

BUY-TO-LET LENDING INCREASES HOUSE PRICES BY UP TO 7 PER CENT

But growth in private rented sector keeps downward pressure on rents

The National Housing and Planning Advice Unit (NHPAU), the independent body set up to advise Government on housing supply and affordability, has published the first empirical research on the impact of buy-to-let mortgages on UK house prices.

The report, *Buy-to-let mortgage lending and the impact on UK house prices*, shows that the effects have been relatively modest in the context of overall price rises. By the second quarter of 2007, house prices were up to seven per cent higher than they would have been had there been no buy-to-let mortgages. To put this into context, buyers of an average priced home, taking out a 100 per cent mortgage, would pay around £1190 per month rather than £1100 as a result of an increase of this scale.

Commenting on the report findings, Stephen Nickell, Chair of the NHPAU, said:

“Our report shows that without buy-to-let, real house prices between 1996 and 2007 would still have risen by 130 per cent. Other factors, such as interest rates, growing numbers of households, rising incomes and constrained housing supply have contributed much more to house price inflation.

“That is not to say that the increase caused by buy-to-let has had no effect. If buy-to-let lending is stripped out, then the average mix-adjusted¹ house price in the second quarter of 2007 could have been £169,000 rather than £183,000.

“In any analysis of buy-to-let it is important to consider the wider benefits. Together with regulatory changes in the 1980s, the expansion of buy-to-let lending has supported growth of the private rented sector, which now provides homes for 3 million households. Increased competition has kept rents low relative to house prices, making the sector more accessible for those who cannot afford or do not wish to be owner-occupiers.”

¹ The Nationwide Building Society mix-adjusted, or weighted average house price, is calculated using the numbers of house purchase completions where a mortgage has been taken out.

Other key findings of the NHPAU Report include:

- Investors with access to buy-to-let financing and capital have significant purchasing power and are often competing in the same area of the market as potential first time buyers; and
- The results from the model concur with analysts that have suggested that a downturn in buy-to-let lending could potentially create a downward pressure on house price inflation.

The report is the first of a series of NHPAU research findings focused on housing affordability matters that will be released over the coming months. These will include coverage of second homes and the impact of worsening affordability on the demand for social housing.

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Notes to the Editor

1. *Buy-to-let mortgage lending and the impact on UK house prices*, responds to speculation that growth in buy-to-let has priced out first-time buyers from the housing market, and has been a major contributory factor to worsening market affordability.

2. The NHPAU developed an econometric model to quantify the impact on house prices since buy-to-let mortgages were introduced in 1996. The model also incorporated other factors affecting the housing market, such as mortgage interest rates, disposable income per capita, changes in housing stock and repossession rates. Two comparable scenarios were used, one with the absence of a buy-to-let market and the other scenario including real buy-to-let growth.

3. This Report is made available alongside two other publications, *Buy-to-let mortgage lending and the impact on UK house prices (technical paper)*, which sets out the econometric methodology used in this research, and a *Rapid evidence assessment of the research literature on the buy-to-let housing market sector* by Ecotec for NHPAU. Both papers are available from the NHPAU web site at <http://www.communities.gov.uk/nhpau>

About the National Housing and Planning Advice Unit (NHPAU)

The NHPAU is an independent body that has been set up to help make homes more affordable across England. It is made up of some of the country's leading economists who provide expert guidance to regional and national bodies to ensure we deliver the right number of homes, of the right type, in the right place and at the right time.

Since April 2007, planners and government have to consider affordability when deciding future housing supply. The job of the NHPAU is to tell them how they might achieve this and make a positive impact on housing affordability in England.

The Unit is chaired by Professor Stephen Nickell, CBE, FBA a former member of the Bank of England Monetary Policy Committee. He is currently Warden of Nuffield College Oxford.

The Unit is delivering a new research programme as a resource for regional partners and others on housing market affordability. It is also developing a toolkit to allow forward-looking economic and statistical analysis of the impact of planned housing provision.

Why the NHPAU was created

1. Economist Kate Barker's Review of Housing Supply in 2004 identified that the demand for housing is outpacing supply, and this is pushing up prices.
2. The Government wants to make housing more affordable across the country. What this means is building enough new homes, in the right places, to meet demand.
3. Between 1997 and 2007 average earnings increased by 45% (Source: ASHE, ONS), the average house price increased by 171% (Source: CLG from Land Registry Data). The ratio of lower quartile house prices to earnings doubled in the same period.
4. Barker's review produced a series of recommendations about improving the supply of housing in England. This included the creation of a body to provide expert advice on housing matters, particularly affordability. The NHPAU is the result.