Written evidence submitted by Positive Money

Positive Money is a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

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RECOMMENDATIONS

The Treasury and the Bank of England should:

- Consider the uneven distributional impact of their policies which result in property price inflation, deepen inequalities and transfer wealth to homeowners, landlords and the asset rich and away from the young, renters and low paid workers.

- Strengthen the role of macroprudential policy to limit rapid house price growth to sustainable levels by building on existing tools aimed at guarding against systemic risks from mortgage lending, in order to limit house price inflation relative to incomes.

- Ensure better coordination between The Bank of England and Treasury to direct financing towards public investment in housing infrastructure, and increasing supply of affordable and social housing.

- Consider market-shaping policies to guide credit towards income-increasing productive investment in the real economy and away from speculative activity in the property market.

- Publish research on viable alternatives to Quantitative Easing (QE), including monetary financing (by which the Bank directly finances government spending) and helicopter money (by which the Bank gives money directly to citizens), to address rapid house price inflation and widening wealth inequality caused by QE since the financial crisis.

KEY POINTS

- The UK housing market has become ‘too big to fail’ and disconnected from the real economy. During the pandemic the average UK house price reached a new record high of £255,624, with an annual growth rate of 10% in May 2021. Since July 2020, the UK housing market has returned to its pre-financial crisis levels of accelerating house prices and credit expansion. This is despite repeated lockdowns and the UK experiencing the largest recession in 300 years.

- Demand side factors are also critical determinants of rapid house price growth since the 1980s, and have been neglected in analysis of the UK housing crisis. Credit conditions, including both the cost and availability of credit, play a role in driving house prices to grow much faster than incomes. Excessive mortgage lending is a consequence of financial sector deregulation since the 1980s. UK outstanding mortgage debt increased from 20% of GDP in 1980s to 70% by 2007. Housing in the UK acts as both a consumption good and as a financial asset.

- The Treasury's recent Stamp Duty tax holiday and other measures to boost the property market engineered a housing market boom, distorting the market and exacerbating existing inequalities. The Treasury’s various measures have driven the demand for those with increased savings to upgrade to larger homes rather than supporting those on lower incomes or in insecure housing situations. The Bank of England’s QE programme has also had clear distributional consequences through inflating property and asset prices which in turn exacerbates wealth inequality.

What have been the trends in, and drivers of, house prices, and to what extent can they be attributed to matters related to the Treasury's remit, in terms of the economy, taxes and housing finance?

1. UK house prices have increased substantially since the 1980s. The UK experienced the fastest growth in real house prices amongst all G7 countries, at 250% between 1980 and 2018[1]. House prices are also growing much faster than incomes. Average UK house prices were around 3 times more than average earnings per worker in the mid-1980s, and by 2020 the ratio increased to over 8 times.[2] Following the global financial crisis there was a sharp correction in the UK housing market as house prices contracted by 15% in 2009, after a growth rate of over 10% in 2007. The UK housing market has remained relatively subdued in the years following the financial crisis, growing at an average of 5% per year between 2014-19. London was an exception to this trend, with a growth rate of 35% during this period. Overall, housing activity slowed from a peak of 100,000 mortgage approvals per month pre-financial crisis to 61,000 per month in the decade after the crisis.[3]

2. Since July 2020, the UK housing market has returned to its pre-financial crisis levels of accelerating house prices and credit expansion. Average annual house prices increased by 10% in the year to May 2021, up from 9.6% in April 2021. This is similar to levels seen in 2007, which peaked at 10.8% before the financial crash and a significant increase from an annual growth rate of just 2.5% in March 2020 (Figure 1). The average UK property price rose to a new record high of £254,624 in May 2021, over £23,000 higher than a year ago. The Halifax house price index reported a 8.8% rise in annual house prices in June 2021[4], taking the average asking price to £260,358, indicating that the housing market will continue to display high growth rates albeit below its peak in May 2021.

3. During the pandemic, the traditional North-South divide in house price growth has been reversed. In the year to May 2021, the North West region saw 15.2% rise in annual house prices compared to 5.2% in London.[5] Rural house prices in England and Wales increased 14.2% over the past year compared to 7% in urban areas. At the same time, average house prices in London remain the highest in the UK, reaching close to £500,000 in May 2021, making London the least affordable region in the UK.[6] The higher growth in house prices outside of London reflect the so-called 'race for space', which has seen wealthier households and those able to work from home upgrade to larger homes.

Figure 1: UK Annual House Price Growth Rates, January 2006 to May 2021

[1] All G7 countries have experienced high rates of real house prices growth since the 1980s with the UK leading. Bank of England Staff Working Paper No. 837, December 2019. See figure 2, p. 2: https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2019/uk-house-prices-and-three-decades-of-decline-in-the-risk-free-real-interest-rate.pdf?la=en&hash=7C12A901353CB615C3FC1A58557918D50775E470

[2] Schroders, "What does centuries of UK housing data tell us?", 15 March 2021: https://www.schroders.com/en/uk/private-investor/insights/markets/what-174-years-of-data-tell-us-about-house-price-affordability-in-the-uk/

[3] Bank of England, "Housing – The Quiet Decade", 20 May 2021: https://www.bankofengland.co.uk/-/media/boe/files/speech/2021/may/housing-the-quiet-decade-speech-by-jon-cunliffe.pdf?la=en&hash=F2F08546EC47DBA081528C76F90EEBD7A731AF33

[4] Halifax UK | House Price Index. The Halifax house price Index is based on their own mortgage transaction data at approval stage rather than final sales price used in UK House Price Index (UK HPI): https://www.halifax.co.uk/media-centre/house-price-index.html

[5] ONS, UK House Price Index May 2021, released July 2021: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/may2021

[6] Guardian, "Rural house prices in England and Wales rise twice as fast as in cities", 20 June 2021: https://www.theguardian.com/society/2021/jun/20/rural-house-prices-in-england-and-wales-rise-twice-as-fast-as-in-cities

Annual house price rates of change for all dwellings, UK: January 2006 to May 2021

Source: ONS, UK House Price index, May 2021[7]
Note:Land registry data based on actual sold properties.

Drivers of house price inflation

4. Typical explanations for rapid house price growth relative to incomes have focused on supply side factors. These tend to argue that not enough houses are being built to keep up with demand, often because of planning laws, migration pressures and population growth. However, a growing body of research finds demand side factors are also critical determinants of rapid house price growth since the 1980s. Credit conditions, including both the cost and availability of credit, play a role in driving house prices to grow much faster than incomes. When banks create mortgages, the majority of credit goes towards the purchase of existing supply of properties rather than building of new properties, and this leads to rising house prices. With house prices rising, banks become even more confident about lending mortgages to customers, who in turn demand more mortgage debt. This leads to a vicious cycle of rising house prices and ever more mortgage lending.[8]

5. Excessive mortgage lending is a consequence of financial sector deregulation since the 1980s. UK outstanding mortgage debt increased from 20% of GDP in 1980s to 70% by 2007[9]. Interest rates were not low during the 1980s, indicating that financial deregulation enabling excessive mortgage lending was the main driver. A large market for mortgaged backed securitisation has also developed which sees institutional investors enter the property market.[10] At the same time, research has shown that financial deregulation can result in lower home ownership.[11] Home ownership has fallen from a peak of

[7] Office of National Statistics (ONS), "UK House Price Index May 2021", released July 2021. UK House Price Index May 2021 - Office for National Statistics (ons.gov.uk),

[8] Ryan-Collins, J.,"Breaking the housing–finance cycle: Macroeconomic policy reforms for more affordable homes", Environment and Planning A: Economy and Space, Sage Journals, Volume: 53(3) pp. 480-502, July 2019. Breaking the housing–finance cycle: Macroeconomic policy reforms for more affordable homes - Josh Ryan-Collins, 2021 (sagepub.com).

[9]Ryan-Collins, J.,"Why can't you afford a home?", Polity Press, 2019.

[10] Ryan-Collins, J., "When it comes to high house prices, it's not enough to just blame low interest rates", UCL Institute for Innovation and Public Purpose, Blog post, 26 February 2020. When it comes to high house prices, it's not enough to just blame low interest rates | by UCL Institute for Innovation and Public Purpose | UCL IIPP Blog | Medium

[11] Kohl, S., "More Mortgages, More Homes? The Effect of Housing Financialization on Homeownership in Historical Perspective", Politics & Society, Vol. 46(2), pp.177–203, 2018. More Mortgages, More Homes? The Effect of Housing Financialization on Homeownership in Historical Perspective (mpg.de)

71% in 2003 to 63% by 2017.[12] Younger cohorts have seen a greater fall in home ownership, with half of those in their mid-30s to mid-40s having a mortgage in 2017 compared to two thirds 20 years ago. In comparison, 75% of those aged over 65 own their own homes outright.[13]

6. Government subsidies and preferential treatment for the property market has also driven demand and contributed to house price inflation. For example, relief on capital gains tax on a main property and long term failure of the state to provide affordable and social housing.

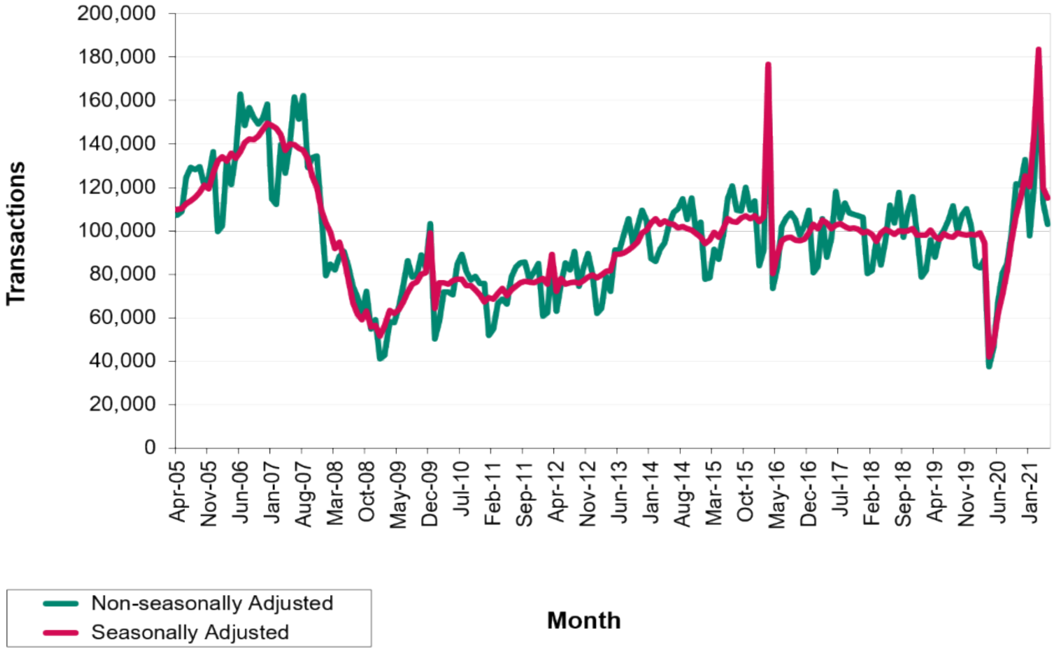
Treasury policy since July 2020

7. The Treasury's policy measures since the start of the pandemic have had a significant and direct impact on house prices, effectively engineering a property boom while the economy suffered its largest contraction in 300 years.[14] Annual house price growth has been on an upward trajectory since the introduction of the Chancellor's stamp duty land tax (SDLT) exemption announced on 8th of July 2020.[15] The Bank of England has stated that house prices and housing activity are at their highest levels in a decade as a result of the government's temporary SDLT holiday.[16] On 3rd March 2021, the tax break applied to properties up to the value of £500,000, and was extended on until 30th June 2021. The threshold will fall to £250,000 until 30 September 2021, and return to previous levels from the 1st October 2021.

8. The stated purpose of the SDLT exemption was to boost the housing market which was hit by government lockdown restrictions in March 2020. This saw annual average house price growth drop from 2.5% in March 2020 to 0.7% in April 2020. Since the introduction of the SDLT exemption house prices have accelerated month on month. The effect was to increase demand for homes in a constrained housing market and allowed sellers to push up prices as home buyers raced to complete before the end of the tax holiday. Figure 2 shows UK residential transactions data from 2005 onwards. The provisional estimate (non-seasonally adjusted) for residential transactions in the first quarter of 2021 reached 392,860, which is the highest quarterly total since the third quarter of 2007 when transactions climbed over 400,000.[17] In the year to March 2021, £274.8 billion was spent in the housing market, the highest total annual spend recorded since the global financial crisis in 2007 and 8.1% higher than the yearly total for March 2020.[18]

Figure 2: UK residential property transactions between 2005 and 2021

[12] Financial Times,Home Ownership in England Falls to 30 year low", 2 March 2017, [Home ownership in England falls to 30-year low | Financial Times (ft.com)]
[13] Office for National Statistics (ONS), "Living Longer: Changes in Housing Tenure Over time", 10 February 2021, [Living longer - Office for National Statistics (ons.gov.uk)]
[14] Financial Times, "UK suffers biggest drop in economic output in 300 years", 12 February 2021, [UK suffers biggest drop in economic output in 300 years | Financial Times (ft.com)]
[15] The SDLT exemption came into effect in England and Northern Ireland, and later on 15th of July in Scotland and 27th of July in Wales.
[16] [Financial Stability Report - July 2021 | Bank of England]. The bank has also stated that the resurgence in housing activity may partly reflect structural changes during the pandemic with workers shifting to working from home.
[17] Gov.uk, "UK monthly property transactions commentary" 22 June 2021: https://www.gov.uk/government/statistics/monthly-property-transactions-completed-in-the-uk-with-value-40000-or-above/uk-monthly-property-transactions-commentary#the-latest-statistics
[18] Analysis by Knight Frank found total annual spend for March 2021 only slightly below levels seen in August 2007 of £278.9 billion. UK Property Market Outlook: 24 May 2021: https://www.knightfrank.com/research/article/2021-05-24-uk-property-market-outlook-24-may-2021



Source: HMRC, UK Monthly Property Transaction statistics.[19]

9. In terms of housing finance, the Treasury has focused support on expanding mortgage lending. In the March 2021 Spring Budget, the Chancellor introduced a 95% mortgage guarantee scheme available to all homebuyers, allowing them to secure a mortgage with a 5% deposit on a property of up to £600,000 (down from the previous minimum deposit value of 10%). The scheme was introduced in response to the sharp reduction in the availability of high loan-to-value (LTV) mortgage products during the Covid-19 pandemic. Banks were restricting high LTV mortgages due to economic uncertainty. This saw 95% mortgage products fall from a high of 400 in early 2020 to just 4 by January 2021.[20]

10. The 95% mortgage scheme may help some First Time Buyers (FTB) on higher incomes and those that can leverage inherited or existing family wealth to buy a home. In 2018/19, 40% of FTB received deposit contributions from family, through gifts, loans or inheritance, compared to 25% in the mid-1990s.[21] Ultimately, this could add to more money chasing the same number of homes and put further upward pressure on prices. This will make it even harder for many renters and FTB to afford a home. Renters face huge obstacles to raising a deposit due to lower incomes and high rental and housing costs. Private renters spend an average of 40% of their household income on rent.[22] The figure is even higher for London at 47%.[23] This compares to 27% average rent-to-income ratio in Germany.[24] The OECD considers households that spend more than 40% of disposable income on housing to be overburdened by housing costs.[25]

[19] Gov.uk, "UK monthly property transactions commentary" 22 June 2021: https://www.gov.uk/government/statistics/monthly-property-transactions-completed-in-the-uk-with-value-40000-or-above/uk-monthly-property-transactions-commentary#the-latest-statistics
[20] Gov.uk, "The mortgage guarantee scheme", March 2021: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/965665/210301_Budget_Supplementary_Doc_-_mortgage_guarantee_scheme.pdf
[21] Nationwide, "Affordability special report: raising a deposit rather than mortgage payments the major barrier for first time buyers", July 2020: https://blog.shelter.org.uk/2020/07/stamp-duty-is-not-enough-to-pay-the-postage-of-this-recession/
[22] Shelter, "Stamp duty is not enough to pay the postage of this recession", July 2020: https://blog.shelter.org.uk/2020/07/stamp-duty-is-not-enough-to-pay-the-postage-of-this-recession/
[23] LSE, "Housing affordability has worsened for many as incomes stagnate", October 2020: https://blogs.lse.ac.uk/lselondon/housing-affordability-has-worsened-for-many-as-incomes-stagnate/
[24] German Federal Statistical Office, "Rent and rent to income ratio of main tenant households", 2018: https://www.destatis.de/EN/Themes/Society-Environment/Housing/Tables/ratio-main-tenant-households.html

11. The SDLT exemption and measures to boost home buying has also propelled the current 'race for space'. Those on higher incomes are more likely to be in occupations that shifted to working from home and have accumulated savings during lockdown. The Bank of England has estimated that by March 2021 households saved over £203 billion.[26] In 2020, the UK's savings ratio (savings as a proportion of national income) increased markedly from 5.8% in 2019 to 15.8% in 2020. This was largely driven by high income households.[27] Given the increased wealth of those on higher incomes, the Treasury's various measures have driven the demand for those with increased savings to upgrade to larger homes rather than supporting those on lower incomes or in insecure housing situations.

How has monetary policy impacted on housing, and should the Bank's remit be changed so that it actively considers the impact of its policies on housing?

12. Traditionally, the Bank of England viewed rapid house price growth as the result of supply shortages and a matter for government policy. More recently the Bank's own thinking on the long term determinants of UK house prices over the past 40 years has evolved. Research published by the Bank in 2019 highlighted that, since the 1980s, the rise in UK house prices is driven by the fall in long term interest rates and has very little to do with supply side shortages.[28] This is an important shift in thinking as it recognises that housing acts as both a consumption good and as a financial asset. With low interest rates, the future returns on interest bearing assets, including government bonds, are relatively lower and less attractive to financial investors. This leads investors to seek out relatively higher returns in assets such as property. A key implication of this shift in thinking is that house prices are vulnerable to even small changes in real interest rates and this poses risks to financial stability.[29]

Quantitative Easing and house price inflation

13. Recognition that a key driver of house price inflation is speculative demand should lead the Bank of England to reassess the role of it's Quantitative Easing (QE) operations and their distributional outcomes. QE is an 'unconventional' monetary policy tool introduced after the financial crisis in 2009 and resumed in March 2020 in response to the Covid-19 pandemic. It involves the Bank of England using its power to create new money to buy financial assets, mainly government debt. Since March 2020, the Bank of England has bought £440 billion of government bonds (gilts), and £10 billion of corporate bonds through its QE operations. A total of £875 billion of government bonds have been purchased by the Bank through QE and £20 billion of UK corporate bonds since 2009.[30]

14. Importantly, QE has clear distributional consequences through inflating property and asset prices which in turn exacerbates wealth inequality.[31] The Bank's own analysis suggested that real house prices and share prices in 2014 would have been 25% and 22% lower, respectively, in the absence of QE.[32] Asset

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[25] OECD, "Housing costs over income", May 2021: https://www.oecd.org/els/family/HC1-2-Housing-costs-over-income.pdf
[26] Money and Credit - March 2021 | Bank of England. Analysis by the Bank of England found that higher and middle income households were more likely to have saved during the pandemic. How has Covid affected household savings? | Bank of England
[27] ONS, "Coronavirus and the Impact on UK households and businesses": https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/coronavirusandtheimpactonukhouseholdsandbusinesses/2020
[28] Bank of England Staff Working Paper No. 837, 2019: https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2019/uk-house-prices-and-three-decades-of-decline-in-the-risk-free-real-interest-rate.pdf?la=en&hash=7C12A901353CB615C3FC1A58557918D50775E470
[29] Bank of England Staff Working Paper No. 837
[30] Bank of England, Quantitative easing: https://www.bankofengland.co.uk/monetary-policy/quantitative-easing
[31] House of Lords Economic Affairs Committee, "Quantitative easing: a dangerous addiction?", Friday 16th July 2021: https://publications.parliament.uk/pa/ld5802/ldselect/ldeconaf/42/4202.htm

price inflation results in greater wealth inequality. A 2018 paper by the Bank found that the wealthiest 10% of households received an average boost of £350,000 to their wealth during the combined periods between 2006-08 and 2012-14, 100 times more than the bottom 10%, who benefited by an average of £3000.[33] At the same time, the effectiveness of QE in boosting the economy is itself questionable. The Bank of England (2011) estimated that the first £375 billion of QE boosted the size of the British economy by around 1.5-2.0% of GDP.[34] Put differently, for every £1 of QE, only 8p was spent into the real economy.[35]

15. Asset price inflation is in fact a primary goal of QE which works through the portfolio rebalancing effect.[36] This involves injecting large sums of money into financial markets through buying government bonds and lowering the returns on traditionally safe assets. This incentivises investors to seek out riskier assets with higher returns, often in the property market. At the same time, there is a lot more money chasing existing assets and property which leads to an increase in their prices. The assumption is that by inflating asset prices, businesses and people will feel wealthier and spend money into the economy.[37]

16. The negative side effects associated with QE, namely, asset and property price inflation and increased wealth inequality could be avoided by more direct forms of monetary financing, an alternative monetary policy tool through which the Bank of England directly finances government spending. There are two main channels through which direct monetary financing can take place. Firstly, the Bank of England can conduct QE by buying gilts directly from the Treasury's Debt Management Office (DMO), which would mean newly created money going straight to the government's account, as opposed to via financial intermediaries on the secondary market. Secondly, the government can make use of its own overdraft at the Bank of England, known as the 'Ways and Means' facility, in which the Bank credits the government's account directly with newly created money.[38] In April 2020, the Treasury and The Bank of England agreed to temporarily extend the Ways and Means facility in response to the pandemic.[39] Yet, the government has not taken advantage of this, with its outstanding balance remaining flat at £370m since 2009.[40]

17. The advantages of direct monetary financing would be to limit the negative side effects of QE in its current form; and help to direct public financing to where it is most needed in the economy. In the latter case, money created by the Bank could be strategically directed to support the supply, quality and

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[32] Bank of England Staff Working Paper No. 720, March 2018: https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2018/the-distributional-impact-of-monetary-policy-easing-in-the-uk-between-2008-and-2014.pdf?la=en&hash=AB17C765D8244FFFBF43E8EF9505FBF10DB65600

[33] Bank of England Staff Working Paper No. 720, March 2018, p25: https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2018/the-distributional-impact-of-monetary-policy-easing-in-the-uk-between-2008-and-2014.pdf?la=en&hash=AB17C765D8244FFFBF43E8EF9505FBF10DB65600

[34] Bank of England, 'The United Kingdom's quantitative easing policy: design, operation and impact', Bank of England Quarterly Bulletin 2011, Q3: http://positivemoney.org/wp-content/uploads/2015/12/Recovery-in-the-Eurozone-FINAL-WEB-READY-2015-12-11.pdf

[35] Frank van Lerven, "Recovery in the Eurozone", 2015, p33: http://positivemoney.org/wp-content/uploads/2015/12/Recovery-in-the-Eurozone-FINAL-WEB-READY-2015-12-11.pdf

[36] New Economics Foundation, "Strategic quantitative easing: Stimulating investment to rebalance the economy", July 2013: https://neweconomics.org/uploads/files/e79789e1e31f261e95_ypm6b49z7.pdf

[37] Bank of England, Quantitative easing: https://www.bankofengland.co.uk/monetary-policy/quantitative-easing

[38] Positive Money, "The ultimate magic money tree has been unveiled - don't let the government tell you otherwise", April 2020: https://positivemoney.org/2020/04/the-ultimate-magic-money-tree-has-been-unveiled-dont-let-the-government-tell-you-otherwise/

[39] Bank of England, "HM Treasury and Bank of England announce temporary extension to Ways and Means facility", April 2020: https://www.bankofengland.co.uk/news/2020/april/hmt-and-boe-announce-temporary-extension-to-ways-and-means-facility

[40] Bank of England, RPWB72A | Database: https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxAZxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=2009&TD=31&TM=Dec&TY=2025&FNY=Y&CSVF=TT&html.x=66&html.y=26&SeriesCodes=RPWB72A&UsingCodes=Y&Filter=N&title=RPWB72A&VPD=Y

affordability of housing, for instance by supporting social housing, greening housing infrastructure and building more affordable homes. In the context of rapid house price growth, falling home ownership and an affordability crisis in the private rental sector, there is a critical need for increased supply of social housing which is at an all time low, and the Bank of England should recognise its role in exacerbating these trends.[41]

18. A common criticism of monetary financing is that it would be inflationary. However, such concerns are inconsistent with empirical evidence. Despite the Bank of England's QE programme after the 2008 financial crisis, inflation remained low. Furthermore, the link between money creation and inflation is not well established. Empirical evidence shows that inflation is rarely caused by increases in the money supply,[42] and in advanced economies like the UK, there is no causal relationship between monetary financing and inflation.[43] Currently, inflation has increased to 2.5%, above the Bank's 2% target. This is in line with the Bank's own research, indicating that inflation is likely to be temporary and a result of pandemic related factors such as global supply shortages and commodity price rises.[44]

19. Recently, the Bank of England's Independent Evaluation Office (IEO) conducted a review of the first wave of QE (2009-2016), and highlighted that there remain knowledge gaps on how QE works and its effects.[45] The IEO also recommended that the Bank communicate more effectively with the public to promote better understanding of monetary policy tools which are still poorly understood. The House of Lords Economic Affairs Committee also found in July 2021 that the Bank had not seriously engaged with the effects of QE on inequality, noting that the central bank had been "defensive" on these matters, and urged the Bank to publish more research on the effects of QE incorporating a range of views. This would suggest that the Bank needs to consider more carefully evidence of the distributional consequences of QE and consider alternative tools such as direct monetary financing.[46]

Bank of England's remit and house prices

20. The macroprudential policy framework to guard against systemic risks arising from the housing market should be strengthened to explicitly limit house price inflation relative to incomes. Currently, the Bank's remit does not explicitly include distributional outcomes in its primary objective of price and financial stability. However, access to housing is part of the Government's economic policy which the Bank has a secondary objective to support.[47] Additionally, to maintain an inflation target of 2%, the Bank uses the Consumer Price Index (CPI) as their key measurement.[48] The CPI does not include any component related to housing either house prices or Owner Occupied Housing costs. This is a significant oversight of the Bank's role in maintaining stable and low prices and financial stability, as housing is a major component of household consumption.

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[41] The National Housing Federation and Crisis estimate a need for 145,000 new affordable homes per year, including 90,000 for social rent. Shelter has called for 155,000 new social homes per year. There were 1.15 million households on waiting lists for social housing in March 2020, and an increased homselessness crisis and households living in temporary accommodation. See Parliament: "Social rented housing (England): past trends and prospects": https://researchbriefings.files.parliament.uk/documents/CBP-8963/CBP-8963.pdf

[42] Institute for New Economic Thinking, "Rapid Money Supply Growth Does Not Cause Inflation", December 2016: https://www.ineteconomics.org/perspectives/blog/rapid-money-supply-growth-does-not-cause-inflation

[43] UCL IIPP, "Bringing the helicopter to ground: A historical review of fiscal-monetary coordination to support economic growth in the 20th century, August 2018: https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/iipp-wp-2018-08.pdf

[44] Bank Rate maintained at 0.1% - June 2021 | Bank of England

[45] IEO evaluation of the Bank of England's approach to quantitative easing | Bank of England

[46] House of Lords Economic Affairs Committee, "Quantitative easing: a dangerous addiction?", Friday 16th July 2021: https://publications.parliament.uk/pa/ld5802/ldselect/ldeconaf/42/4202.htm

[47] Bank of England, "Housing – The Quiet Decade", May 2021: https://www.bankofengland.co.uk/-/media/boe/files/speech/2021/may/housing-the-quiet-decade-speech-by-jon-cunliffe.pdf?la=en&hash=F2F08546EC47DBA081528C76F90EEBD7A731AF33

[48] Bank of England, Inflation and the 2% target: https://www.bankofengland.co.uk/monetary-policy/inflation

21. After the Global Financial Crisis, measures were introduced allowing the Financial Policy Committee (FPC) of the Bank of England to guard against financial instability arising from the housing market. The FPC housing tools place limits on regulated lenders on residential mortgage lending. Two main housing tools include restrictions on high loan-to-value (LTV) mortgages and limiting the volume of mortgages with loan-to-Income (LTI) ratios at or higher than 4.5 times income to 15% of new mortgages.[49]

22. In response to the housing market boom since July 2020, the Bank of England announced that they would monitor house price growth and take action if inflation was a persistent trend.[50] In reality, this could prove challenging. Raising rates at a time when the economy has suffered huge disruptions, and businesses and households are facing mounting debt pressures from the lockdown of the economy, could choke off the recovery and overburden monetary policy. A more effective approach would be to strengthen the role of macroprudential policy to limit rapid house price growth to sustainable levels which builds on the FPC's existing housing tools to guard against systemic risks posed by excessive mortgage lending. This would enable expectations about house price growth to be well anchored and discourage speculative demand for housing.[51]

23. A more explicit approach has been taken by the New Zealand Government, when in February 2021, the Reserve Bank of New Zealand (RBNZ) was tasked with including the government's objective "to support more sustainable house prices, including by dampening investor demand for existing housing stock, which would improve affordability for first-home buyers".[52] However, the policy objective did not amend the RBNZ's mandate and in practice the RBNZ retains considerable autonomy over how they will achieve this objective. RBNZ have since announced they will rely on macroprudential policy as opposed to rate rises.[53]

24. Concerns that adding targets for house price growth into the Bank's remit would threaten the Bank's operational independence or force it into an overly 'political' realm are also wildly exaggerated. Firstly, such an objective would not change the Bank's Monetary Policy Committee (MPC) mandate for price stability but would complement inflation targeting and fall under macroprudential toolkit. Secondly, the idea that the Bank of England has complete independence is misleading and unhelpful. In reality, the Bank of England has 'operational' independence, but its mandate is set by the government. The illusion of complete separation between the government and the Bank has resulted in a lack of coordination between the Treasury and the Bank, which in turn has meant that the unintended effects of Bank decisions, such as, the distributional impacts of QE have been unmitigated.

25. There is a concern that targeting house price growth through macroprudential tools would increase housing inequality by constraining access to mortgage lending for those on lower incomes and renters. A policy of limiting house price inflation would need to be accompanied by greater coordination between the Treasury and the Bank to support public investment in housing infrastructure, and increasing supply of affordable and social housing. This would need to be accompanied by wider market shaping policies, such as credit guidance policies are needed to direct finance towards income-increasing productive investment in the real economy and away from speculative activity in the

[49] Bank of England, The Financial Policy Committee's powers over housing policy instruments - A Draft Policy Statement, November 2016: https://www.bankofengland.co.uk/-/media/boe/files/statement/2016/the-financial-policy-committee-powers-over-housing-policy-instruments.pdf
[50] Reuters, "With eye on UK housing boom, BOE weighs inflation risk - Deputy Governor Ramsden", 1 June 2021: https://www.reuters.com/world/europe/boe-monitoring-uk-housing-boom-it-weighs-inflation-risk-dep-gov-2021-06-01/
[51] IPPR, "On Borrowed Time" 2018, p.27: https://www.ippr.org/files/2018-07/1531217614_cej-on-borrowed-time-june18-.pdf
[52] Reserve Bank of New Zealand, "Replacement of Remit for Monetary Policy Committee, February 2021: Remit-for-Monetary-Policy-Committee-Order-Feb-2021.pdf
[53] Financial Times, "New Zealand tells central bank to consider housing in policy decisions" 1 February 2021: https://www.ft.com/content/0898db07-8ba5-43d7-a47a-de7bebad995e

property market.[54] Additionally, through consultation with regulated lenders the Bank could look to restrict credit to investors for speculative demand in property while enabling renters and would be FTB's access to mortgage lending.

26. The Bank's recent Financial Stability report noted that UK housing market activity is at its highest level in over a decade and that more lenders have re-entered the market offering high LTV mortgages of 90% and above. However the FPC recommends taking no action on tightening credit conditions as the share of new mortgages issued at high LTV ratios and high LTI ratios remain below 15%.[55] Yet, a recent Bank of England paper highlighted that there is a higher proportion of vulnerable borrowers in the UK mortgage market than recorded in household surveys which policy maker's currently rely upon. They estimate that 11% of mortgages exceeded the FPC's loan-to-income ratio of 4.5 on 15% of new mortgages in 2015.[56] This demonstrates the limits of the current approach. With a more explicit role in limiting house price inflation the FPC would be required to inform the government that housing policy is distorting the market.

How successful have Treasury interventions in housing been? Have they led to any market distortions?

27. The UK housing market has become 'too big to fail' and almost entirely disconnected from the real economy. The Treasury's range of measures in the past year has propelled rapid house price growth and distorted the housing market at a time when the economy was in a deep recession. The stimulus to the property market from the SDLT introduced in July 2020 has had a larger impact than the SDLT holiday of 2008/09 following the financial crisis. This can be seen in both higher numbers of mortgage transactions and higher house prices when comparing the two periods. Since July 2020 an average of 103,724 residential property transactions per month have taken place compared to an average of 60,048 transactions per month after the SDLT break in 2009.[57]

28. Rapid house price growth relative to incomes results in pushing homeownership further out of reach for FTB, those on low incomes, and renters. As the SDLT exemption applied to all buyers, this removed targeted support to FTB introduced in 2017, who were previously exempt from stamp duty on properties up to £300,000.[58] This gave significant advantage to existing home owners and those on higher incomes that have accrued large savings during the pandemic.

29. The 95% mortgage guarantee scheme is also far more likely to benefit those on higher incomes and existing home owners rather than FTB and renters. Typically, banks lend borrowers up to 4.5 times their income and this may be further restricted for those taking out a mortgage with a small deposit. At the same time, house prices have become more disconnected from average earnings. The ratio of average house price to earnings reached 8.4 at the end of 2020 and is as high as 12.5 in London.[59] Renters on medium to low incomes would struggle to raise even a 5% deposit. The average asking

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[54] John Ryan Collins, "Why can't you afford a home?", October 2018: https://medium.com/iipp-blog/why-cant-you-afford-a-home-9c5cf009be21
[55] Bank of England, "Financial Stability Report - July 2021": https://www.bankofengland.co.uk/financial-stability-report/2021/july-2021#fps
[56] Bank of England Staff Working Paper No. 703, December 2017 p. 16: https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2017/a-tiger-by-the-tail.pdf
[57] Search Acumen, "Stamp Duty Holiday Triggers 22% Rise in Monthly Property Transactions", 10 May 2021: https://www.search-acumen.co.uk/News/Read?Ref=WDJBch
[58] Gov.UK, "Stamp Duty Land Tax: relief for first time buyers" 22 November 2017: https://www.gov.uk/government/publications/stamp-duty-land-tax-relief-for-first-time-buyers/stamp-duty-land-tax-relief-for-first-time-buyers
[59] Financial Times, "British housing is expensive and its supply must increase", Financial Times, 21 March 2021: https://www.ft.com/content/75942d5f-6bdf-40fb-b7ce-a48429ab84fc

price in June 2021 was £336,073[60] which means raising close to £17,000 for a 5% deposit. This is out of reach for most renters where almost two-thirds of private renters have no savings at all.[61] Many frontline workers are unable to save for a deposit to buy an averaged priced home in the UK, due to pay freezes and rising rental prices.[62] Renters at the lower end of the income distribution are also experiencing high growth rates in rental prices, which increased by 10% from January 2015 to January 2021.[63]

30. The Treasury has offered limited support to renters and the financially vulnerable, who have been expected to take on more debt to deal with rent arrears and housing costs. Despite offering landlords respite through mortgage holidays, renters were not protected by rent holidays or rent freezes, and a temporary eviction ban has now been lifted.[64] The Treasury has relied on the furlough scheme which has supported incomes as the mechanism through which rents and mortgage payments could be maintained during the covid-19 crisis. Despite this, an estimated £360 million in rent arrears has built up during the pandemic and 58% of those currently in arrears were not struggling before the pandemic.[65]

31. Renters have been hit hardest by the pandemic, as they are disportionately made up of low income households. By May 2021, a cumulative total of 11.6 million employees have been furloughed.[66] Those on lower incomes and most likely to have been furloughed or lost employment are disportionately the young and from Black and People of Colour (BPOC) communities.[67] A recent study by London School of Economics found 10% of private tenants are unemployed[68] which is more than double the average UK unemployment rate of 4.7%.[69]

32. Additionally, the range of support the Treasury had put in place for people on lower incomes, the furloughed or unemployed has been gradually removed while measures to boost the housing market and the wealth of homeowners have been extended throughout the pandemic. While the SDLT exemption will slowly taper off until October 2021, the evictions ban was removed in May 2021 without any package of support in place for renters. Additionally, the Treasury has cut funding to local councils providing support to people struggling to pay their rent. Discretionary Housing Payments (DHPs), the funds that councils provide to help residents pay their rent, have been cut by 22%, amounting to £40 million for 2021/22, leaving the DHP budget lower than in 2018/19.[70]

33. Accelerating house prices relative to incomes leads to widening inequalities, and the transfer of wealth to homeowners and landlords away from renters and potential FTBs. Invariably, this increases intergenerational inequality as the young are disportionately renters and those on lower incomes.

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[60] Rightmove, "House Price Index", July 2021: https://www.rightmove.co.uk/news/house-price-index/
[61] Shelter, "Stamp duty is not enough to pay the postage of this recession" 10 July 2020: https://blog.shelter.org.uk/2020/07/stamp-duty-is-not-enough-to-pay-the-postage-of-this-recession/
[62] Covid frontline workers priced out of homeowning in 98% of Great Britain | UK news | The Guardian
[63] ONS, "Index of Private Housing Rental Prices, UK", January 2021: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/january2021
[64] BBC News, "London rents: Call for two-year freeze amid Covid", 16 September 2020: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/january2021
[65] House of Lords Library, "Covid-19: housing evictions", 19 April 2021: https://lordslibrary.parliament.uk/covid-19-housing-evictions/
[66] GOV.UK, "Coronavirus Job Retention Scheme statistics: 1 July 2021": https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-1-july-2021/coronavirus-job-retention-scheme-statistics-1-july-2021
[67] Trade Union Congress, "Young workers are being hit hardest, and some more than others", 27 March 2021, Young workers are being hit hardest, and some more than others | TUC
[68] London School of Economics, "Homelessness and rough sleeping in the time of COVID-19", May 2021, Microsoft Word - homelessness reportfinal.docx (lse.ac.uk)
[69] Office for National Statistics (ONS), "Unemployment figures" March-May 2021 Unemployment - Office for National Statistics (ons.gov.uk)
[70] The Guardian, "Cut of £40m in help for tenants will 'drive up homelessness", 6th June 2021, Cut of £40m in help for tenants will 'drive up homelessness' | Renting property | The Guardian

Recent analysis has shown that the UK's wealth gap has increased considerably during the pandemic, with the richest 10% gaining £50,000 on average while the poorest 30% of households gained an average of just £86 per adult. The widening wealth gap in the past year has been attributed to asset price appreciation, particularly property prices, and to a lesser extent supported by increased household savings.[71]

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[71] Resolution Foundation, "(Wealth) gap year The impact of the coronavirus crisis on UK household wealth", July 2021, [Wealth-gap-year.pdf (resolutionfoundation.org)]