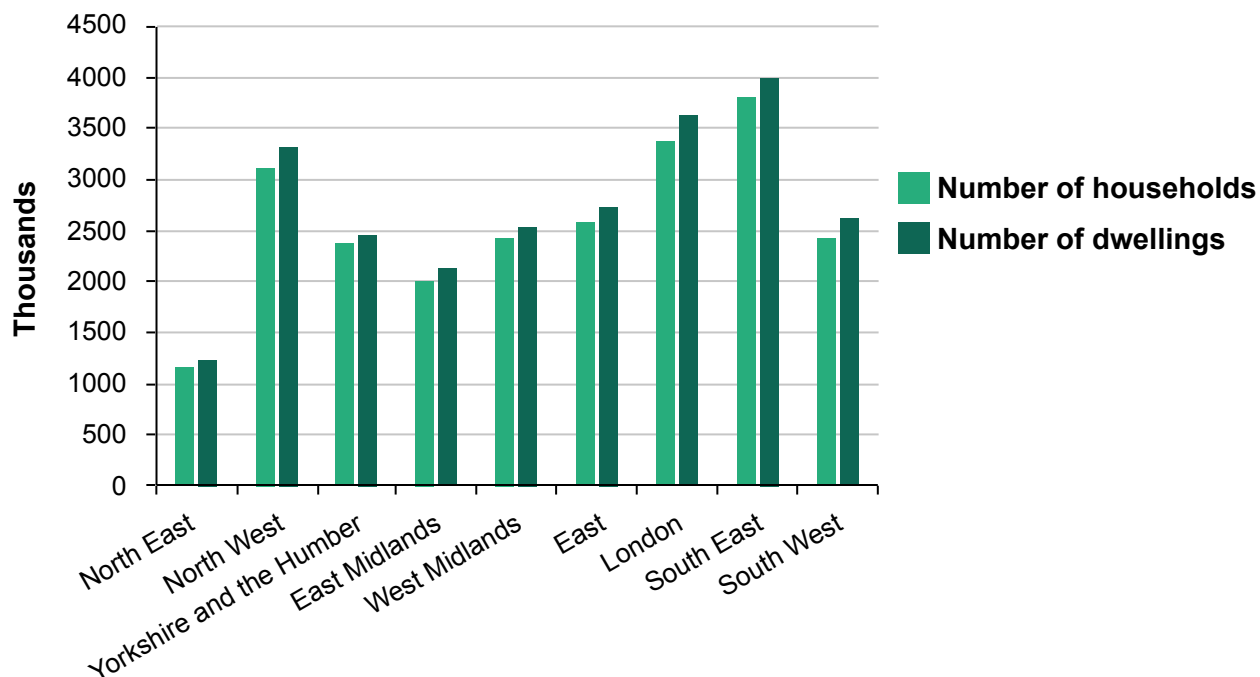
Figure 6: Number of dwellings in excess of households, England



Source: ONS, MHCLG.

While it is possible that the growing surplus of houses nationally could obscure supply shortages at regional level, the available data suggest that surplus stock has been reasonably evenly spread across England. Even in London and the South East, in 2020 there were 7.5% and 4.8% more dwellings than households respectively, as shown in Figure 7 below.

Figure 7: Regional breakdown of households and dwellings, England, 2020



Source: Labour Force Survey, MHCLG.

In contrast to the conventional view, that supply has failed to keep up with household formation, the evidence indicates that new supply has actually exceeded new household formation in recent decades. If the primary driver of house prices is the balance between the new supply of housing and new household formation, then the increase in surplus housing stock would imply that house prices should have fallen relative to incomes. But as outlined in section 1, in reality house prices soared during this period.

As a result, the evidence indicates that a strategy focused on building more houses alone will fail to tackle the affordability crisis. Even if the government succeeded in dramatically increasing the supply of houses, the impact on prices would be relatively limited. This is because new supply will only ever account for a small proportion of the overall housing stock. Unlike other markets, most housing transactions take place in the second-hand (i.e. already existing) market rather than new build developments. The UK government's own house price model suggests that even if the number of homes had grown 300,000 every year since 1996, far outstripping the growth of households, the average house today would be only 7% cheaper, doing little to reverse the 120% increase in real house prices over the past 30 years (Mulheirn, 2018). There may of course be other good reasons to build new houses, for example to build more affordable housing in areas of high demand, but by itself it is not a sufficient solution to the systemic problem of high house prices. In addition, given the UK's commitment to tackling the climate emergency, policymakers should also be mindful of the environmental impact of large scale new housebuilding. One recent study found that if the UK Government achieved its goal of building 300,000 new homes per year, the resulting housing stock would consume England's whole cumulative carbon budget by 2050 (zu Ermgassen et al, 2022).

If a shortage of supply does not explain soaring house prices, what does? The answer lies in the fact that housing plays a dual role in the economy. On the one hand housing is a basic consumption good which provides a flow of services (i.e. somewhere to live) to the occupier. On the other hand, the permanence and inherent scarcity of housing (and in particular the land that sits beneath it) make it a good asset for storing value. While most capital assets depreciate in value over time due to natural wear and tear, land's unique properties – scarcity, permanence, irreproducibility, immobility – means that it tends to appreciate in value (Ryan-Collins et al., 2017). In other words: housing plays a crucial role as a major financial asset as well as a basic consumption good.

These two roles are connected but distinct. It is possible for the supply of housing to outstrip the demand for places to live, causing rents to fall relative to incomes. At the same time, rapidly growing demand for housing assets can cause the price of houses to skyrocket (Mulheirn, 2019).

Crucially however, the demand for housing as a financial asset depends on the wider policy and regulatory environment (the broader system of housing policy, taxation, and subsidies). This determines both the relative attractiveness of home ownership compared to other forms of housing tenure (i.e. renting), and the relative attractiveness of investing in housing compared to other types of assets. Over the past five decades, the evolution of this policy landscape has meant that housing has been made increasingly attractive on both accounts.

2.2. The 'property owning democracy' and the rise of housing as a financial asset

Following the Second World War, providing affordable housing was widely viewed as a national priority. The Labour government's 1947 Town and Country Planning Act kept land in private hands, but effectively nationalised the right to develop it by establishing the modern planning system. This meant that landowners and developers had to apply to their local authority for planning permission to build new property. Strong compulsory purchase powers enabled land to be acquired at low cost for public development, so post-war governments embarked on large scale council house building programmes. The combination of low-cost land acquisition, the power to determine planning applications, and large-scale council house building reduced market volatility and provided widespread low-cost alternatives to homeownership (Ryan-Collins et al., 2017).

This state intervention on the supply side was supported by strict financial regulations that limited the amount of credit flowing into the property market, rent controls, and a tax regime designed to balance the interests of homeowners and renters. This system proved successful at keeping house prices under control, and prevented property owners from extracting excessive rents.

But beginning in the 1960s this settlement began to be unwound. Firstly, a number of changes to taxation shifted incentives dramatically in favour of homeownership. In 1963, 'Schedule A' income tax, a tax on imputed rental income, was abolished. Imputed rent is the 'in kind' income that homeowners receive from their property, calculated as the rent that would be paid for a similar property in the private rented sector. While imputed rent from owner-occupancy is no longer subject to taxation, landlords' rental income is still subject to income tax. Many economists maintain that the tax-exempt status of imputed rental income makes it more attractive to receive income in this form than in other forms, which distorts investment decisions and attracts excess investment into the housing market (Callan, 1992 and Mirrlees and Adam, 2011).

Secondly, when capital gains tax was introduced in 1965 an exemption was made for primary residences. Capital gains tax is charged on gains realised due to the disposal of assets, calculated as the difference between the cost of acquiring the asset and the income acquired due to the disposal of that asset. This tax exemption immediately made housing a more attractive financial asset than shares and other investment vehicles. This is particularly relevant in the UK where real house prices have risen considerably, with owners enjoying windfall gains that have gone untaxed. The value of this tax exemption was estimated to be worth £27 billion in 2018-19 by the National Audit Office (NAO, 2020).

Thirdly, in 1969, the government introduced mortgage interest relief at source (MIRAS) which provided tax relief for interest payments on mortgages. MIRAS enabled mortgagors to claim back debt interest costs at the basic rate of income tax, creating a clear financial incentive to get a mortgage and buy property. The rate of relief was gradually reduced from 1994 until it was abolished completely in 2000. Although mortgage interest relief is no longer available for owner-occupiers, some relief remains in place for Buy-to-Let (BTL) landlords.

With the arrival of Margaret Thatcher as prime minister in 1979, the government sought to dramatically increase homeownership and achieve the long-held Conservative Party goal of transforming the country into a 'property owning democracy'. The first step towards this came in October 1980 when the government passed its first Housing Act, launching the flagship "Right to Buy" policy, which gave public housing tenants the legal right to purchase their homes from local authorities at a discount of up to 50%. Because local authorities were prevented from using the proceeds of sales to build more public housing, the effect of the policy was to dramatically reduce the stock of, and the number of people living in, council housing throughout the 1980s and 1990 – and significantly increase the level of homeownership.

In 1988, the introduction of another Housing Act abolished rent controls, which had been in place in some form since 1915, and introduced the Assured Shorthold Tenancy. Under this new form of rental tenure, private landlords would be able to evict their tenants at will, without having to show grounds, and tenancies could be as short as six months. Combined with the introduction of BTL mortgages (which will be discussed further in the next section), these changes acted as a powerful catalyst for the BTL boom which would follow in the subsequent decades.

A new tax on residential property was introduced in the form of the Council Tax in 1993. Today Council Tax is widely regarded as a highly ineffective property tax, given that taxable values bear little resemblance to current market values. The tax levied is based on the estimated value of the occupied property as at 1 April 1991 in England and Scotland. Changes in property values have varied significantly between different regions since Council Tax was introduced: on average, property values increased more than twice as much in London as in the North East, yet the tax rate has not changed to reflect this. This means properties are in increasingly arbitrary tax bands that may bear little relation to current reality (Adam et al., 2020). Council Tax is also highly regressive, disproportionately impacting lower value properties. In addition, the tax is payable by those who occupy properties rather than own them, meaning that it is paid by renters as well as owner occupiers.

Finally, in recognition that moving towards market housing would leave some people unable to adequately house themselves, the government introduced a dramatic shift away from subsidising 'bricks and mortar' via public housebuilding, towards subsidising individuals via Housing Benefit. The effect of this shift was to allow for a greater role for market forces in the provision of housing for lower income households. Whereas in 1975 more than 80% of housing subsidies were supply-side subsidies intended to promote the construction of social homes, by 2000 more than 85% of housing subsidies were on the demand side aimed at helping individual tenants pay the required rent.

Taken together, all of these changes created a major bias in favour of home ownership compared to other forms of tenure and other investment assets, and therefore contributed towards the continued rise in homeownership in the 1970s, 1980s and 1990s. They also gave birth to a boom BTL investment, which rapidly began to fill the gap left by the decline in the social housing stock triggered by Right to Buy.

Although the stated aim of these changes was to increase home ownership, a major side effect, combined with the deregulation of the mortgage credit market (which will be discussed further in the next section), was an inexorable rise in house prices, which far outstripped increases in wages. As house prices continued to rise, the gap between house prices and the incomes of those locked out of home ownership grew ever larger. Easier access to mortgage credit following financial liberalisation and Right to Buy discounts were able to cover this widening gap for a while, but by the early 1990s there were not enough prospective buyers who could afford to purchase a home, and the proportion of mortgaged homeownership plateaued. The rising number of older, outright owners who had fully paid off their mortgages continued to push total homeownership upwards for a further ten years, even as the number of younger first-time buyers began to collapse. But this effect could only last so long: by 2003 total homeownership peaked at 73%, and declined steadily for the next 15 years.

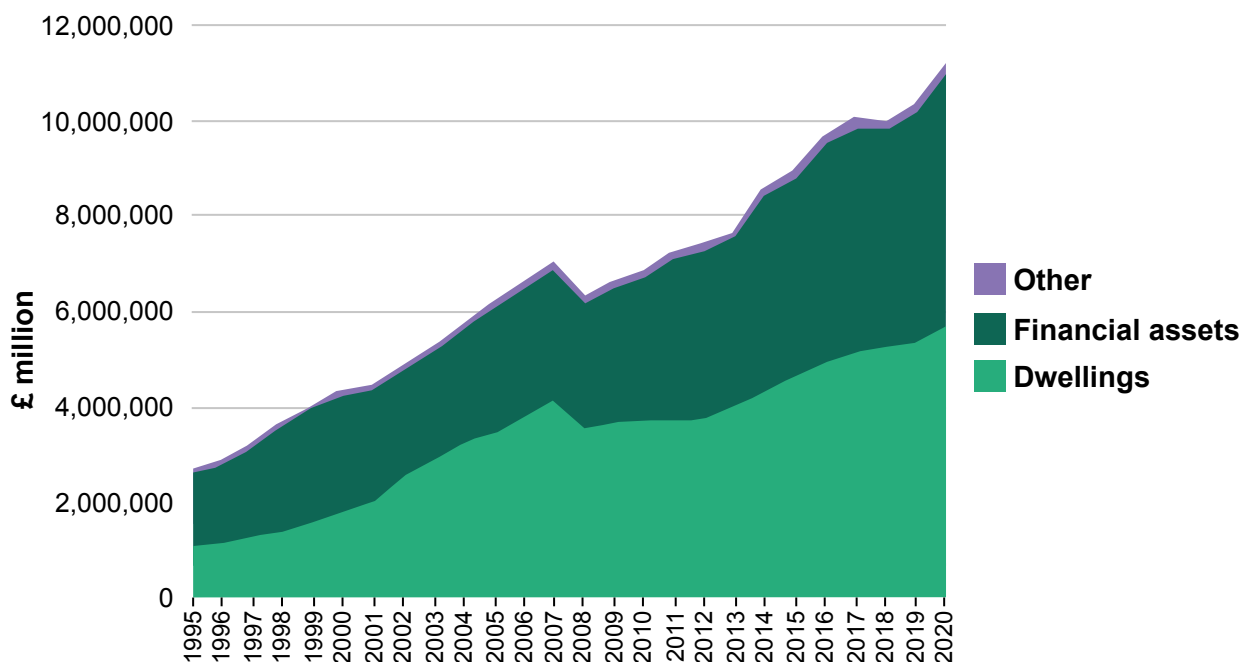
In response to collapsing rates of homeownership, in recent years governments have introduced a range of new policies designed to make it easier for more people to get on the 'housing ladder'. These have included various 'help-to-buy' schemes which provide government equity loans to help buyers obtain a deposit; a new 'Help-to-Buy ISA' which offers further tax relief on savings used to purchase housing, and, most recently, a new mortgage guarantee which provide state subsidies to enable banks to offer high loan-to-value (LTV) mortgages (HM Treasury, 2021a).

In addition, a range of recent tax changes have further enhanced the tax treatment of housing compared with other assets. The first of these relates to inheritance tax. In the 2015 summer budget, the chancellor of the exchequer announced a new transferable main residence allowance which gradually increased from £100,000 per person in April 2017 to £175,000 by 2020–21. This effectively raised the tax-free allowance from £325,000 to £500,000 per person for estates that include a house, and to £1 million for married couples, further incentivising people to hold their wealth in the form of housing. More recently the government has announced a number of reforms to Stamp Duty Land Tax (SDLT) charged on the sale of residential property designed to encourage home ownership, particularly for first-time buyers (HM Revenue & Customs, 2017).

These recent measures have had a small impact on reversing the decline in homeownership. While 63% of households in England were homeowners in 2013/14, this increased slightly to 65% by 2019/20 (Wilson, 2021). However, house price inflation has continued to outstrip wage growth, meaning that these changes have failed to address the root causes of the affordability crisis, and in some cases have made them worse.

Overall however, the primary effect of the changes introduced over the past five decades has been to transform housing into a lucrative financial asset. The vital role of rising house prices in driving household wealth accumulation is shown in Figure 8. Since 1995, the value of UK housing wealth has increased from just over £1 trillion to over £5.7 trillion in 2020 – accounting for almost 54% of all household wealth accumulated during this period. Today housing wealth accounts for 51% of the entire net wealth of UK households (ONS, 2021). As the Office for National Statistics has acknowledged, this rapid increase is largely the result of soaring house prices rather than new construction: “The increase in the value of dwellings was largely due to increases in house prices rather than a change in the volume of dwellings” (ONS, 2016).

Figure 8: UK households net worth, 1995-2020



Source: ONS (2021). Value of dwellings includes the value of land that sits underneath.

However, the structural bias that has been created in favour of property ownership over other assets is only part of the problem. Because demand for housing is determined by the amount of purchasing power available for property purchases, policy changes that increase this purchasing power – whether from the financial sector, fiscal expansion, or monetary policy easing – will inevitably interact with this structural bias, increasing inflows of money into the property market and accelerating the affordability crisis. This is what we examine in the following two sections, starting with dramatic shifts that have taken place in the financial sector.

3. Credit creation, bank lending and house prices

The previous section outlined how the evolution of UK housing policy since the 1970s, driven by the desire to increase homeownership, transformed housing from a basic need to an attractive financial asset, resulting in a systemic bias towards investment in housing relative to other assets.

At the same time, dramatic shifts were taking place in the financial sector that led to a significant increase in the amount of purchasing power available for housing. In this chapter we explore the role of finance and how the deregulation of mortgage credit markets have increasingly become important drivers of rapid rises in house prices, turbocharging housing's role as a financial asset in the economy.

3.1. The liberalisation of UK mortgage lending

For the majority of the twentieth century, mortgage lending in the UK was mostly carried out by building societies. Building societies were relatively conservative mutually owned organisations that would only lend to those with secure incomes, a credible savings history, and a significant deposit, many times higher than present-day levels (Scanlon and Whitehead, 2011). Meanwhile, strict banking regulations and quantitative credit controls applied by the Bank of England ensured that banks lent mainly to businesses rather than real estate and other financial firms. These arrangements prevented rapid growth and volatility in the supply of mortgage credit and house prices.

However, beginning in 1971 with the introduction of the Bank of England's Competition, Credit and Control (CCC) policy, these arrangements began to be unwound. Restrictions on lending were removed, and banks were incentivised to become active players in the mortgage lending market. Innovations in the mortgage market, including the introduction of tax-efficient products such as endowment mortgages (or 'interest-only' mortgages) and Mortgage Indemnity insurance, which covered the risk to lenders of LTV ratios above 70%, also helped the mortgage market expand (Scanlon and Whitehead, 2011). This was further accelerated with the election of the 1979 Conservative government, which sought to liberalise the UK's financial sector to enable the City of London to compete with New York, and support the government's plans for dramatically increasing home ownership. Foreign exchange controls were removed, which opened the banking sector to greater international competition and gave UK banks access to overseas funding. To allow UK banks to compete more effectively with foreign banks, further steps were taken to remove restrictions on lending, and incentivise banks to become active players in the mortgage lending market. This enabled banks to compete effectively with building societies for mortgages for the first time.⁵ As a result, the share of new mortgages issued by building societies began to rapidly decline.

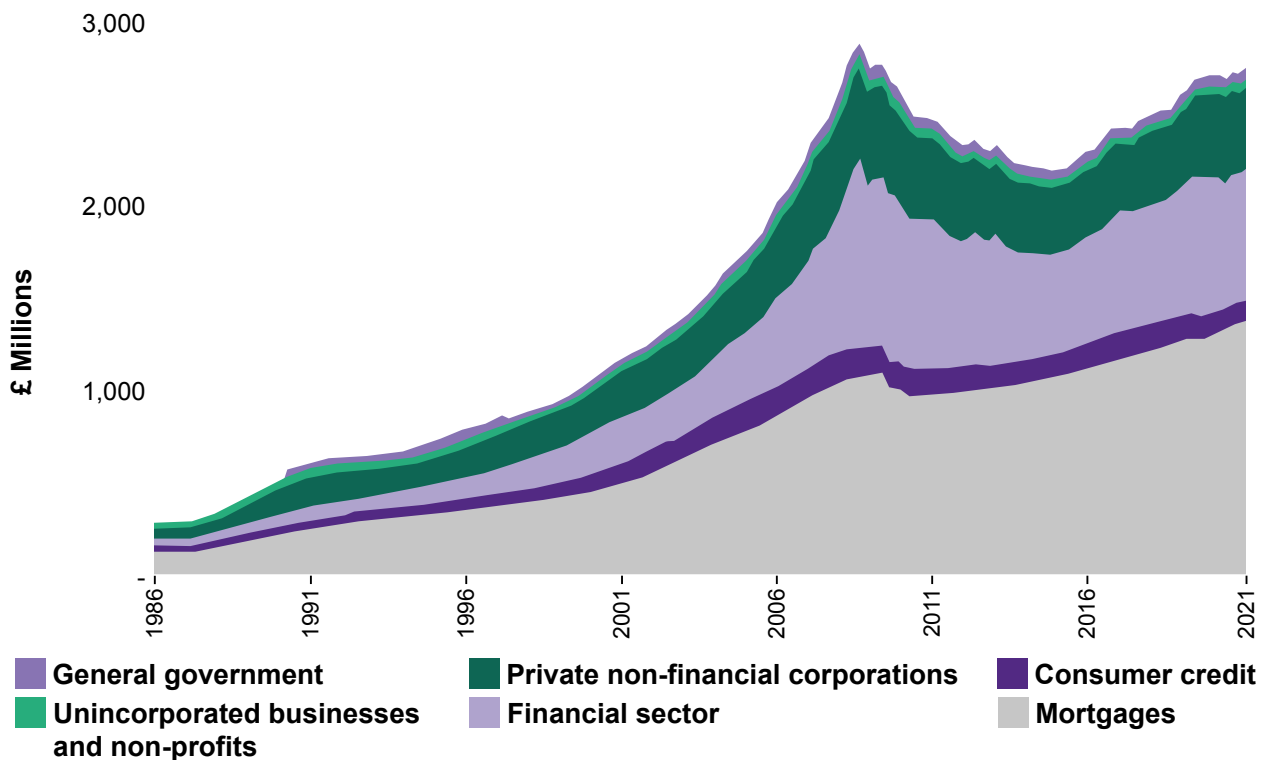
5. For a detailed history of financial sector liberalisation in the UK, see Ryan-Collins et al (2017:128-142).

As part of the 'Big Bang' financial reforms of 1986, building societies were also permitted to borrow on wholesale markets, and quantitative restrictions on mortgage lending for banks and mutuals were removed. With the longstanding measures that prevented rapid growth in the supply of mortgage credit now dismantled, mortgage lending soared, increasing from 20% of GDP in the late 1970s to over 70% before the financial crisis (Ryan-Collins et al., 2017). As competition in the mortgage market intensified, banks became increasingly willing to offer riskier loans at high loan-to-income (LTI), and LTV ratios. In 2007, half of all mortgages had no income verification, and a third of all mortgages were interest-only (FSA, 2009).

In 1996 a new BTL mortgage was introduced by the banks in cooperation with the Association of Residential Letting Agents (ARLA), providing landlords with a bespoke financial product to invest in housing for the first time. BTL mortgages expanded from zero to 15% of all mortgages by 2021, with a recent estimate putting the market size at £220 billion (FCA, 2021; Hudson, 2021a). Combined with the deregulation of the private rented sector described in Section 2, these new mortgage products helped drive a large increase in the proportion of homes owned by landlords. Private landlords now own almost one out of five homes in Britain, and a recent study found that four in ten homes sold under the Right to Buy scheme are now owned by private landlords (Kentish, 2017). Most of these investors are homeowners who had already accumulated significant wealth from the rising housing market. This new source of demand therefore helped keep house prices high and rising during the long boom from the mid-1990s onwards.

Overall, the liberalisation of the financial sector since the 1970s has triggered a shift in the role that retail banks played in the British economy: they transitioned from mainly lending to businesses for productive investment to primarily lending to finance the purchase of existing property assets. As a result, the share of lending going to productive non-financial businesses has been falling rapidly since the 1980s, down from 23% in 1986 to 16% of all bank lending by 2021.

Figure 9: Bank lending allocation in the UK



Source: Bank of England Interactive Database. Note: Quarterly amounts outstanding of resident financial institutions' sterling and all foreign currency net lending (in £mn) not seasonally adjusted.

The liberalisation of mortgage lending had significant consequences for the trajectory of UK house prices. This is because banks are not like other lenders: bank lending is responsible for creating and allocating the majority of new money and credit that enters the economy. When a bank issues a new mortgage, money is not taken from the existing supply of money in the economy. When a bank makes a loan, it creates new credit and money – new purchasing power is added to the economy (see Box 1). The power of credit creation means that households are able to purchase property even as house prices increase significantly faster than their incomes.

When the supply of mortgage credit increases, this creates a self-reinforcing feedback loop between mortgage lending, rising house prices, and increasing levels of household debt. As Ryan-Collins (2019) notes:

“[The] advanced economy housing affordability crisis has its roots in the interaction between the strong policy preference for private home ownership, realized through various state subsidies and fiscal advantages, and a deregulated and (globally) liberalised financial system. Their interaction creates a positive feedback cycle that drives up property prices at a much faster rate than rises in incomes, ultimately making housing increasingly unaffordable for a large proportion of the population” (Ryan-Collins, 2019).

As house prices rise, households are forced to take out ever larger mortgage loans to purchase property, boosting banks’ profits and capital (the money banks must hold to cover defaults).⁶ This enables banks to issue more loans, which further pushes up prices until such a point that property prices are many times people’s incomes. The normalisation of rapid house price growth creates an expectation that house prices will continually increase, which further fuels demand for houses as financial assets (Ryan-Collins, 2019). As former Chair of the Financial Services Authority Adair Turner has argued: “Lending against real estate generates self-reinforcing cycles of credit supply, credit demand and asset prices” (Goodhart and Hofmann, 2008).

A major driving force in the increase of UK house prices over the last thirty years has therefore been a relatively elastic supply of credit meeting a relatively fixed supply of housing, combined with increased speculative demand for homeownership and BTL landlordism. Such a rapid growth in house prices would not have been possible without a credit-creating banking system, given the much slower growth of household incomes.

6. Residential mortgage lending is typically the most profitable product for banks, delivering a higher return on equity (RoE) than other forms of lending. See Credit Suisse (2015).

Box 1: Money creation in modern economies

In modern economies, coins and physical notes only make up around 3% of the total circulating money supply.⁷ The remaining is made up of electronic bank deposits, or the digital money that sits in bank accounts (BoE, 2021a). Whenever consumers make purchases using a debit card, they are doing so using bank deposits. This type of money is not created by the Bank of England, the Royal Mint, or any other part of government. Instead, it is mostly created by commercial banks such as Barclays, Lloyds, RBS, and HSBC.⁸

The process by which bank deposits are created has long been a source of confusion.⁹ A prevalent view among the general public and some economists is that banks are financial intermediaries that take money from savers and lend it to borrowers. Another general view is that banks borrow central bank reserves from the central bank and then lend them out to the public. Both views, however, do not accurately reflect how modern banking and monetary systems operate.

In reality banks create new money in the form of bank deposits when they make new loans. When a customer takes out a new mortgage from a bank, the money is not taken from someone else's savings, nor is it taken from the bank's own reserves (Ryan-Collins et al., 2012). Rather, the bank creates the money electronically and credits the customer's bank account with additional deposits. When banks issue new loans, they expand both sides of their balance sheet simultaneously, creating an asset (the loan) and a liability (the customer's deposit in the bank account). As the Bank of England acknowledged in a 2014 paper:

“In the modern economy, most money takes the form of bank deposits. But how those bank deposits are created is often misunderstood: the principal way is through commercial banks making loans. Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money” (McLeay et al., 2014:14).

When a loan is repaid, the opposite process occurs. Both the loan (the bank's asset) and the deposit (the bank's liability) is reduced; money is destroyed and the money supply shrinks. Therefore, at any one moment in time, the money supply is largely determined by the amount of new loans being created minus those being repaid. Although banks create money through lending, they cannot do so freely without limit. Banks are limited in how much they can lend if they are to remain profitable in a competitive banking system. Prudential regulation also acts as a constraint on banks' activities in order to maintain the resilience of the financial system.

7. This figure indicates the total money supply for the real economy, and excludes central bank reserves, which are only accessible by banks and other financial institutions.

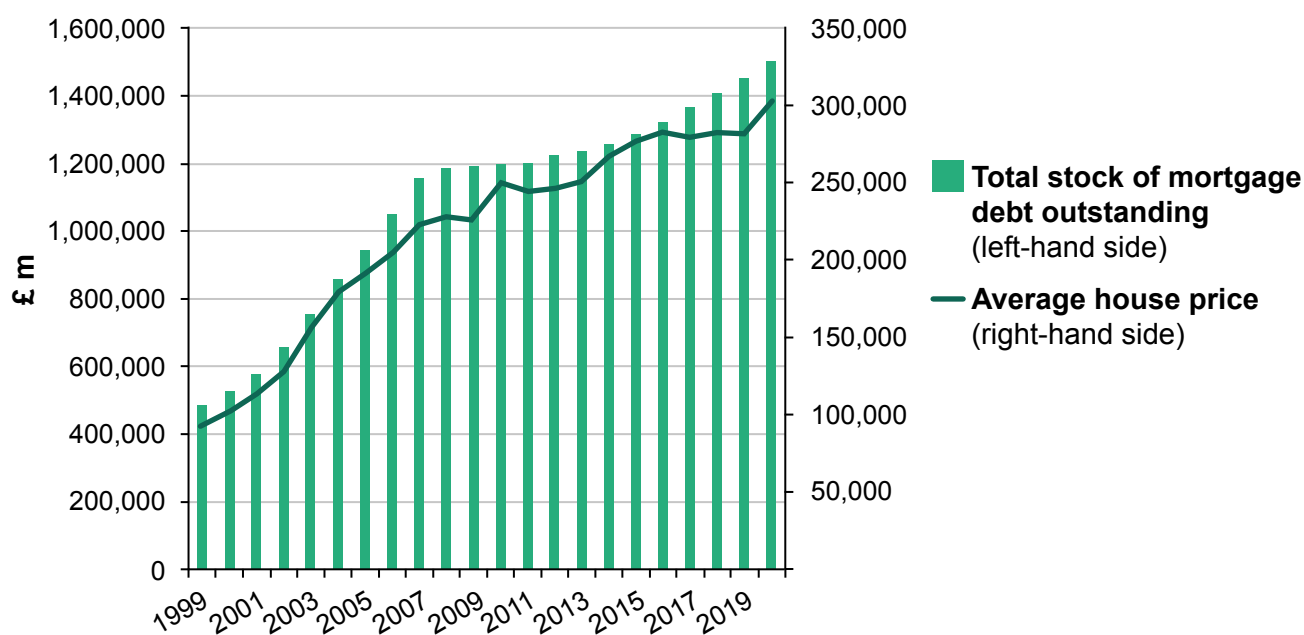
8. As will be discussed further below, bank deposits are also created when the Bank of England purchases bonds from the non-banking sector via its QE programme. To date around 18% of the total bank deposits in circulation have been created through QE.

9. For a detailed discussion of how banks create money, see Greenham, et al., 2012 and McLeay et al., 2014.

3.2. Mortgage lending and house prices: empirical evidence

Since 1999 the total stock of mortgage debt outstanding across the UK has increased from £485 billion to over £1.5 trillion, while average house prices have increased by more than 200%: rising from £93,000 to £303,000. At the same time, median house prices have increased from four times median earnings to more than eight times. Similar patterns have been observed elsewhere: on average across advanced economies, mortgage credit rose from 40% of GDP in the mid-1990s to 70% by 2007, with house prices doubling over the same period (Ryan-Collins, 2018).

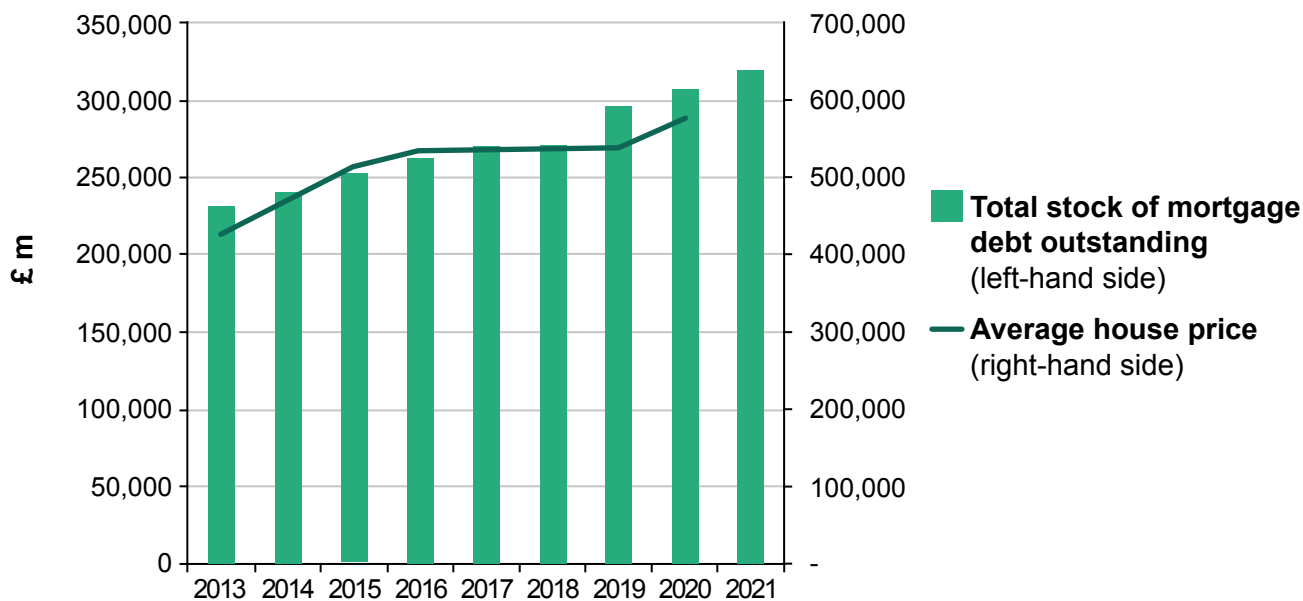
Figure 10: Stock of mortgage debt and average house prices in the UK



Source: Building Societies Association, ONS.

These nation-wide figures mask large regional variations. In London, average house prices increased from £142,000 to £575,000 between 1999 and 2020. Reliable regional data on the total outstanding stock of mortgage debt is only available from 2013, but it is clear that a similar correlation between mortgage lending and house prices in recent years can be observed.

Figure 11: Stock of mortgage debt and average house prices in London



Source: UK Finance, ONS.

Despite this correlation between mortgage lending and house price growth, quantifying the impact of mortgage credit on house prices poses a number of challenges. Firstly, house prices are influenced by such a wide range of factors, including monetary policy, financial regulation, tax policy, subsidies, planning rules, the rate of household formation, and the relative attractiveness of other financial assets. As a result, identifying the impact of mortgage credit availability on house prices, as distinct from these wider policy variables, is challenging from an empirical standpoint. In addition, causation can be difficult to establish given the potential endogeneity of house prices and mortgage credit. Correlation does not equal causation, which is critical when examining the relationship between mortgage credit supply and house prices.

However, in recent years a number of empirical studies have sought to examine the relationship between the role of credit supply conditions, credit creation and the dramatic increase in house prices experienced in many countries. Numerous empirical studies have identified credit constraints as an important explanatory factor in explaining cross country differences in house prices, with one describing shifts in credit conditions as the “elephant in the room’ for economies with liberalised financial markets” (Duca et al, 2011; Muellbauer and Williams, 2011). Other studies have also found that Anglosphere economies such as the UK and US that deregulated their mortgage markets in the 1980s saw faster rises and more volatility in house prices than those economies that did not (Aron et al., 2012).

Other studies have examined the relationship between credit supply, house prices and wider economic activity. A 2008 paper by Goodhart and Hoffman assessed the linkages between money, credit, house prices and economic activity in 17 industrialised countries over the last three decades, and concluded that:

“There is evidence of a significant multidirectional link between house prices, broad money, private credit and the macroeconomy. Money growth has a significant effect on house prices and credit, credit influences money and house prices and house prices influence both credit and money. This link is found to be stronger over a more recent subsample from 1985 to 2006 than over a longer sample going back to the early 1970s, a finding that most likely reflects the effects of financial system liberalisations in industrialised countries during the 1970s and early 1980” (Goodhart and Hofmann, 2008).

An OECD study of 19 countries between 1980 and 2005 found that financial deregulation and an expansion of mortgage credit may have translated into increases in house prices by 30% – far more than other demand and supply variables (Andrews et al., 2011). A similar International Monetary Fund (IMF) study of thirty-six advanced and emerging economies (including the UK) found a “strong positive relationship between house price movements and household credit growth, also when controlling for the main fundamental drivers of house prices” (IMF, 2011). The study concluded that a 10 percentage point growth in mortgage credit as a percentage of GDP was associated with a 6 percentage point higher growth of real house prices. However, the study also noted that “the relationship works both ways, with house price increases in turn leading to stronger credit growth by boosting both household net worth and expectations of further house price increases.” Notably, however, the multidirectional, self-reinforcing link between mortgage credit and house prices is only possible because banks are able to continue expanding mortgage lending. The impact of mortgage credit growth on house prices appears to have reduced since the early 2010s, in part due to tightening mortgage regulation, although its impact is still reflected in high house prices today. Recent empirical studies from the US that use careful identification strategies suggest that house prices are more likely to be a product of credit supply expansion rather than a cause (Adelino et al, 2012; Mian et al, 2017; Di Maggio et al, 2017).

In London, these mortgage market dynamics have been compounded by the UK’s favourable legal and tax environment which, together with globally low interest rates, have pushed down returns on fixed income assets like bonds. This has led to large inflows of speculative investment into the London property market from foreign investors seeking to make capital gains from rising house prices (see Box 2).

Box 2: Foreign investment in London's property market

In recent decades the opaque nature of the UK property market has meant that investing in UK housing has become an attractive investment for those seeking to hide or launder significant amounts of wealth. In the UK it is possible to own property without disclosing the real or beneficial owners, for example where the real owner uses a foreign company to hide their ownership. Ownership of companies, limited partnerships, and limited liability partnerships can also be hidden – a factor which makes the UK very attractive to those with significant sums of money to hide or launder (ISC, 2020).

Research published by The Times in 2021 found that the number of properties in England and Wales owned by individuals based overseas has trebled since 2010, totalling 247,000 properties, almost 1% of all properties (Clarence-Smith, 2021). According to Transparency International, £4.4 billion worth of UK properties have been purchased with 'suspicious wealth', with more than a fifth of these purchased by Russian individuals (Transparency International, 2018). London's property market in particular has become one of the world's most attractive destinations for ill-gotten wealth. In July 2020 the Intelligence and Security Select Committee report on Russia described London as a 'laundromat' for corrupt money, concluding that:

"Successive Governments have welcomed the oligarchs and their money with open arms, providing them with a means of recycling illicit finance through the London 'laundromat', and connections at the highest levels with access to UK companies and political figures" (ISC, 2020).

In October 2021 almost 12 million documents from 14 sources were leaked to the International Consortium of Investigative Journalists (ICIJ). The leaks, commonly referred to as the 'Pandora Papers', revealed that owners of more than 1,500 UK properties have bought firms using offshore structures. The papers highlighted how wealthy overseas politicians and business figures have invested money in the UK, often in high-value London properties, and hidden their ownership using anonymous nominee companies set up in secrecy havens.

In turn this influx of foreign investment has pushed up house prices, exacerbating the affordability crisis. According to research from King's Business School, if foreign investment in the housing market in England and Wales had remained at the level it was in 2000, the price of the average home in 2014 would have been 19% lower than it actually was (Sá, 2017). Although much of the foreign investment is in properties at the top end of the market, the research emphasises that this has a 'trickle down' effect, and also pushes up the prices of less expensive homes.

The Economic Crime (Transparency and Enforcement) Bill was recently introduced to parliament after years of being delayed. The Bill is intended to introduce transparency over the true owners of overseas companies that own property in the UK. It requires existing owners in England and Wales to report beneficial ownership information on properties bought before January 1999 and existing owners in Scotland who have bought property since 2014. However, Transparency International has stated that the 18-month transition period is “far too long”, risking causing significant levels of asset flight, and highlighted that many property titles were purchased by overseas companies before 1999, which will be excluded under the Bill as currently drafted (Transparency International, 2022).

It is important to note that while the general trend among high-income economy financial systems has been a shift towards mortgage lending, not all economies have experienced this. In Germany, lending to non-financial businesses remains significantly higher than mortgage lending at 40% and 30% of GDP respectively (Ryan-Collins, 2018). This stands in contrast to the advanced economy average of mortgage credit at 70% of GDP and non-mortgage at 50%, and likely offers some explanation for why the house price-to-income ratio in Germany has been falling for most of the past four decades (although it has started to increase in recent years).

This may be partly accounted for by differences in the structure of Germany’s banking sector. In Germany, two-thirds of bank deposits are controlled by either cooperative or public savings banks (the Sparkassen). These ‘stakeholder banks’ are mandated to serve the public interest rather than simply to maximise returns, and are typically more focused on business lending than property lending (Prieg and Greenham, 2012). In contrast to UK banks, they typically devolve decision-making to branches and seek to de-risk their loans by building up strong relationships with the businesses they lend to rather than requiring property as collateral (Greenham and Prieg, 2015). There is now strong international evidence that stakeholder banks perform better than shareholder banks on a wide range of measures: they lend proportionately more to the real economy, maintain larger branch networks, produce more consistent and less volatile returns, have safer business models with higher loan quality, and are less likely to fail or cut back lending in times of crisis (Bülbül et al., 2013; Ferri et al., 2014; Ferri et al., 2015). There is also evidence that the presence of a robust stakeholder banking sector improves wider economic outcomes such as reducing regional inequality and enhancing resilience to economic shocks (Usai and Vannini, 2005; Hakenes, et al., 2009; Berry, et al., 2015).

4. Quantitative easing and house prices

Since the global financial crisis many central banks around the world have implemented an unconventional monetary policy tool known as ‘quantitative easing’ (QE). In recent years, concern has been growing about the role that QE has played in pushing up asset prices, including house prices – and the effect this has had on exacerbating wealth inequalities. These concerns were reflected in a recent report by the House of Lords Economic Affairs Committee (EAC, 2021). In this section, we provide an overview of the Bank of England’s QE programme to date, and explore the impact it has had on the UK’s housing affordability crisis.

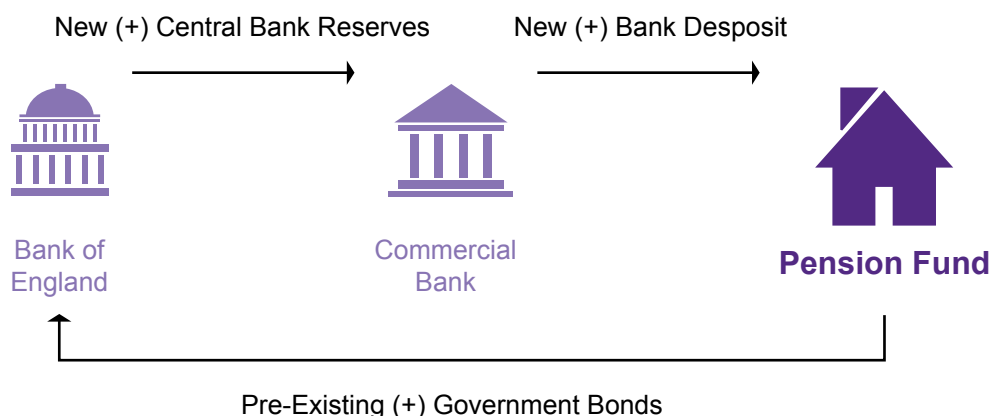
4.1. What is quantitative easing?

QE is a monetary policy tool used by central banks to inject new money into the economy through the purchase of financial assets, such as government and corporate bonds, on secondary markets. In normal times, when an economy is entering a recession, central banks will reduce interest rates to make borrowing and investment cheaper. However, since the Global Financial Crisis, interest rates have stayed at close to 0% (known as the ‘zero lower bound’). As a result the Bank of England began implementing QE in 2009, with the aim of stimulating spending, investment and economic growth.

In order to facilitate this, the Bank of England, together with the Treasury, created a new vehicle for carrying out the QE programme of asset purchases: the Asset Purchase Facility (APF). Whenever the Monetary Policy Committee decides that it needs to undertake additional QE, the Bank of England creates new electronic central bank reserves and lends them to the APF which, in turn, uses this money to purchase government and corporate bonds from the secondary market from private sector entities, such as pension funds or insurance companies. Once the APF has purchased bonds from, for example, a pension fund, the pension fund receives new money in the form of a new deposit credited to their commercial bank account. QE therefore results in the creation of new bank deposits (held as liabilities on commercial bank balance sheets) and additional interest bearing central bank reserves (held as assets on commercial bank balance sheets).¹⁰

10. New bank deposits are only created when the APF purchases bonds from non-bank entities. When bonds are purchased from banks, no new deposits are created.

Figure 12: How QE works



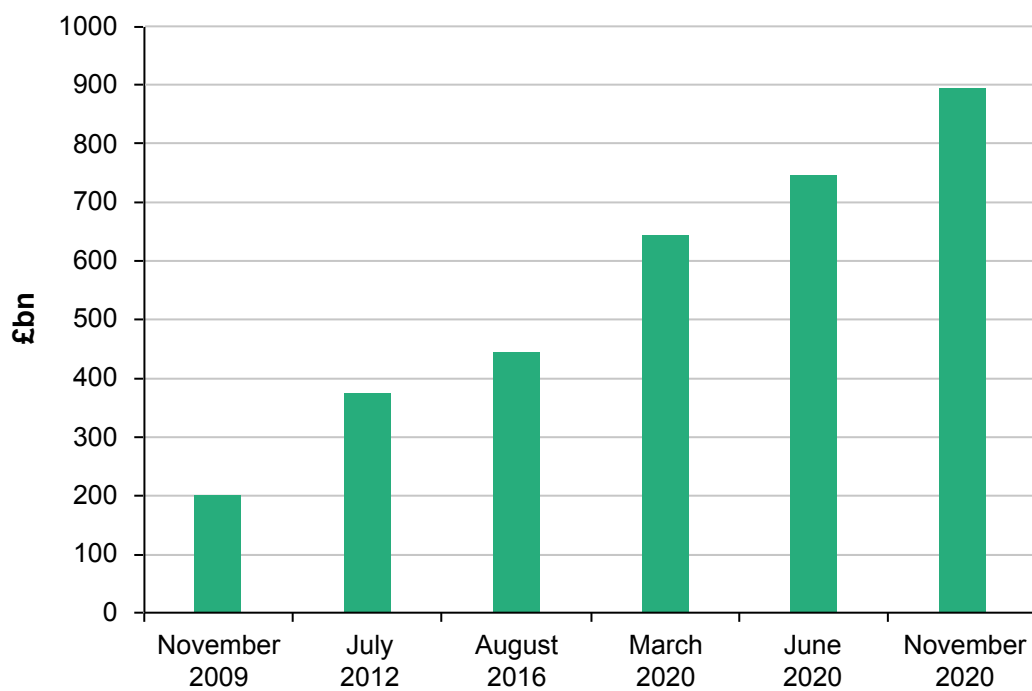
When QE was first introduced in 2009, it was intended to be a short-term measure to support the economy through the global financial crisis, strengthen financial stability and ease credit conditions. However, over the past decade the Bank of England has continued to expand the programme. QE has also been used extensively by other central banks around the world, including the US Federal Reserve, the European Central Bank and the Bank of Japan.

The UK's QE programme can be categorised into three broad phases. The first phase, lasting from between 2009 and 2012, was intended to boost nominal spending to help meet the inflation target, and to provide liquidity to banks and financial institutions during the financial crisis (BoE, 2009). During this period, the Bank conducted seven rounds of quantitative easing, totalling £375 billion by July 2012.

The second phase began in August 2016 in response to the UK's vote to leave the European Union. The Bank of England cut the official Bank Rate to 0.25% and increased its QE programme with an additional £70 billion of asset purchases, including £10 billion of corporate bonds. The Bank stated that asset purchases would trigger market participants to "rebalance" their investments into riskier assets, and this would lower "the real cost of borrowing for households and companies." The Bank's corporate bond purchases were designed to encourage those selling corporate debt to reinvest in other corporate assets (BoE, 2016a).

The third phase of QE was undertaken in response to the COVID-19 pandemic, and has been the largest round to date. The Bank of England announced additional rounds of asset purchases in March, June and November 2020, consisting of £450 billion in Government bonds and a £10 billion in non-financial investment-grade corporate bonds. The March 2020 round of QE was designed to support the gilt market, while the subsequent two rounds were to support the inflation target in the medium term (BoE, 2020a). In contrast to the first two rounds of QE, which was undertaken against a backdrop of fiscal austerity, the third round has been implemented in coordination with a highly expansionist fiscal policy, as the UK government introduced extensive pandemic support measures. We explore the implications of this further in Section 4.3.

Figure 13: Bank of England rounds of quantitative easing



Source: Bank of England (2022).

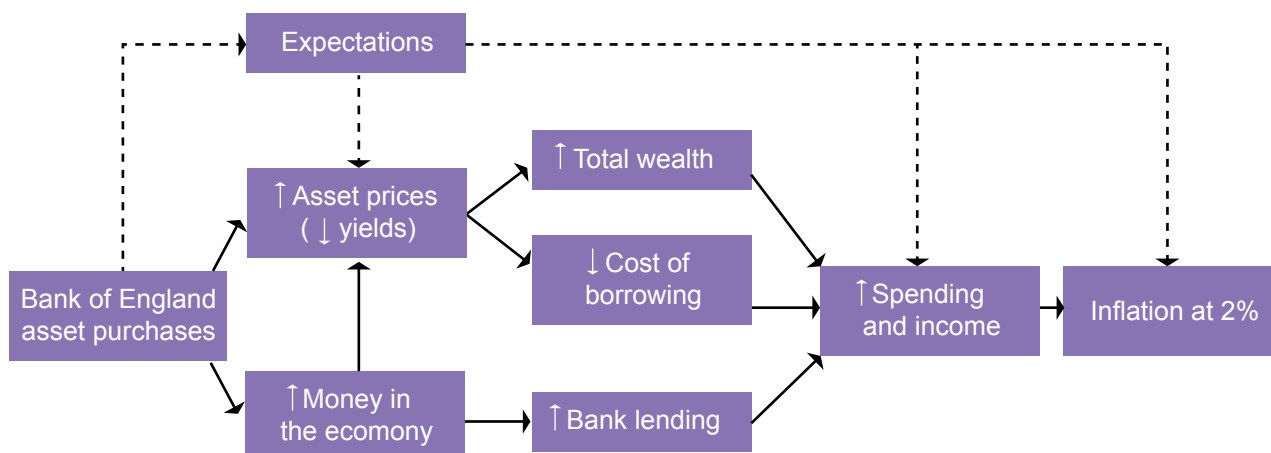
4.2. The impact of QE in theory

When QE was first introduced in 2009, there were three main channels through which it was expected to impact the economy (Benford, et al., 2009). The first was the portfolio rebalancing and wealth effect. The impact was expected to work as follows: purchases of assets financed by central bank money would push up the prices of those assets, leading to correspondingly lower yields. This, in turn, would reduce the cost of borrowing for households and companies, leading to higher consumption and investment spending (as well as potentially higher levels of mortgage debt). As prices rose for the assets purchased by the Bank of England, their yield would fall relative to those on other assets. Households and companies would then be encouraged to switch into other types of asset in search of a higher return – known as the ‘portfolio rebalancing effect’ – which would push up other asset prices (including property assets). Rising asset prices, including higher house prices, would increase the wealth of asset holders, incentivising them to boost their spending in the economy – known as the ‘wealth effect’. The assumption was therefore that boosting asset prices would make businesses and households feel wealthier and spend more money in the economy.

The second channel through which QE was expected to impact the economy was the bank lending channel. When assets are purchased from non-banks, financed by central bank money, banks gain both new reserves and a corresponding new customer deposit. When QE was first introduced, it was expected that this higher level of liquid assets would encourage banks to extend more new loans than they would otherwise have done (including potentially mortgage lending). More bank lending to households and companies would in turn help to support higher consumption and investment. In turn, the additional deposits created by bank lending would be passed on to other households and companies as they were spent, who might respond by buying more goods and services. This would further boost nominal spending and ultimately bid up the prices of goods and services, leading to higher inflation.

The third channel through which QE was expected to impact the economy was the expectations/signalling effect. By purchasing bonds using newly created central bank money, the Bank of England effectively signals to banks and other financial market participants that it will keep interest rates low for a longer period of time. It was expected that this would reduce long-term interest rates in the economy and provide some certainty to banks that people could afford to borrow money. Moreover, by demonstrating that the Bank will do whatever it takes to meet the inflation target, expectations of future inflation would also remain anchored to the target, when there was a risk that they might otherwise have fallen. Figure 14 illustrates how the Bank of England expected these transmission mechanisms to help it meet its mandate).

Figure 14: Expected QE transmission mechanisms



Source: Benford, et al., (2009)

4.3. The impact of QE on house prices: empirical evidence

In the years since QE was first implemented a number of studies have attempted to explore its impact on the UK economy. In this section, we present a summary of the ways in which QE may have impacted UK house prices, based on an extensive literature review.

4.3.1. Lower interest rates

As noted above, the Bank of England purchases of assets (particularly government bonds) financed by central bank money should be expected to push up the prices of those assets, meaning correspondingly lower yields. Table 1 summarises the findings of a selection of studies that have examined the impact of QE on 10-year government bond yields in the UK using time series regression analysis.

All four studies found that QE lowers longer-term interest rates significantly: purchases equal to 10% of GDP reduce government bond yields by up to half a percentage point. This implies that the £895 billion of QE undertaken by the Bank of England to date (equivalent to 45% of UK GDP) may have reduced long-term interest rates by 2-3%. Similar results have been found in studies examining the impact of QE in other countries using different methodologies (Gagnon et al., 2019; Bailey et al., 2020). One study, which collated estimates from 28 studies across the US, UK, Japan, EU and Sweden, found that QE bond purchases of 10% of GDP reduced 10-year government bond yields on average by around 70 basis points (Gagnon, 2016).

Table 2: Estimates of effects of UK QE bond purchases on 10-year yields

Study	Period covered	Yield reduction in basis points for bond purchases equal to 10% of GDP
Joyce, Lasiosa, Stevens, & Tong (2011)	1991–2007	51
Christensen & Rudebusch (2012)	2009–11	34
Churm, Joyce, Kapetanios, & Theodoris (2015)	2011–12	42
Gagnon (2016)		44-55

Through this mechanism, QE can be understood as boosting house prices in much the same way as standard reductions in interest rates. In a standard asset pricing framework, a fall in risk free rates translates into a rise in asset prices. This happens via two channels: lower interest rates lead to higher levels of borrowing, which in turn can push up asset prices. In addition, lower interest rates reduce the yield of interest-bearing assets relative to other assets, which can encourage investors to switch into other types of asset in search of a higher return, pushing up the price of those assets. As a financial asset, the demand for housing is affected by future expected returns. When interest rates fall, expected returns on interest-bearing assets like government bonds also fall. This means that returns on non-interest-bearing assets like housing become relatively more attractive, increasing investment demand in housing (Ryan-Collins, 2020a). As recent research from the Bank of England has noted, “changes in the risk-free real rate are a crucial driver of changes in house prices” (Miles and Monro, 2019). Modelling in the paper found that a 5.6% reduction in 10 year gilt yields increased real house prices by 126% between 1985 and 2018. It also found that a 1% sustained increase in index-linked gilt yields could ultimately result in a fall in real house prices of just under 20% (Miles and Monro, 2019). A 2019 study by the Reserve Bank of Australia (RBA) reached similar conclusions in the context of the Australian housing market (Saunders and Tulip, 2019).

This may also help to explain why rents have not increased as rapidly as house prices: whereas interest rates reflect the cost of housing as a financial asset, rents reflect the cost of housing as a consumption good. Overall, the evidence indicates that QE’s impact on interest rates is likely to be the primary mechanism through which the policy has impacted house prices.

However, it is important to note that while low interests and QE have contributed significantly to house price growth in the UK, this is partly due to their interaction with wider institutional and policy dynamics that have embedded a strong bias towards housing in the UK (as outlined in Section 1.2). Some countries, such as Germany, have not experienced the same degree of rapid house price inflation, despite their central banks implementing low interest rates and QE. While this may be partly due to the differences in Germany's banking sector outlined in the previous section, other factors – such as Germany's more devolved fiscal and planning system, strongly regulated private rental market, and lower levels of homeownership – have also likely played an important role.

As a result, it is not low interest rates and QE alone that are responsible for soaring house prices, but rather their interaction with a favourable tax, subsidy and regulatory regime on the one hand, and a liberalised financial system on the other. Low interest rates and QE are not, therefore, a sufficient condition for surging house prices, but are an important contributor to house price inflation within a certain institutional framework. As explored in Section 3, the UK's liberalised financial sector, and a policy landscape structurally biased towards housing as a financial asset underpins why additional policies of low interest rates and QE contribute to increased house prices (Ryan-Collins, 2020a).

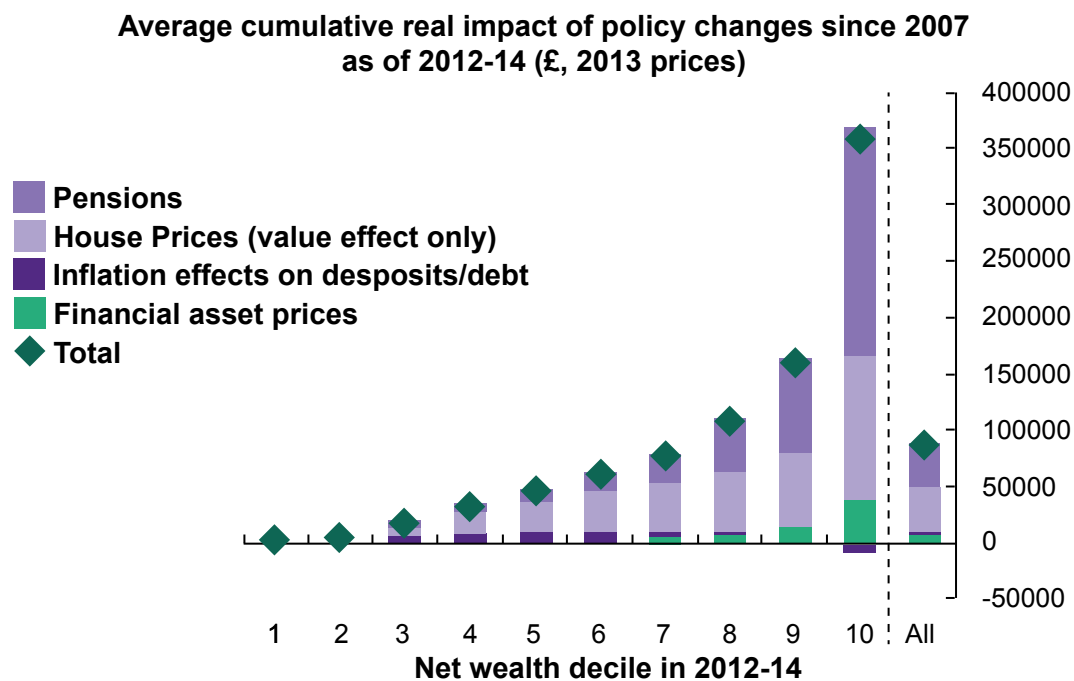
4.3.2. Portfolio rebalancing and the wealth effect

As noted above, purchases of assets financed by central bank money should be expected to push up the prices of those assets and thus reduce their yields. Households and companies may then be encouraged to switch into other types of asset in search of a higher return (the 'portfolio rebalancing effect'), which should push up on other asset prices as well, lowering yields and thus interest costs more broadly. As financial asset prices rise, holders of these assets will feel wealthier (the wealth effect). They may choose to invest this additional wealth in consumption, however they may also choose to buy other kinds of existing assets, including property.

Although it is difficult to identify robust evidence of investors switching away from interest-bearing assets to non-interest bearing assets such as property, one potential indication of this relates to activity in the BTL market. Following the introduction of QE, the share of cash-financed BTL transactions started outpacing mortgage-financed BTL transactions (Six et al, 2016). This may be a sign of the portfolio-rebalancing effect of QE, with investors selling assets in their portfolio where yields have fallen due to QE (such as government bonds) in order to acquire higher-yielding assets with the proceeds (such as BTL property). Higher demand from cash buyers for BTL property would be expected to exert upward pressure on house prices.

Numerous studies have already found strong evidence that QE has pushed up asset prices, including the price of housing. Research from the Bank of England found that real house prices in 2014 would have been 22% lower respectively than they actually were in the absence of monetary policy loosening, i.e. lower interest rates and QE (Bunn et al., 2018). The study arrived at these estimates using a user cost model whereby house prices depend on real income per household, real wealth, the labour share of income, a measure of housing supply and a household discount rate. The impact of QE is captured by “building a shadow path for the discount rate which reflects the stimulus from asset purchases”. Importantly, the paper found that “The 10% of least wealthy households are only estimated to have seen a marginal increase in their measured real wealth of around £3000 between 2006-08 and 2012-14, compared to £350,000 for the wealthiest 10%.”

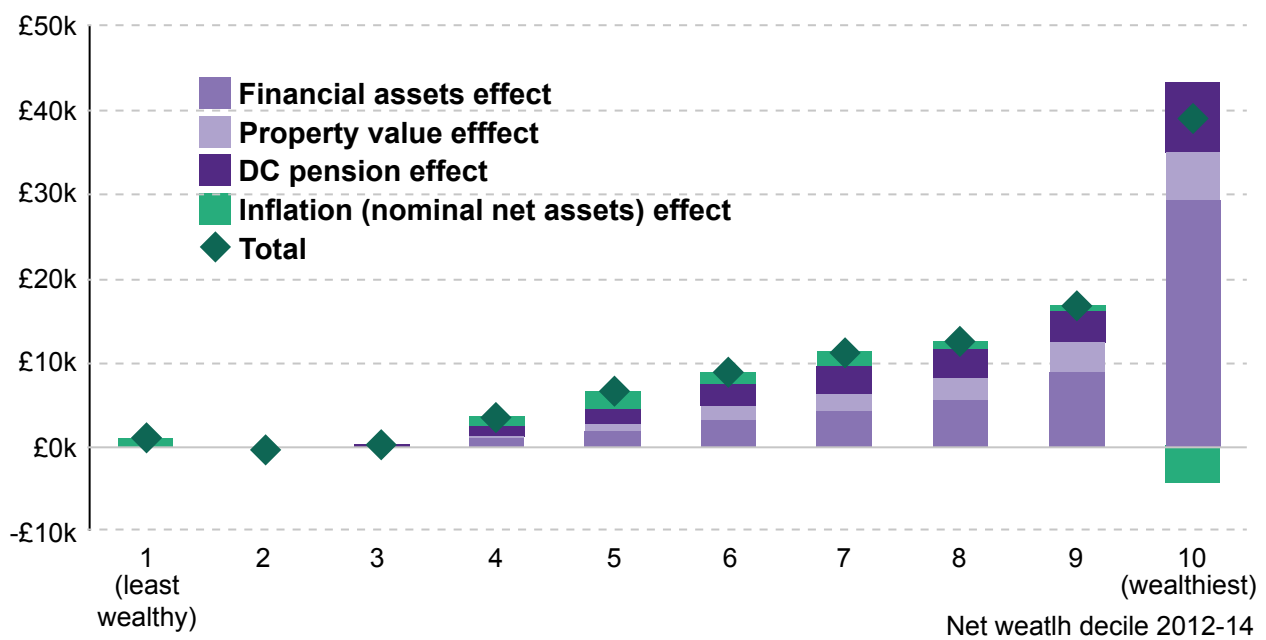
Figure 15: Effects of monetary policy changes since between 2007 and 2014 on net wealth by wealth decile in cash terms



Source: Bunn et al., (2018:26).

A recent study by the Resolution Foundation estimated the impact of QE alone on average net wealth for each net wealth decile, using a similar approach as the aforementioned Bank of England study. As Figure 15 shows, while much of the impact on net wealth has come from rising financial asset prices, it is clear that there has been a spillover effect on house prices. However, the impact of QE on household wealth has been unevenly distributed: around 40% of the aggregate boost to wealth from changes in financial asset prices and property prices went to families in the highest wealth decile, while only 12% of the benefit went to the bottom half of the distribution. This reflects the already highly skewed wealth distribution in the UK.

Figure 16: Average real change in net wealth as a result of QE, by net wealth decile: GB, 2006-08 – 2012-14



Source: Gagnon et al. (2019:9).

4.3.3. Bank lending channel

In the textbook ‘money multiplier’ model, the amount of total credit offered by the banking system is constrained by the amount of base money created by the central bank. Because there is assumed to be a constant ratio of broad money (bank credit) to base money, commercial banks’ reserves are then ‘multiplied up’ to cause a much greater change in bank loans and total deposits held on account. If this was the case, then the dramatic increase in base money created via QE might be expected to generate an increase in bank lending. However, for this theory to hold, the amount of reserves must be a binding constraint on lending, and the central bank must directly determine the amount of reserves. However, in reality there are currently no reserve requirements in the UK (i.e. the ‘money multiplier’ is undefined), meaning that the supply of credit is not limited by the amount of bank reserves, and is mainly driven by banks’ ability and/or incentives to lend (see Box 1). As a result, the Bank of England’s Monetary Policy Committee did not strongly emphasise the transmission of QE impact via the bank lending channel when it first implemented the policy (BoE, 2009).

The empirical evidence on the effects of QE on bank lending is also mixed. Some recent papers for the euro area and US find a material impact on bank lending from QE purchases (Tischer, 2018; Rodnyansky and Darmouni, 2017). In contrast, a 2015 Bank of England study found no evidence of a bank lending channel in the UK, arguing that the high churn in deposits created by QE meant that they were not viewed as a stable source of funding (Butt et al., 2014). This finding was also corroborated by two more recent studies undertaken by researchers at the Bank of England (Giansante et al., 2020). As one paper concluded: “we find no evidence of the alternative bank lending channel (BLC); the additional liquidity did not incentivise QE-bank to increase lending, relative to the control group” (Fatouh, 2021).

However, there is some evidence that, while QE did not increase bank lending overall, it may – in combination with the introduction of Basel III capital rules – have encouraged banks to reallocate assets towards lower risk-weighted investments, such as government bonds, but also mortgages (Giansante et al., 2020). A recent empirical study from the Bank of England found that banks that received new reserves from QE reallocated their resources from lending towards assets with low risk weights such as government bonds and, to a lesser extent, mortgages (Fatouh, 2021). As outlined in the previous section, while the stock of overall UK bank lending has not increased since QE was introduced in 2009, lending has been increasingly skewed in the direction of mortgage lending, with its share of total bank lending rising from around a third in 2009 Q1 to nearly a half in Q1 2019 (Fatouh et al., 2021). Given the well documented link between mortgage lending and house prices as outlined in Section 3, it is possible that QE has contributed to house price growth indirectly through this channel. As a recent Bank of England paper concluded: “It can be argued that [the mortgage lending] channel has been one of the reasons for the rapid and large increases in house prices in the UK in the past decade” (Giansante et al., 2020).

4.4. Fiscal policy, QE and mortgage lending during the COVID-19 pandemic

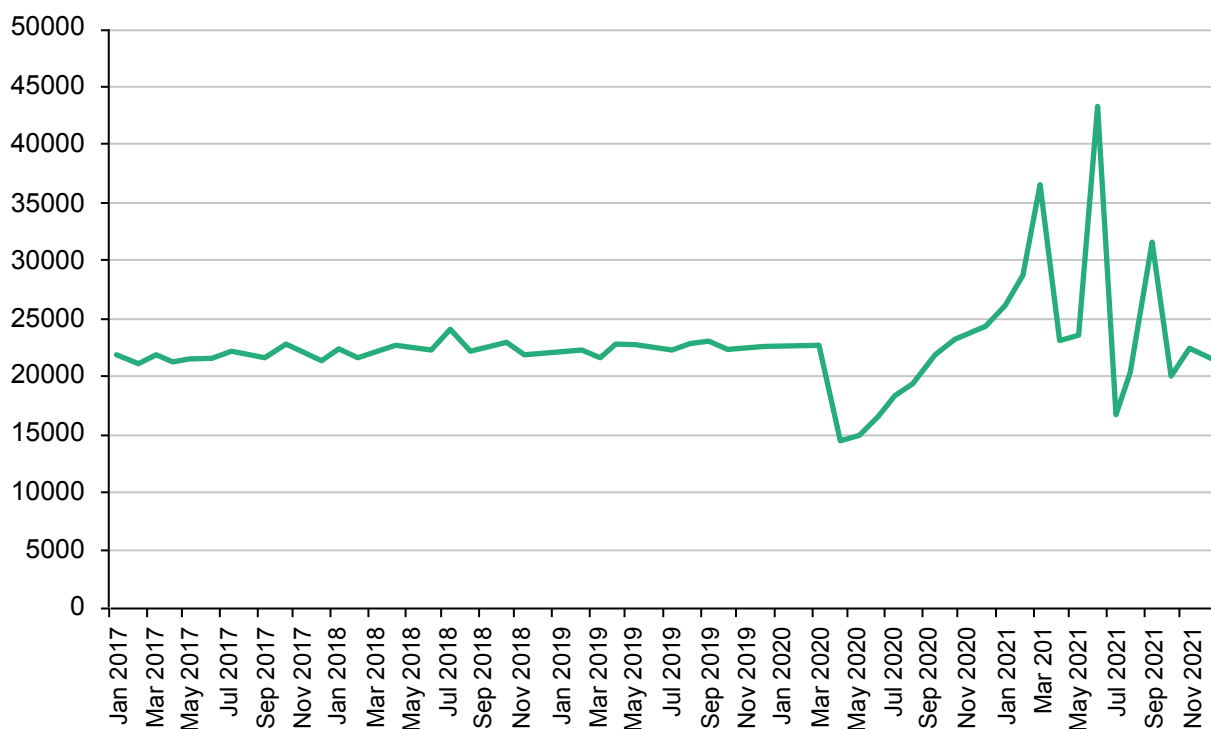
The COVID-19 pandemic has further brought the UK's housing crisis into sharp focus. While the real economy contracted during the pandemic, house prices surged. In the twelve months between March 2020 and March 2021, house prices increased by 10% while GDP fell by 10%. This differed from the economic downturn that followed the Global Financial Crisis and most other historic recessions, where GDP and house prices both fell year on year. As a result, the pandemic has further exacerbated the stark inequalities that exist between those who own property, and those who do not.

Multiple reasons have been cited for this house price surge. One is the backlog of purchases that were suppressed during the first lockdown, which created significant 'pent up' demand. This meant that there was an unusual spike in demand when the market reopened in the second half of 2020. The pandemic has also led many households to re-evaluate their priorities when it comes to where they live, which some analysts have dubbed 'the race for space' (Hudson, 2021b). Across the UK, the average price of detached properties increased by 10% in the year to December 2020, compared with a 5% rise for flats and maisonettes – reflecting growing demand for properties with gardens and outside space.

Government support schemes have also played a role propping up house prices. In England and Northern Ireland Stamp Duty was suspended on the first £500,000 of all property sales; in Wales the threshold for paying the Land Transaction Tax was raised from £180,000 to £250,000; and in Scotland the threshold for starting to pay the Land and Buildings Transaction Tax (LBTT) was raised from £145,000 to £250,000. Although the stamp duty holidays were targeted at the mid-to-lower end of the housing market (i.e. under £500,000 in England), analysis of transactions by price band has found that it was those purchasing properties above the tax-free limit that benefitted the most relative to the 2019 pre-pandemic trend. Although these transactions were still liable for stamp duty, they paid significantly less than prior to the holiday as they still benefited from the tax-free amount (Built Place, 2021).

Most recently, the UK government introduced a new 'mortgage guarantee scheme' to subsidise mortgages on home purchases valued up to £600,000, which many experts believe will likely push up house prices further. Taken together, these factors have led to a surge in demand for housing, with housing transactions reaching record highs in June 2021 – leading to an associated spike in mortgage lending, which contributed to pushing up house prices (Hudson, 2021c). Notably however, the pandemic also led banks to cut back on their riskiest lending, which meant that first time buyers found it much harder to obtain a mortgage. Whereas in 2019, the average first-time buyer deposit in the UK was £49,800, by the first quarter of 2021 the average deposit peaked at £67,800 – a rise of more than a third (Hudson, 2022).

Figure 17: Mortgage lending during the COVID-19 pandemic

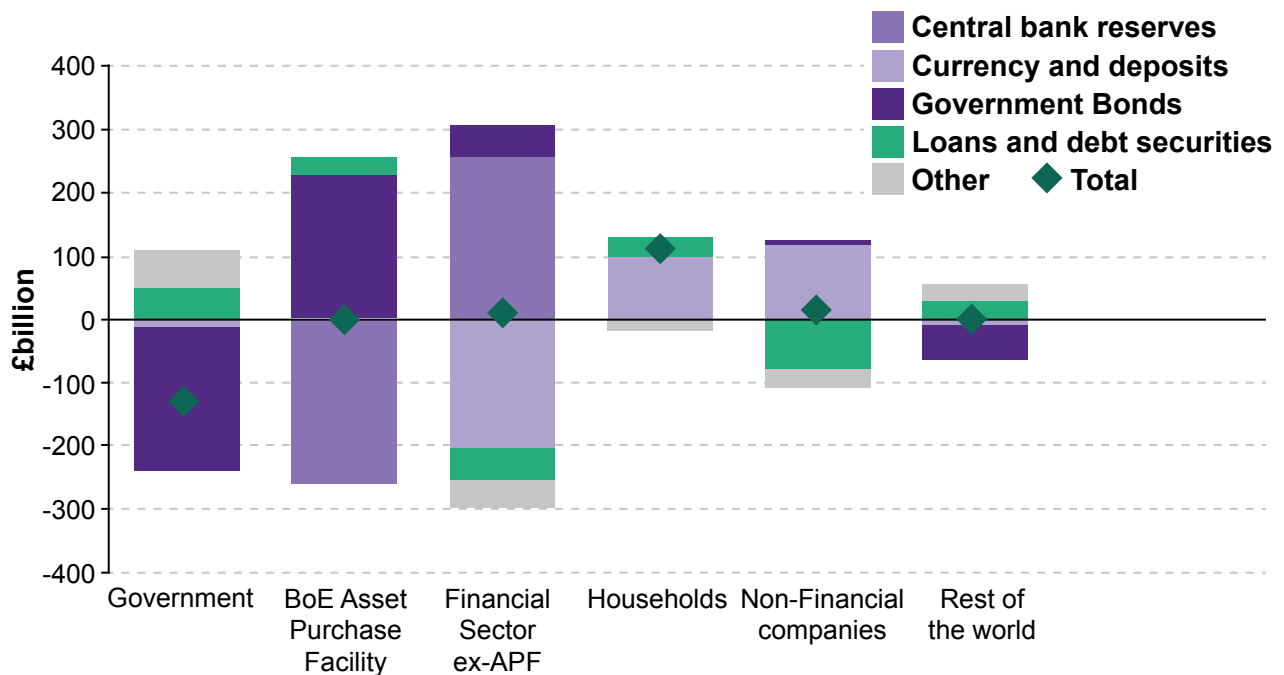


Source: Bank of England Database, Monthly changes of total sterling secured gross lending to individuals (in sterling millions) seasonally adjusted (LPMVTVC).

In addition, there is also emerging evidence that the recent fiscal expansion, combined with the dramatic scaling up of QE during the pandemic, has also had an impact on housing market activity. In order to establish how this has happened, it is useful to consider how the COVID-19 pandemic has impacted the flow of funds between the different sectors of the UK economy.

Figure 18 shows the difference in net acquisition of assets among the five major sectors of the economy between the first three quarters of 2020 and the final three quarters of 2019, as published by the Office for Budget Responsibility (OBR). It shows that the government financed its large package of financial support to households and businesses by issuing government bonds. At the same time however, a roughly equivalent quantity of bonds was purchased on the secondary market by the Bank of England's Asset Purchase Facility (APF) as part of its QE programme. The Bank financed the purchase of these bonds (and some corporate bonds) by issuing an equivalent amount of its own liabilities in the form of central bank reserves, leaving the net asset/liability position unchanged. This coordination between the scale of government borrowing needs and the scale of QE undertaken did not happen with previous rounds of QE.

Figure 18: Difference in net acquisition of assets between the first three quarters of 2020 and the final three quarters of 2019



Source: Bank of England, ONS

Source: Office of Budgetary Responsibility (OBR, 2021:57).

Although the Bank of England states that the reason behind the dramatic scaling up of QE was to support the bond market and to meet the inflation target (as discussed in Section 4.1), this monetary-fiscal coordination had important consequences for the impact it has had on the wider economy. Because the dramatic scaling up of QE was accompanied by new government spending on pandemic support measures, the counterpart to the extra central bank reserves created via QE has primarily been additional household deposits (Figure 18). Household deposits increased by £148 billion in the first three quarters of 2020 – over £100 billion more than the £45 billion accumulated in the preceding three quarters. The OBR estimated that households’ additional deposit accumulation during the pandemic reached around £180 billion by the middle of 2021. As the OBR notes, the primary reason for the increased accumulation of household deposits has been “the curtailment of social and retail consumption as a result of the public health restrictions, coupled with extensive income support” (OBR, 2021). As a result, much of the money created by the government’s fiscal expansion and expanded QE programme during the pandemic has ended up accumulating as increased household deposits.

As the OBR notes:

“The Government has been able to borrow heavily and cheaply in part because the Bank of England has simultaneously been buying large quantities of gilts on the secondary market. And the flow of funds reveal that the ultimate counterpart of that higher borrowing can be seen mainly in higher domestic household savings” (OBR, 2021).

As the Bank of England, Resolution Foundation and others have noted, the household savings built up during the pandemic are not distributed evenly across households. Instead, they are concentrated among higher-income households and retirees, who have been more likely to maintain their incomes during the pandemic, and more likely to save money from curtailed social and retail consumption (BoE, 2020b; Leslie and Shah, 2021). A survey conducted by the Resolution Foundation in May 2021 found that 14% of households who accumulated additional savings during the pandemic are “very likely” to use the additional savings for some form of purchase, however this figure increased significantly among young people and those renting in the private sector (Resolution Foundation, 2021).

Overall the evidence suggests that the unique circumstances of the pandemic, which involved substantial fiscal and monetary expansion, forced curtailment of social spending and significant tax cuts on home purchases, left many (but not all) households in a stronger financial position, which in turn has contributed to a boom in housing transactions and house prices.

4.5. Implications of this analysis

Our analysis so far has found that the dominant narrative that the problem is rooted in a shortage of supply fails to explain the rapid house price growth of recent decades. Instead, we find that rising house prices are rooted in a series of policy changes introduced over many decades that have sought to promote home ownership as the dominant form of tenure, and transform housing into a vehicle for accumulating wealth. At the same time, the liberalisation of the financial sector, alongside the downward trajectory of interest rates, increased the availability and attractiveness of mortgage credit, which in turn has led to a significant increase in the amount of purchasing power available for the purchase of housing. The COVID-19 pandemic has accelerated many of these trends, with policymakers introducing further tax incentives to encourage homeownership and mortgage lending.

Although the aim of many of these changes was to increase home ownership, in practice they have created a significant structural bias towards housing in the UK economy, transforming housing from a basic need to a financial asset. The result has been the emergence of a powerful feedback loop between government policy, mortgage lending and house prices. Any expansionary policies pursued by the government, either from fiscal policy, monetary policy (including QE) or the easing of lending criteria – including those intended to increase home ownership – inevitably interact with this structural bias, increasing inflows of money into the property market and accelerating the affordability crisis. While successive governments have tried to help more people onto the ‘housing ladder’, in practice they have ended up kicking the ladder even further out of reach.

While some commentators have sought to blame expansionary government policies such as low interest rates and QE for soaring house prices, our analysis indicates that this is only a part of the story. It is not expansionary monetary policies alone that are responsible for the upwards trajectory of UK house prices, but rather their interaction with a favourable tax, subsidy and regulatory regime on the one hand, and a liberalised financial system on the other.

5. Impact of the housing affordability crisis on different demographics in London

Rapid house price growth is exacerbating socio-economic and generational inequalities in London. Black, Asian and ethnic minorities, young people, and lower income groups are all more likely to be locked out of homeownership. This makes them less likely to benefit from rising property wealth, and more likely to suffer from poor conditions and high rents in the PRS. While these demographic inequalities are present across the UK they are particularly stark in the context of London.

5.1. Growing disparity in home ownership by ethnicity

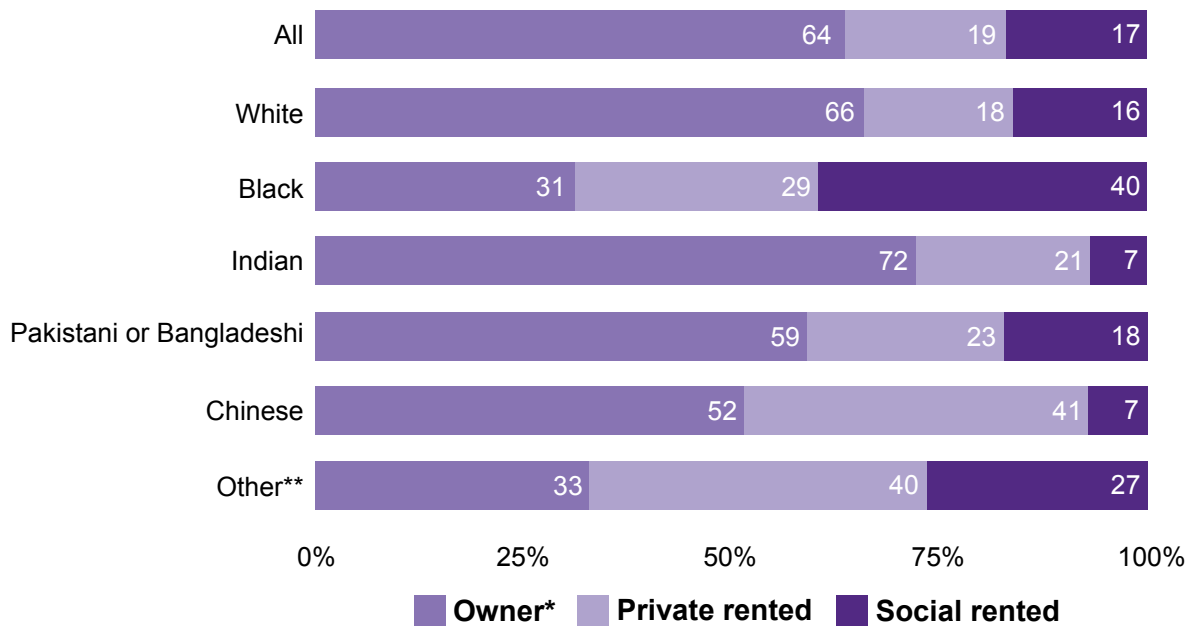
Rapid house price growth since the 1980s, has seen large wealth gains accrue to existing homeowners, property landlords, and investors. At the same time, it has very different implications for other groups for whom buying a home is increasingly out of reach. For Black, Asian, and ethnic minorities there is persistent and growing disparity in home ownership, compared to their White counterparts.¹¹

Figure 19 shows the breakdown of housing tenure by ethnicity of the household reference person (HRP) for England. Home ownership is most prevalent amongst households where the HRP is White (66%) and Indian (72%). For all other ethnic minority groups, home ownership is below the national average of 64%. Households with a Black and Bangladeshi HRP are the least likely to be homeowners at 31% and 44%¹² respectively. There is also some variation within Black households with owner occupier rates at 20% for Black Africans, 40% Black Caribbean, and 37% Black other. Social renting amongst Black HRP households is more than double the UK average at 40%.

11. Note on terminology: When referring to ethnic minorities in this report we attempt to highlight specific ethnicities we are discussing whenever possible. We recognise that the term 'Black, Asian and minority ethnic' or BAME has limitations and has been criticised for treating ethnic minorities as a homogenous group in the UK. Much of the data used in this report on ethnic minorities is not sufficiently disaggregated due to small sample sizes and where the data uses specific terminology, for consistency we have used the same wording.

12. Housing tenure by ethnicity of HRP broken down for Bangladeshi households is from Labour Force Survey Household data 2016, available from Barton (2017).

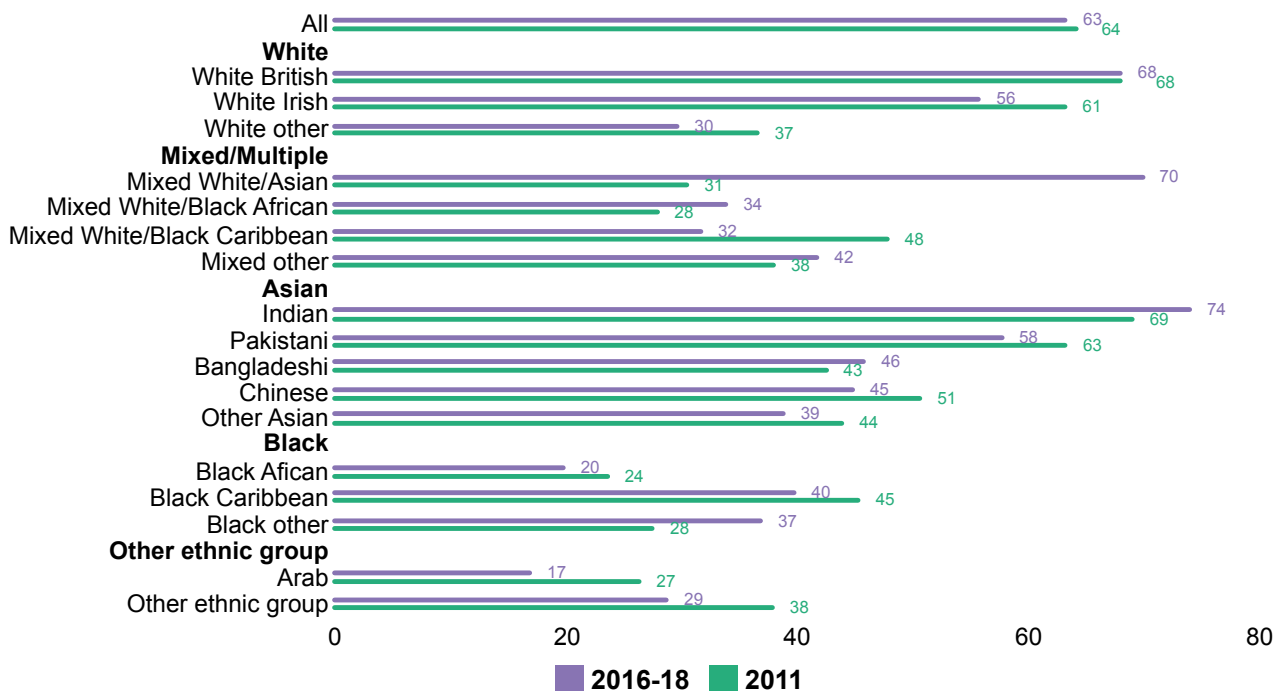
Figure 19: Housing Tenure by Ethnicity in England



Source: MHCLG (2017/18a:table AT 1.11). Note: *'Owner' includes both owned outright and buying with a mortgage. ** 'Other' includes mixed ethnic groups and Arab HRP households.

The gap in homeownership amongst different ethnic minority groups has grown in the last decade. Since 2011, almost all ethnic minority groups have seen a fall in home ownership. This was most striking for households with a Black or Arab HRP (Figure 20). While Indian and mixed White and Asian led households saw a considerable increase in homeownership to 70% and 74% respectively.

Figure 20: Home ownership by ethnicity in England (2011 and 2016/18)



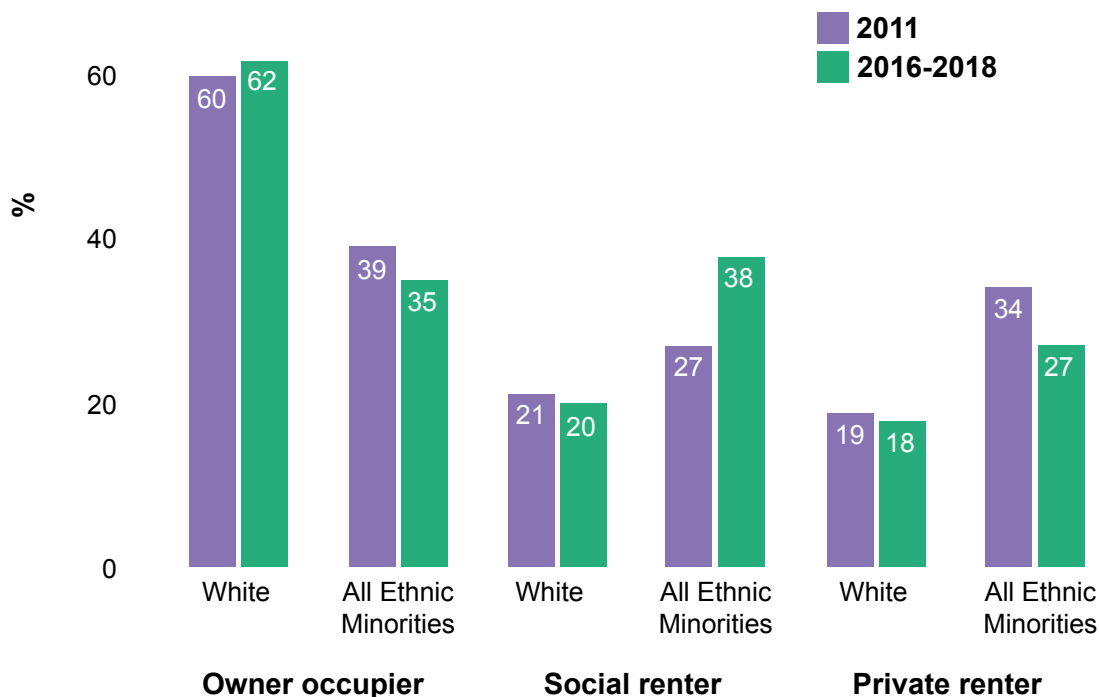
Source: Census 2011 and MHCLG (2020a).

The growing disparity in home ownership between ethnic minority groups at the national level is even more pronounced in London.¹³ Latest figures for 2016-18 show that only 35% of all ethnic minority people are homeowners in contrast to 62% of White British people (MHCLG, 2020a). This is despite London being the most ethnically diverse region in the UK with 40% of residents identifying as Asian, Black, Mixed or Other ethnicity (TfL, 2022a).

13. Latest data for London on Tenure by ethnicity only provides combined figures for all ethnic minorities. The latest figures for tenure by ethnicity in London is an average for 2016-18 and is provided as combined data for all ethnic minorities due to small sample sizes. This is likely to conceal variations between different ethnic minorities and the average for all ethnic minorities is likely to be higher due to Indian led households displaying higher rates of home ownership (Finney and Harries, 2013).

Figure 21 shows that between 2011 and 2016-18, home ownership amongst White British households has remained high 60-62%, compared to ethnic minorities which decreased from 39% to 35%.

Figure 21: Tenure by ethnicity in London



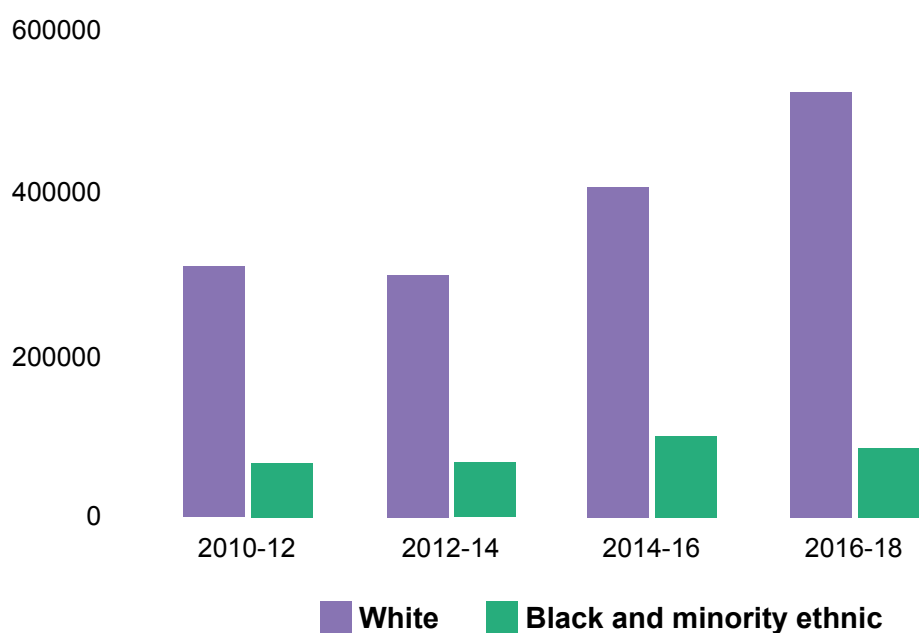
Source: Census 2011 and MHCLG (2020a). Note: White refers to White British HRP households and All Ethnic Minorities includes Asian, Black, Mixed, White minorities and other ethnic groups.

The decline in homeownership for all ethnic minorities in London has been mirrored by a shift towards private and social renting. The latter increased substantially from 27% in 2011 to 38% by 2016-18. More disaggregated data from the 2011 census shows high levels of social renting in London amongst Black (48%), Bangladeshi (48%), Gypsy and Irish Traveller (48%) and Mixed White and Black Caribbean (50%) households.

In the UK, home ownership has become a critical route to building wealth and financial security. For families in the middle of the wealth distribution, property is the most important source of wealth followed closely by pension wealth (Advani et al., 2020:14). Recent data from the ONS showed that the medium value of property wealth accumulated by a Black household in the last decade was zero compared to £115,000 for a White British family and £176,000 for an Indian household (ONS, 2020).

Owning property is playing an increasing role in wealth disparities which are large and persistent between different ethnic minorities. A recent UK study found that Black African people hold the lowest median wealth per family of £24,000 and Bangladeshi median wealth per family is £31,000. This contrasts sharply with that of White British medium wealth per family of £197,000 (Bangham, 2020). Similar wealth disparities are seen in London where the median household wealth of a Black and minority ethnic household in 2016-18 is £87,200, 6 times less than median wealth of a White British household of £524,100 (Figure 22).

Figure 22: Median household wealth by broad ethnic group in London



Source: GLA (2021: table 3.3). Note: broad category of 'Black and minority ethnic' is due to small sample sizes.

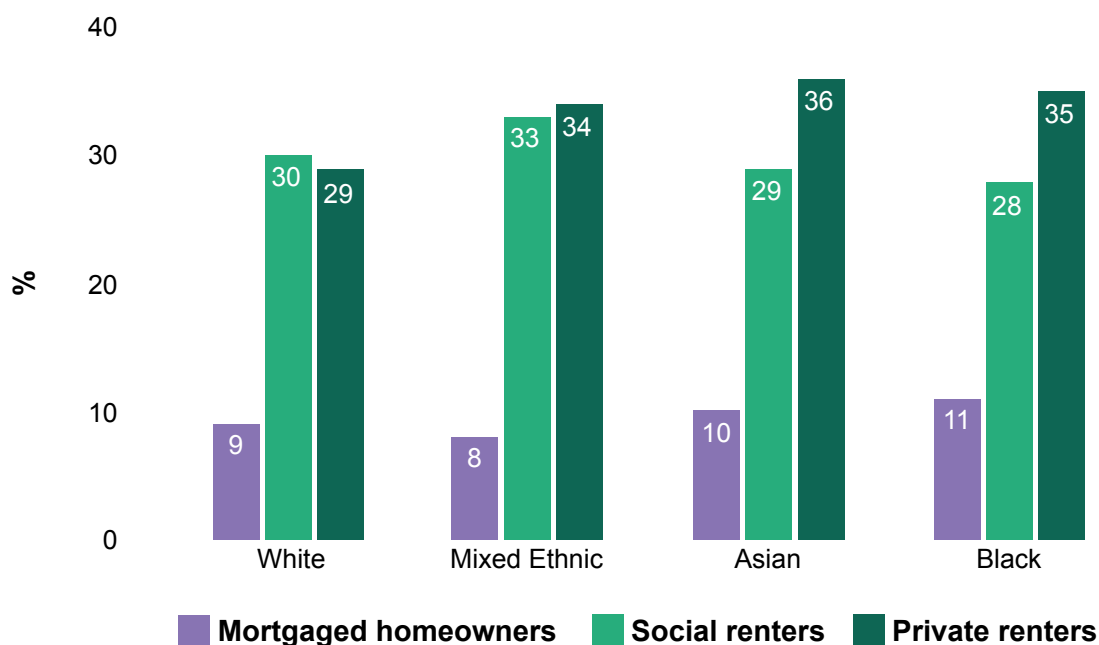
These disparities in wealth become more important in a context where 40% of First Time Buyers (FTBs) have help raising a deposit to buy a home through a gift, loan or inheritance (Crane, 2021). In 2017-18, the proportion of recent FTBs in the UK that were White was 83%, over 4 times higher than for someone from an ethnic minority background, which stands at 17% (MHCLG. 2017/18b).

5.2. Housing costs and housing problems by ethnicity

The dramatic rise in house prices in London has resulted in Black, Asian and ethnic minorities households being disproportionately excluded from home ownership and trapped in the PRS (the most expensive form of tenure). The UK government defines housing costs as unaffordable if they exceed 30% of gross household income (Wilson and Barton, 2017). Black, Asian and ethnic minorities households face higher housing costs as a share of household income across most tenure types relative to White British households in London (figure 23). Black, Asian and mixed ethnicity households are all spending more than a third of their income on rent at 35%, 36% and 34% respectively compared to 29% for White British households.

A similar picture is observed at the national level which provides more disaggregated data by ethnicity. All private renters in the UK face unaffordable rents at 32% of their household income. This figure is lower at 30% for White British households but is considerably higher for some ethnic minority households including Black African (39%), Black Caribbean (34%), Arab (46%), other Asian (38%), other ethnic groups (37%), and mixed White and Black Caribbean (40%) (MHCLG, 2018).

Figure 23: Housing costs as a share of gross household income across tenure by ethnicity, London



Source: GLA (2021:table 3.2). Note: Figures presented are rolling average for 2015/16- 2019/20.

The higher housing costs faced by ethnic minorities forms a critical barrier to overcoming the entrenched wealth disparities described previously and, in the context of rapidly rising house prices, pushes home ownership further out of reach. To address the problems of expensive and low quality housing, we need targeted policies such as rent controls, expansions of social housing, and the enforcement of decent housing standards.

The greater presence of Black, Asian and ethnic minority households in the private and social rented sector leaves them more exposed to the higher levels of insecurity and poor housing conditions that are prevalent in these tenure types. Many are forced to make painful compromises, such as putting up with damp, overcrowded, and non-decent homes (RDA, 2017:33). The Affordable Housing Commission outlined that any measure of affordability should take into account factors beyond income and market prices to include housing insecurity and quality (AHC, 2020). In 2019, the ethnic minority households which experienced the highest rates of overcrowding in the UK were Bangladeshi (24%), Pakistani (18%) and Black African (16%) (MHCLG, 2020b).¹⁴ Relative to other UK regions, London has the highest rates of overcrowding for all ethnic minorities at 13%, significantly higher than the national average of 3%.

The majority of renters in England live on Assured Shorthold Tenancy (AST), where Landlords can end a tenancy without giving a reason. In reality this means always living with the risk of eviction or a contract not being renewed (Bibby, 2017). A recent study showed eviction rates to be higher in the most ethnically diverse local authorities in London compared to the least ethnically diverse (Rogaly et al., 2021). The end of a private sector tenancy is now a leading cause of homelessness in the capital. Most strikingly, Black households are twice as likely than the average household in London to be assessed for homelessness (Cosh and Gleeson, 2020:101).¹⁵ While the majority of rough sleepers in London are White, the number of Black rough sleepers is rising faster having increased fourfold between 2008/09 and 2020/21.¹⁶

It is increasingly recognised that housing inequalities from lack of affordability and access to secure and decent homes have a detrimental impact on wellbeing. The COVID-19 pandemic brought these long standing housing inequalities into sharp focus. Some ethnic minority communities faced higher risks from the virus as they were unable to self-isolate or socially distance due in part to overcrowding and multigenerational housing conditions (Haque et al., 2020).

¹⁴. Overcrowding is defined as fewer bedrooms than needed to avoid undesirable sharing.

¹⁵. The Homelessness Reduction Act (HRA) came into force in April 2018 and places a duty on local authorities to refer those who they think may be homeless or threatened with homelessness to a housing authority to help secure accommodation (DLUHC, 2018).

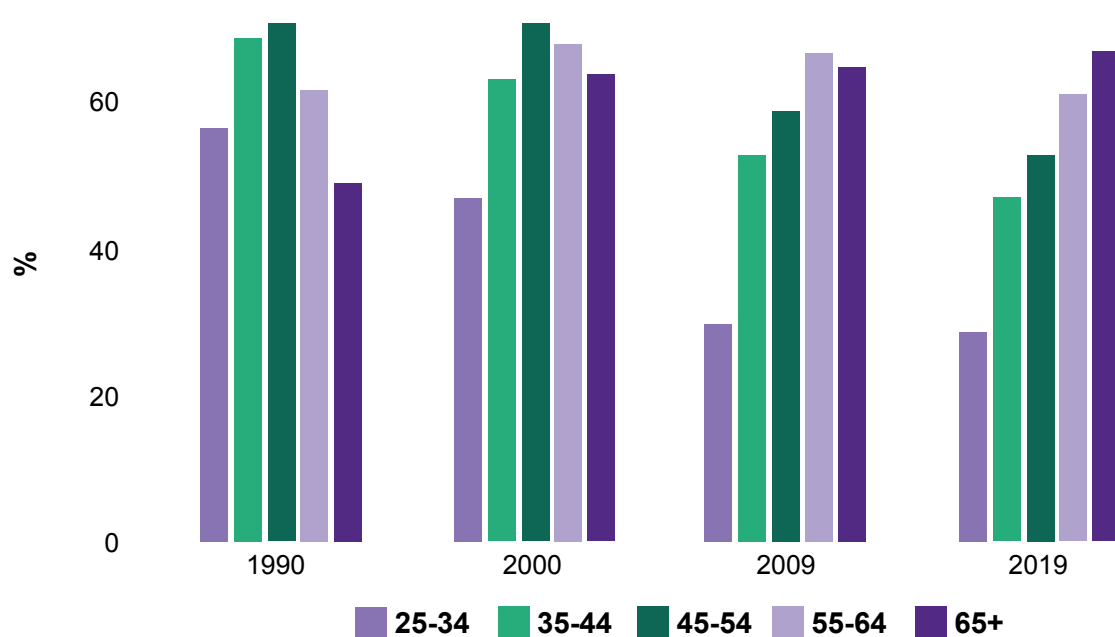
¹⁶. See 'People Sleeping Rough' Trust for London, available at: <https://www.trustforlondon.org.uk/data/rough-sleeping-london/>

5.3. Home ownership and housing costs by age

Declining housing affordability is most clearly felt by younger people in the capital. The cohorts of younger people increasingly locked out of homeownership are sometimes referred to as ‘generation rent’. Figure 24 shows in London, house price inflation since the early 1990s has resulted in a decline in home ownership amongst those 25-44 years old. Recent data suggests that the average age of a First Time Buyer (FTB) has risen to 32 years for the UK from 29 years in the previous decade. This figure is higher for FTBs in London, at 33 years old (Partington, 2022).

The fall in home ownership amongst the young (25-34 yr olds) accelerated since the global financial crisis in 2008. This trend is likely to contribute to widening intergenerational inequalities, due to the transfer of wealth to homeowners and landlords, away from renters and FTBs. A recent study highlighted that almost half of housing wealth in the UK is owned by the over-65s cohort who now own 46% of all housing equity up from 40.6% a decade ago (Evans, 2019).

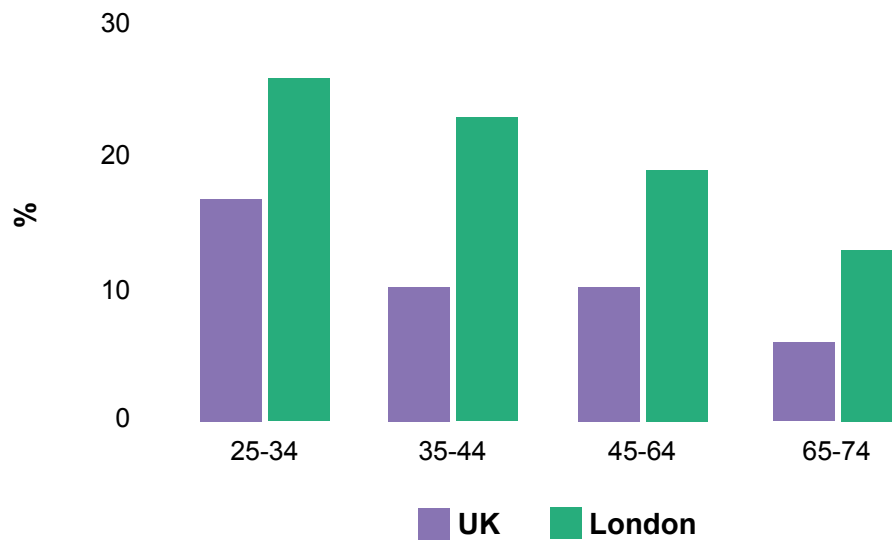
Figure 24: Trend in home ownership rate by age group in London



Source: GLA (2019:table 1.5).

As with the UK as a whole, younger people in London spend a larger share of their income on housing costs than older cohorts and relative to the rest of the UK (Figure 25). The higher housing costs faced by the young are an additional barrier to home ownership and contribute to many remaining in the PRS for longer, often well into their 40s. Generation rent is getting older and managing greater insecurity of tenure with the needs of a family (Clarke et al., 2016). In 2018, 34% of private renters in London had dependent children, up from 20% in 2004 (Cosh and Gleeson, 2020).

Figure 25: Housing costs as a share of net income by age in London and the UK



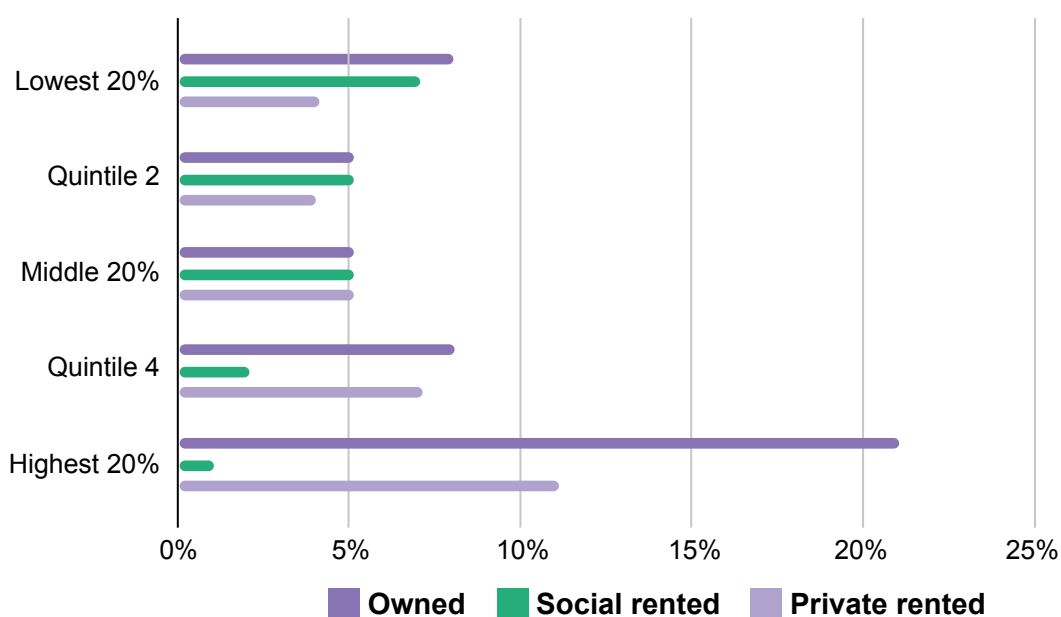
Source: Households Below Average Income data, Family Resources Survey, Department of Work and Pensions.

5.4. Housing tenure and costs by income group

The proportion of Londoners living in the PRS has grown dramatically from 11% in the 1990s to 27% of households in 2019 (GLA, 2020). The PRS accommodates a wide range of households from across the income distribution (Figure 26). Declining access to home ownership and the shrinking social housing sector has led more people to become dependent on the PRS, which is the most expensive form of tenure. This shift reflects the decline in home ownership particularly for those in the middle of the income distribution and the fall in social renting for those at the bottom of the distribution. Social renting as a tenure type has fallen from 35% in 1981 to 23% by 2019 (Cosh and Gleeson, 2020). While low to middle income households are concentrated in the social rented sector, homeownership is most prevalent amongst the highest 20% of the income distribution.

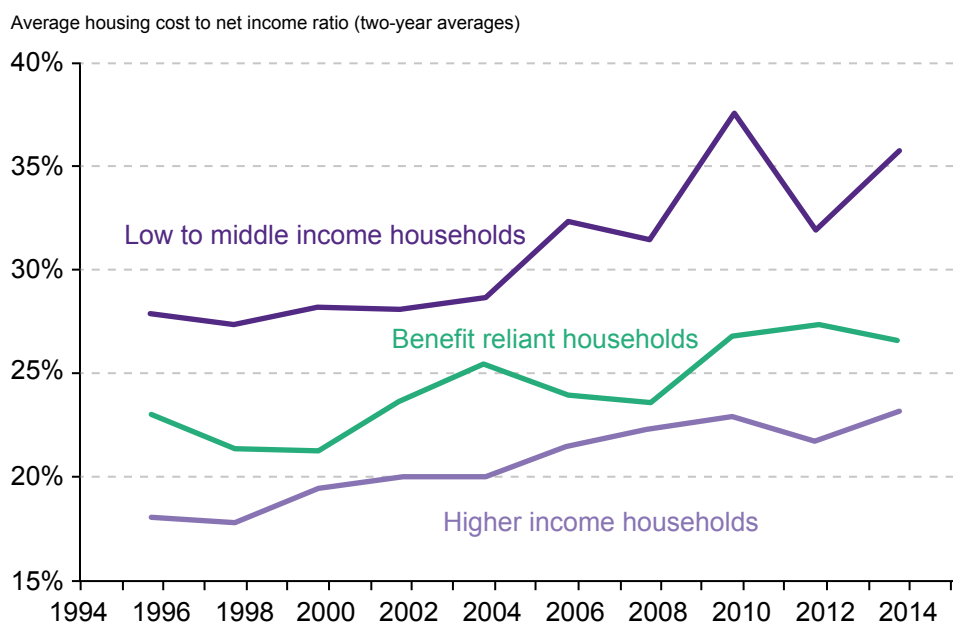
Figure 27 charts the average housing cost to income ratio (HCIR) by income group for London. Low to middle income households spend more on housing costs as a share of their income than high income households and benefit reliant households, with the gap increasing over time. From the mid-2000s, the HCIR for low to middle income households has exceeded the 30% affordability threshold. This contributes to widening inequality and poverty as available income after housing costs is squeezed for those at the lower end of the distribution. Since 2004-05 the share of private renters living in poverty in London has increased from 22% to 36% in 2019/20 (TfL, 2022b).

Figure 26: Income quintile by tenure, London 2018-19.



Source: GLA. (2020:table 1.5)

Figure 27: Average housing cost to income ratio by income group in London



Source: Clarke (2016:38)

5.5 Conclusion

The impact of house price inflation and declining affordability is not evenly felt across different demographics in London. There are striking inequalities in home ownership, housing costs and household wealth for Black, Asian, and ethnic minority households, the young, and low income groups. While multiple factors may contribute to these patterns, rapidly rising house prices have played a key role through the redistribution of gains from property towards home owners and landlords away from non homeowners. This has left an increasing proportion of London households trapped in the private rented sector facing higher housing costs, higher insecurity and worsening living conditions. However, if we stabilise house prices in the capital and UK, this will take out a fundamental driver of wealth inequality between demographic groups. Section 6 outlines policies related to providing secure alternatives to homeownership that would be a direct help to millions of struggling renters and would contribute to the goal of stabilising house prices.

6. Policy recommendations

6.1. A new long-term strategy for stabilising house prices

Our analysis so far in this report has challenged the dominant narrative that the housing affordability crisis is caused by a shortage of supply. Instead, we find that rising house prices relative to incomes are rooted in a series of policy changes introduced over many decades that have sought to promote home ownership as the dominant form of tenure, and transform housing into vehicles for accumulating wealth. At the same time, the liberalisation of the financial sector, alongside the downward trajectory of interest rates, increased the availability and attractiveness of mortgage credit, which in turn has led to a significant increase in the amount of purchasing power available for housing. The result has been the emergence of a powerful feedback loop between government policy, mortgage lending, and house prices, which has created an affordability crisis that disproportionately impacts certain demographics over others.

While some commentators have sought to blame expansionary government policies such as low interest rates and QE for soaring house prices, our analysis indicates that this is only a part of the story. It is not expansionary monetary policies alone which are responsible for the upwards trajectory of UK house prices, but rather their interaction with a favourable tax, subsidy, and regulatory regime on the one hand, and a liberalised financial system on the other.

Despite successive governments promising to take action to tackle the affordability crisis, so far none have succeeded. It is clear that the current approach to housing policy, focused on trying to increase home ownership at all costs, is failing even on its own terms. Instead, the time has come for a bold new approach.

The primary recommendation of this report is that the UK Government launches a new long-term housing affordability strategy focused on tackling the root causes of the affordability crisis. The overarching goal of the strategy should be to embark on a long-term transition to stabilise house prices and allow wages and inflation to catch up, bringing real house prices and the house-price-to-income ratio down to more affordable levels over time.

It has long been assumed that such an approach would be unpopular with the majority of the British electorate that are homeowners. However, YouGov polling commissioned for this report suggests that the majority (54%) of British and (57%) London homeowners would be happy if “their own home did not rise in value in the next ten years if it meant houses were more affordable for those who don’t own property.” A strong majority also believe that the purpose of a house “should be mainly a home”, as opposed to “mainly a financial investment”. In each case, there is popular support across all regions of Britain, and among supporters of all the main political parties.

This goal cannot be achieved overnight, or even in a single parliamentary term. Instead, it requires a strategic long-term approach that recognises that there are no quick fixes to such a complex and deeply ingrained problem. While building more social and affordable housing in areas of high demand should form an important part of the strategy, it is clear that increasing supply is not a credible solution to the systemic problem of high house prices relative to incomes. Instead, the new housing affordability strategy should prioritise addressing the demand-side factors that are primarily responsible for fueling the UK's affordability crisis over many decades, while also providing immediate relief to those at the sharp end of the crisis.

In this section we outline a series of recommendations for achieving this, including reforms to monetary and macroprudential policy, a new framework for the fiscal-monetary coordination between the Bank of England and the Treasury, and a new approach to taxing land and property. These policies are aimed at gradually restoring house price-to-income ratios to affordable levels, and aligning government policy with the principle that housing should not be an asset for the few, but a right for all. We also recommend a series of measures to provide immediate relief to those currently suffering at the sharp end of the housing crisis, including strengthening tenants rights, implementing rent controls, and scaling up non-market homes. Importantly, these policies would also serve to discourage the treatment of homes as financial assets, and thus contribute to stabilising house prices.

While the new housing strategy should be led by the UK's national government, it will also require close collaboration with local governments across the country. Given the acute nature of the affordability crisis in London, specific attention should be paid to tackling the root causes of the crisis in the capital.

6.2. Updates to the Bank of England's mandate

As explored in previous sections of this report, the monetary and financial policies implemented by the Bank of England significantly impact house prices. A key part of the government's new housing affordability strategy should therefore be to update the central bank's mandate to ensure its activities help rather than hinder efforts to tackle the affordability crisis.

There are a number of ways in which house price stability could be incorporated into the mandate of the Bank of England. For instance, the government could add stabilising house prices to the Bank's existing price stability objective, which the Treasury defines in its annual remit letter to the Monetary Policy Committee (MPC), and is currently set to target 2% CPI inflation. Alternatively, it could introduce such a target as a new objective for the Financial Policy Committee (FPC).¹⁷ Such an objective could target a certain level of house price inflation (e.g. 0% or 2%, to ensure house prices do not rise significantly in real terms) or aim to bring house price-to-income levels down to more sustainable levels, defined as 4.5 or 5 times average earnings for instance.¹⁸ As with the Bank of England's current price stability target, the government will have discretion over how it is defined, with the Bank acting independently to reach this goal.

While the MPC and the FPC have different primary objectives, they both already share a common secondary objective: to support the economic policy of the UK Government. Rather than introducing a new statutory objective for just the MPC or the FPC, we therefore recommend that the UK Government makes it clear that going forward both committees will be expected to act in accordance with the government's goal to stabilise house prices as part of their existing secondary objectives. This would be similar to the approach that has recently been embraced in New Zealand, where the government's 2021 remit for the Reserve Bank introduced a requirement for the MPC to assess the effect of its monetary policy decisions on the government's policy to support more sustainable house prices (RBNZ, 2021). The UK Government can introduce such changes to the Bank of England's mandate within the remit and recommendations sent to the Bank's policymaking committees by the Treasury each year, as Chancellor Rishi Sunak has recently done in relation to the government's net zero goal (HM Treasury, 2021b).

As part of this mandate change, the Bank should be required to assess and communicate the impacts of their policies on house prices, and take these factors into consideration when setting policy. This, in turn, would have a powerful signalling effect, reducing and anchoring expectations of rising house prices, thus lowering investment demand for housing including in the BTL market and the growing trend for second and multiple properties.

17. A target for the FPC to control house price inflation has been proposed by the IPPR. See Blakeley (2018).

18. There is widening support for the Bank of England to target house price inflation including amongst mortgage brokers. See Kyriakou (2022).

Our YouGov poll suggests that there is broad public support for the central bank playing a greater role in stabilising house prices. Two thirds (66%) of respondents said that they would “support the Bank of England being given a target to keep house price inflation low and stable, in the same way it does for consumer price inflation.” This is the case across all regions of the UK, and among supporters of all the main political parties.

We outline below some potential ways in which the Bank of England could operationalise such a new mandate and support more sustainable house prices. These include better use of existing macroprudential tools, as well as other means of guiding credit away from the property market and towards the real economy, and more coordinated and refined monetary policy.

6.2.1. Macroprudential tools and credit guidance

Following the financial crisis in 2008, the government granted the Bank of England’s FPC new powers to protect against financial instability stemming from the housing market (BoE, 2016b). The FPC key measures are: (i) affordability stress tests and (ii) limiting the number of mortgages at loan-to-income (LTI) ratios of 4.5 or higher to 15% of a lender’s new mortgage lending (BoE, 2021d). Crucially, these measures focus on borrowers’ resilience during periods of rapidly growing house prices (FPC, 2021:33). However, this approach has done little to dampen the inflationary effect of mortgage lending, or reduce the attractiveness of homes as financial assets. Recent evidence shows that 11% of mortgages exceed the limit on 4.5 LTI ratios, and the share of high LTI ratios between 4.0 and 4.5 are now double their pre-credit crisis peak at 17.65% (Chakraborty et al., 2017; Turner et al., 2018). Additionally, since 2017, the FPC was granted new powers to place limits on BTL mortgage lending, but has not made use of these (HM Treasury, 2016). Going forward, BTL borrowers could be required to show that their income can cover monthly mortgage payments rather than rely on expected rental income (Monbiot et al., 2019:163). In addition, the FPC could place quantitative limits on the amount of BTL lending banks undertake each year to limit BTL purchases and provide more opportunities for first time buyers.

There is also a strong case for the Bank of England to make better use of its existing macroprudential as well as monetary policy powers through ‘credit guidance’. There remains a significant regulatory bias in the financial system towards lending to property relative to other types of lending such as to small businesses.¹⁹ Credit guidance policies would allow the Bank of England to compel lending to strategically important sectors and restrict the flow towards non-prioritised sectors, as it did before the phasing out of credit controls from the 1970s onwards. For example, the Bank of England could introduce credit ceilings or quotas for mortgage lending, or increase capital risk weights on property lending to make other forms of lending relatively more attractive (Bezemer et al., 2021). It could also offer a second lower ‘targeted’ rate of interest to commercial banks seeking to borrow funds, but with restrictions that prevent banks from using the funding to support additional mortgage lending. This would incentivise banks to lend for more socially productive purposes (Loneragan and Greene, 2020; van’t Klooster, J. and van Tilburg, 2020).

The Bank of England has already provided subsidised funding to banks and building societies through the Term Funding Scheme (TFS), with the intention of helping lenders pass on lower interest rates to borrowers. Between 2016 and 2018 the Bank of England lent £127bn through the TFS, which the Bank concluded led to lower rates on mortgage lending (Nardi et al., 2018). In response to the Covid crisis in March 2020 the Bank of England announced the Term Funding Scheme with additional incentives for SMEs (TFSME), in recognition of the fact the original TFS favoured mortgage lending (BoE, 2020c). The TFSME has since closed, but it provides a useful template for future targeted lending schemes to guide the overflow of credit away from mortgage lending and towards productive sectors. The Bank could therefore redesign and reintroduce the TFS so that it provides cheaper funding for lending to SMEs and other priority sectors (such as green energy). Additionally, access to central bank funding through such schemes (as well as other liquidity facilities) could also be made contingent on banks following ceilings and quotas for lending, in line with the government’s economic and social policy objectives.

Distributional consequences of these policies must also be taken into consideration. Access to homes should widen as a result of lowering the house price-to-income ratio over time and making the BTL market less attractive for investors. However, restricting mortgage lending should not disproportionately impact poorer households or FTBs. The FPC should consult with regulated lenders and give directions to ensure adequate access to borrowers at the lower end of the income distribution of households.

19. “Regulatory capital requirements for bank lending favour home mortgage loans (seen as a safe asset class with a risk weighting of 35%), over SME lending collateralised by commercial property (risk weighting of 75%) or immoveable property (risk weighting of 100%)” (Turner et al, 2018:14).

6.2.2. Improved framework for monetary-fiscal coordination

The pursuit of more stable and affordable house prices would also need to be supported by more coordinated policy between monetary and fiscal authorities. An improved framework for monetary-fiscal coordination could help ensure the effective use of new policy tools and mitigate against the impact of existing monetary policy on house prices. A new mandate incorporating sustainable house prices should require the MPC to communicate whether it is able to meet its primary objectives without increasing the unaffordability of housing and wealth inequality with its current toolkit, and whether fiscal policy or alternative policy tools would be more effective. Currently, the Bank of England is not permitted to comment on government policy, including the role of fiscal policy. This has led to suboptimal policymaking, where responsibility to stimulate the economy has been placed too heavily on the Bank of England. As the Bank is unable to comment on the government's approach even when it impacts its objectives, it has relied too heavily on monetary policy tools, such as interest rate cuts and QE, which are less efficient than fiscal stimulus and have unequal distributional effects (Macquarie et al., 2020).²⁰

By adding sustainable house prices to the government's economic objectives both the FPC and MPC would be required to assess and communicate how its actions and tools are meeting its objectives without increasing housing unaffordability. The Bank of England would also have a responsibility to inform the Treasury if government policies (such as Help to Buy schemes or property tax relief) are effectively cancelling out the impact of credit policies and causing unsustainable increases in house prices. This would lay the foundations for better coordination of policy between the Bank and the government in ways that reduce housing affordability and wealth inequality. Rather than relying heavily on QE to indirectly stimulate the economy through higher asset prices and the 'trickle-down' wealth effect described in section 4, policymakers could instead refine monetary policy tools so they have fewer negative side effects on housing affordability.²¹ For instance, QE could be targeted in ways which help support the expansion of social and affordable housing through a form of 'strategic QE' (Bernardo et al., 2013). Doing so would help ensure that monetary policy is subsidising an increase in housing supply, rather than subsidising demand for housing as a financial asset.

The Treasury should also undertake a new review of the monetary policy framework which reassesses the institutional set-up between monetary and fiscal policy, the channels through which monetary policy is understood to work and how this impacts housing affordability and wealth inequality, as well as the effectiveness of the Bank of England's current toolkit. The Treasury last published such a review in 2013, and committed to undertaking a further review by the end of 2019 (HMT, 2013). However as of 2022 this review has not yet been published.

20. At the time of writing, due to the siloing of price stability into central bank policymaking, the Bank of England is seeking to respond to rising inflation with tighter monetary policy, despite repeated admittances that this will do little to address the supply-side drivers. When this has been pointed out and Bank policymakers have been asked if other tools may be more appropriate, they have been unable to address this issue, with governor Andrew Bailey responding: "we do not comment on fiscal policy, on other Government policies" (BoE, 2022).

21. As it is estimated that only 8p of every £1 of the first £375bn of QE entered the real economy it can be inferred that an equivalent stimulus could have been achieved through the Bank of England injecting £30bn into the economy directly, which would have had a far lesser impact on asset prices including property. The Bank of England could do this through an equal 'helicopter drop' to households, or direct monetary financing of a fiscal deficit by crediting the government's Ways and Means 'overdraft' with the central bank.

6.3. Market shaping policies

Given the structural bias of the UK economy towards the housing market, there are wider market shaping policy reforms that would need to accompany a Bank of England target to stabilise house prices. These include promoting a more diverse banking system, and taxing land and property more effectively to help guide credit and investment towards the real economy and reduce speculative activity in the property market.

6.3.1. Promoting a more diverse banking system

Over the last thirty years, the UK banking sector has come to be dominated by a small number of large shareholder-owned banks. During this time the business models of these banks have shifted radically: banks switched from lending mainly to businesses for investment to lending to households for home purchase, accepting the property as collateral. In 2018, the top six lenders had an 87% share of the retail banking market, representing a high degree of market concentration (Reuters, 2018). There is therefore a strong case for implementing structural changes to the ownership and function of the UK banking sector to re-orientate the banking sector away from property and towards socially useful activity.

This could include creating new public national and local development banks, as well as community and stakeholder banks to allocate credit to meet the financial needs of communities, small businesses and the real economy. Whereas the business models of commercial banks are based on maximising profits for shareholders which has led to an over reliance on mortgage lending, the 'stakeholder bank' model seeks to provide both social and economic value which often has positive spillover effects for local communities and local economies. For example, stakeholder banks have been found to develop more long-term positive relationships between customers and the businesses they finance, which means they are more able to lend responsibly and usefully. They are also known to better engage with underserved communities which would support widening access to housing for the groups identified in this report as more likely to live in unsuitable, non-decent and overcrowded homes (Prieg and Greenham, 2014).

6.3.2. Reforming land and property taxation

There is growing consensus around the need to make the current property and land tax system fairer (Tax Justice UK, 2019:6). A progressive and well-designed tax system would discourage excessive house price growth and incentivise an efficient use of land and housing. Reforms should focus on capturing unearned capital gains from property, increasing the share of taxation raised from property more generally, while increasing public funds available for investment in more social and affordable housing. This would make speculative demand for housing, which puts upward pressure on house prices, less attractive. It would also address the inefficient use of existing housing stock where people hold multiple properties or leave them vacant (Monbiot et al., 2019). While reforming the tax system is politically difficult, there have been some recent changes which have served to dampen the attractiveness of housing as an asset. Since 2017, BTL's have seen a gradual removal of tax relief on mortgage interest payments and in 2016 the government introduced a 3% stamp duty charge on second homes.

At a minimum, a more progressive tax system would include using the existing suite of taxes more effectively, including:

- Updating Council Tax rates bands to resemble a Proportional Property Tax where the highest valued properties would pay more than lower valued properties based on regularly updated property values and paid for by owners not tenants (Nanda, 2021). This should be set at a higher rate for owners of second homes, multiple properties and empty homes. While fundamental reform is needed across the UK, the highly unequal state of housing ownership and housing costs in London as highlighted in Section 5, offers a strong case for a targeted approach. The IPPR has shown that devolving Council Tax to London would lay the foundations for such reforms (Murphy, 2019).²² Devolution of Council Tax to Northern Ireland, Scotland and Wales sets a useful precedent for such reforms.
- Increasing Capital Gains Tax (CGT) paid on second homes, BTL and investment properties in line with income tax rates. This takes into account that profits made from rising house prices are unearned and fuel demand for housing as an asset. Currently, CGT on non-main residence properties are charged at 28% for higher rate taxpayers and 18% for basic rate taxpayers compared to Income Tax rate for higher earners of 40% and 20% for basic rate payers. The Office for Tax Simplification (OTS) has recommended closer alignment of CGT with Income Tax rates (OTS, 2020). Additionally, the top rate of tax should apply to overseas investors who classify a property in the UK as their main residence and UK and non UK based companies (Monbiot et al., 2019:34). Removing CGT relief on first homes, while politically difficult to implement, would capture unearned gains from property and address the growing wealth gap between homeowners and non-homeowners. One recent study finds main residence CGT could raise between £4 and £11 billion a year depending on the form of tax (Corlett and Leslie, 2021).

22. Murphy et al (2018:14) and Murphy (2019:9) show that in London the lowest value homes are paying a higher proportion of council tax relative to property value than those in higher value homes. This is due to the arbitrary structure of council tax bands and because of considerable house price inflation in London despite council tax being based on 1991 property values.

- Higher taxes on overseas investors and companies: including removing CGT relief where a UK property is classified as their main residence, and higher taxes on non-UK resident companies. Since April 2020, non-UK resident companies have been paying an even lower rate of Income Tax on UK rental income in line with Corporation Tax of 19% (HMRC, 2020).
- Removing the transferable main residence allowance for Inheritance Tax that was introduced in 2015, ensuring that more housing wealth is subject to inheritance tax when it is passed on through the generations.

Our YouGov polling indicates robust public support for these policies. A majority (51%) of those asked said they would support “changes to Council Tax that meant owners of houses above the national average house price paid more in tax than at present, and owners of houses less than the national average house price paid less in tax than at present.” A majority (57%) also said they would support “higher taxes on wealth, such as Capital Gains Tax, with the money raised used to improve local services.”

However, there is also a strong case for undertaking more fundamental reform of the tax system which could include:

- Replacing Council Tax and business rates with a split rate taxation system, where separate taxes are levied on the value of the land and the value of the physical property. This would enable land and buildings to be taxed at different rates, allowing for a gradual transition towards land value taxation. By attaching a cost to owning land, a land value tax would diminish the incentive to buy land and property for speculative purposes rather than productive purposes, as a substantial part of any increase in land values would be captured for public benefit rather than owners of land (Arnold et al., 2019).²³
- Replacing Inheritance Tax with a Lifetime Gifts Tax, given the significant windfall gains that have been amassed through the housing market in recent decades which are unlikely to be repeated. Research by the intergenerational commission has shown Inheritance Tax in its current form is unfair and contributing to widening wealth inequality across generations (Resolution Foundation, 2018). To ensure the wealth gains made by current homeowners from rising property prices are more evenly shared, Inheritance Tax could be replaced by a Lifetime Gifts Tax levied on the recipient as recommended by the Resolution Foundation (Corlett, 2018) and IPPR (Roberts et al., 2018). For example, the Resolution Foundation proposes a lifetime allowance of £125,000 after which income from gifts will be taxed annually in line with income tax.

²³. A large part of the value of land comes from its location (infrastructure, amenities, transport links) which are paid for by others collectively but the benefits are captured by owners of land.

6.4. Alternatives to home ownership

In Section 2.2 we outlined how the sale of social housing, dismantling of rent controls and reduction of tenants rights in the 1980s shifted the balance of power towards private landlords. This shift dramatically increased the attractiveness of BTL investment, adding significant inflationary pressure to the housing market. It has also meant that those excluded from home ownership have been doubly punished. As well as missing out on property wealth gains, they have faced higher housing costs, poorer standards, and less housing security than their home-owning counterparts. As discussed in Section 5, since a higher proportion of Black, Asian and other ethnic minorities have been excluded from home ownership and trapped in the PRS, this community has suffered disproportionately from the sector's high rents, no-fault evictions, and poor conditions in the PRS.

Policies that improve the quality, affordability, and security of rented accommodation as an alternative to home ownership are essential to address the inequities of the housing system and protect the wellbeing of children who are growing up in rented accommodation. A full review of such policies, however, including measures to boost the supply of social housing and other decommodified forms of housing, is beyond the scope of this report. Instead, this report focuses on recommendations that support the immediate needs of those at the sharper end of the housing affordability crisis and discourage the treatment of homes as financial assets, and thus contribute to the goal of stabilising house prices. Implementing rent controls and strengthening tenants rights in London are necessary to address the sharp housing inequalities described in Section 5. However, this would require the Government devolving powers to London and therefore primarily involves action at the national level.

6.4.1. Rent controls

Rent controls are a type of price regulation that limit the level and/or the rate of increases in rental prices. They were in place in the UK for most of the 20th century, and are common across Europe and North America (Whitehead, 2019). In Austria, Denmark, France, the Netherlands and Sweden, there are rent controls that limit both the initial rent, and subsequent rate of rent increases. In more than ten further European countries there are rent caps that limit the rate of rent increases within tenancies, for example by linking rent to the rate of wage growth or consumer price inflation (CPI). Rent controls can be introduced gradually and designed so as to mitigate against the risk of triggering a shortage of rental properties (Wheatley et al., 2019). As well as reducing the disparity in housing costs faced by different groups within society, rent controls could support more stable, mixed-income and diverse neighbourhoods. For rent controls to be implemented in London there would need to be national legislation to devolve powers to the GLA. A 2019 City Hall poll found 68% Londoners support the introduction of rent controls, and the Mayor of London has renewed calls for such powers to set up a private rent commission and to introduce a simple rent stabilisation policy (London Assembly, 2019). Such a policy also forms a key demand of many housing and renting campaign groups.²⁴

24. The National Renters Manifesto — a joint work between Generation Rent, London Renters Union, ACORN, Tenants Union UK, Renters' Rights London and the New Economics Foundation. Available at: https://www.rentermanifesto.org/read_the_manifesto_full

6.4.2. Improve security of tenure for private sector tenants

Section 21 of the 1988 Housing Act gives landlords the power to evict tenants with just two months' notice, even if they have not broken the terms of the tenancy agreement. These 'no fault' evictions are the leading cause of homelessness,²⁵ and even for those unlikely to face homelessness, the threat of eviction can mean constant anxiety and insecurity (Bibby, 2017). 'No fault evictions' are a key mechanism used by landlords to discourage requests for repair and maintenance. Research by the Citizens Advice Bureau found that private renters in England who formally complain about issues such as damp and mould in their home have an almost one-in-two chance (46%) of being issued an eviction notice within 6 months.

The governments of England and Wales announced in 2019 that they would bring an end to 'no fault evictions', which was reaffirmed in the latest levelling up white paper (DLUHC, 2022). We recommend that the government follow through on this promise as a matter of urgency, and introduce a system of open ended tenancies as implemented in Scotland in 2017. Under the Scottish system, landlords retain a right to repossess the property in order to sell or renovate. We recommend that governments go further to improve security of tenure for renters, by removing this right within the first three years of a tenancy, increasing eviction notice periods and/or providing compensation to tenants evicted through no fault of their own.

6.4.3. Scaling up non-market homes

Scaling up non-market forms of housing tenure, including social housing and community-led housing (such as cooperatives and community land trusts), would also help to reduce demand in the housing market by providing alternative ways to attain secure, high quality housing. This should include developing schemes that bring land into public and community ownership as a system that separates the cost of land from the cost of homes where the latter is a smaller share of the value of property (Monbiot et al., 2019). Another potential solution would be to bring empty and vacant properties and the associated land into more efficient use. This would help to establish more diversified options for home ownership that is not wholly dependent on market forces.

²⁵ Shelter, 2017. Eviction from a Private Tenancy Accounts for 78% of the Rise in Homelessness since 2011. Press Release, March 23, 2017.

7. Conclusion

Taken together, the above policies would help to put the UK housing market on a more sustainable path. However, charting a new course will not be easy. There are many vested interests who benefit from the status quo, which may be resistant to measures that seek to tackle the affordability crisis. These include landowners, private developers, the financial sector, and the large part of the electorate that are homeowners.

As homeownership in the UK has increased over time, the number of voters with a material interest in the buoyancy of the housing market has increased. Although homeownership has been falling for much of the past 20 years, it still remains the dominant tenure, with 65% of households owning their own home. For many of these households, the family home is the primary source of wealth, meaning that household net worth is inextricably tied to house prices. Moreover, Britain's economic performance has also become intimately linked to house prices: households typically spend more when house prices rise, and spend less when house prices fall, meaning that volatility in house prices is transmitted into volatility in the wider economy. In addition, bank balance sheets are largely secured against UK house prices.

Despite these challenges, the evident failings of the current approach, and the inequalities it has created, mean that a tipping point has now been reached. Our findings indicate that the majority of the British public, including a majority of homeowners, recognise that the status quo is not working, and are in favour of bold reform. Our YouGov polling suggests that the majority (54%) of British and (57%) of London homeowners would be happy if their own home did not rise in value in the next ten years if it meant houses were more affordable for those who don't own property. Nearly two-thirds (62%) of the British public and (63%) of Londoners also believe that the purpose of a house should be mainly a home, as opposed to "mainly a financial investment". In each case, there is popular support across all regions of Britain, and among supporters of all the main political parties. This indicates a strong appetite among the public for a bold new approach.

Nonetheless, the economic complexities and political sensitivities surrounding the UK housing market serve to underline the importance of avoiding sudden changes that would create large winners and losers overnight. Instead, the goal for policymakers should be to embark on a strategic long-term transition to stabilise house prices, allowing wages and inflation to catch up, and bringing real house prices and the house-price-to-income ratio down over time. In the short-term, an expansion of non-market housing and sweeping reform of the private rental sector will provide relief to the millions of people who are suffering at the sharp end of the housing crisis.

Tackling the UK's housing crisis will not be easy, and there will be many challenges encountered along the way. But the status quo is not an option. There is an alternative – now we must seize it with both hands.

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Appendix: Polling results

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1,751 adults. Fieldwork was undertaken between 9th - 10th March 2022. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

Would you support or oppose the Bank of England being given a target to keep house price inflation low and stable, in the same way it does for consumer price inflation?

	Vote in 2019 GE				Region					Housing tenure	
	TOTAL	Con	Lab	Lib Dem	London	Rest of South	Midlands / Wales	North	Scotland	Own	Rent
	%	%	%	%	%	%	%	%	%	%	%
Strongly support	24	19	34	22	28	25	22	24	22	17	37
Tend to support	42	46	41	50	39	44	42	41	45	47	35
TOTAL SUPPORT	66	65	75	72	67	69	64	65	67	64	72
Tend to oppose	9	12	4	8	7	10	9	9	6	12	3
Strongly oppose	4	7	1	3	5	5	4	3	2	4	3
TOTAL OPPOSE	13	19	5	11	12	15	13	12	8	16	6
Don't know	21	16	16	17	22	17	22	24	26	19	22

Would you be happy or unhappy if your own home didn't rise in value in the next 10 years, but it meant houses were more affordable for those who don't own property?

[Asked to those who own or part-own their home]

	Vote in 2019 GE				Region					Housing tenure
	TOTAL	Con	Lab	Lib Dem	London	Rest of South	Midlands / Wales	North	Scotland	Own
	%	%	%	%	%	%	%	%	%	%
Very happy	13	11	14	21	13	16	10	12	8	13
Fairly happy	41	40	43	50	44	40	40	40	43	41
TOTAL HAPPY	54	51	57	71	57	56	50	52	51	54
Fairly unhappy	22	24	19	13	22	20	23	23	23	22
Very unhappy	14	16	9	10	10	14	16	13	16	14
TOTAL UNHAPPY	36	40	28	23	32	34	39	36	39	36
Don't know	11	10	14	6	11	10	12	12	11	11

Which of the following comes closest to your view?

	Vote in 2019 GE				Region					Housing tenure	
	TOTAL	Con	Lab	Lib Dem	London	Rest of South	Midlands / Wales	North	Scotland	Own	Rent
	%	%	%	%	%	%	%	%	%	%	%
The purpose of a house should be mainly a home	62	59	67	70	63	62	61	62	65	61	64
The purpose of a house should be mainly a financial investment	1	1	1	0	2	0	1	2	2	1	1
The purpose of a house should be both a home and a financial investment	32	38	27	28	29	35	35	29	25	36	26
Neither	1	1	1	0	2	0	1	1	0	1	1
Don't know	4	1	4	2	5	3	3	5	7	1	7

Would you support or oppose changes to council tax that meant owners of houses above the national average house price paid more in tax than at present, and owners of houses less than the national average house price paid less in tax than at present?

	Vote in 2019 GE			Region					Housing tenure		
	TOTAL	Con	Lab	Lib Dem	London	Rest of South	Midlands / Wales	North	Scotland	Own	Rent
	%	%	%	%	%	%	%	%	%	%	%
Strongly support	17	13	22	18	17	15	22	17	14	15	25
Tend to support	34	32	38	39	31	33	29	40	41	34	38
TOTAL SUPPORT	51	45	60	57	48	48	51	57	55	49	63
Tend to oppose	18	24	15	18	26	18	18	14	20	21	12
Strongly oppose	12	17	7	12	10	16	12	7	10	16	3
TOTAL OPPOSE	30	41	22	30	36	34	30	21	30	37	15
Don't know	19	15	18	13	16	19	19	22	15	14	22

Would you support or oppose higher taxes on wealth, such as capital gains tax, with the money raised used to improve local services?

	Vote in 2019 GE				Region					Housing tenure	
	TOTAL	Con	Lab	Lib Dem	London	Rest of South	Midlands / Wales	North	Scotland	Own	Rent
	%	%	%	%	%	%	%	%	%	%	%
Strongly support	22	12	34	23	23	20	22	23	23	18	32
Tend to support	35	32	36	44	27	37	31	37	37	36	35
TOTAL SUPPORT	57	44	70	67	50	57	53	60	60	54	67
Tend to oppose	15	23	6	14	17	15	15	12	13	17	9
Strongly oppose	11	17	6	6	12	11	13	8	10	12	5
TOTAL OPPOSE	26	40	12	20	29	26	28	20	23	29	14
Don't know	18	16	17	13	21	17	18	20	16	16	18

Do you think each of the following are too high, too low or about right?

House prices in your local area

	Vote in 2019 GE				Region					Housing tenure	
	TOTAL	Con	Lab	Lib Dem	London	Rest of South	Midlands / Wales	North	Scotland	Own	Rent
	%	%	%	%	%	%	%	%	%	%	%
Too high	59	52	68	66	75	66	52	51	47	51	71
About right	26	35	18	25	15	23	31	29	35	36	11
Too low	2	2	2	1	1	1	1	3	1	2	0
Don't know	13	12	12	8	9	11	15	16	16	11	18

Private rent prices in your local area

	Vote in 2019 GE				Region					Housing tenure	
	TOTAL	Con	Lab	Lib Dem	London	Rest of South	Midlands / Wales	North	Scotland	Own	Rent
	%	%	%	%	%	%	%	%	%	%	%
Too high	62	56	72	64	70	67	61	56	51	55	78
About right	12	15	6	12	12	11	11	13	14	13	8
Too low	1	1	0	0	1	1	1	0	1	1	0
Don't know	26	28	21	24	18	21	28	31	33	31	14

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