Wednesday 23rd September 2020

Mr Mark East
Hatfield Peverel
Chelmsford
Essex
CM3

The Planning Inspectorate
Temple Quay House
Temple Quay
Bristol

FAO Inspector Roger Clews BA MSc DipED DIPTP MRTPI

Dear Sir

IMPLICATIONS OF THE 2018-BASED HOUSEHOLD PROJECTIONS FOR THE HOUSING REQUIREMENTS IN THE SECTION 1 PLAN

You raise two questions to be answered as follows:

(a) Do you consider that the publication of the 2018-based household projections represents a meaningful change in the housing situation from the situation that existed when I produced my letter of 27 June 2018 [IED/023]?

(b) If so, what are the implications of that change for the soundness of the housing requirement figures in the submitted Section 1 Plan?

My thoughts on the matter in the same order are as follows:

(a) In my opinion, publication of the 2018-based household projections represents a meaningful change as there is a combined reduction of 3000 dwellings over the plan period. The 2018 projections importantly demonstrate that the allocation of housing for Tendring and Braintree is not soundly based on the information before you for consideration. When comparing growth for Tendring and Colchester the difference is Tendring + 17% and for Colchester + 6%. This contrasts sharply with Braintree that sees a 46% reduction. See the tables below and highlighted areas for each District.

2014-based household projections (DCLG, July 2016) 1,000s of households, rounded to nearest 1,000

District	2013	2033	2037	Growth 2013-2033	Growth 2013-2037
Braintree	62	75	77	13	15
Colchester	74	91	94	17	20
Tendring	63	75	79	12	16

2016-based household projections (ONS, Sept 2018) 1,000s of households, rounded to nearest 1,000

District	2013	2033	2037	Growth 2013-2033	Growth 2013-2037
Braintree	62	72	74	10	12
Colchester	73	93	96	20	23
Tendring	63	77	80	14	17

2018-based household projections (ONS, June 2020) 1,000s of households, rounded to nearest 1,000

District	2013	2033	2037	Growth 2013-2033	Growth 2013-2037
Braintree	62	69	71	7	9
Colchester	73	91	94	18	21
Tendring	63	77	79	14	16

The tables below represent what could be the Objectively Assessed Housing Need for each Local Planning Authority using the Office for National Statistics (ONS) data.

2014 ONS data

Local Authority	OAHN	Total Minimum to 2013 - 2033
Braintree	716	14320
Colchester	920	18400
Tendring	550	11000

2016 ONS data -using your PINS analysis per note of 2nd July 2020

Local Authority	OAHN	Total Minimum to 2013 - 2033
Braintree	500	10000
Colchester	1000	20000
Tendring	700	14000

2018 ONS data -using your PINS analysis per note of 2nd July 2020

Local Authority	OAHN	Total Minimum to 2013 - 2033
Braintree	350	7000
Colchester	900	18000
Tendring	700	14000

I have read and attempted to digest the detail of the NEA's comments back to you and wish to make the following points and observations for your consideration.

It is prudent to examine the note on method used for NMSS 2019

The report prepared by Neil Mc Donald dated 16/8/2020 in para 2.3 assumes that there is no reduction in fertility rates. This is at odds with ONS advice and conflicts with independent medical opinion.

The assessment takes trends from the past which may not be an accurate reflection of the current situation. It is my personal view that the Office for National Statistics should be invited to comment, given their considerable experience and expertise on such matters.

It is noted that Santec elect to use housing delivery figures from 2013 to 2018 yet housing delivery records for 2019 (published March 2020), are readily available:

Braintree housing delivery record 2019

Qtr	Started	Completed
1st	130	100
2nd	280	190
3rd	190	200
4th	170	230
Total	770	720

The table above shows a far greater improved delivery of housing supply and affordable housing which I presume is a material consideration.

There is seemingly no dispute between the main parties over the reduction in housing supply due to mortality rates which accounts for a **further 92 dwellings**.

Santec's report appears to be wrong in allocating an additional 10 dwellings for housing to accommodate international migration when their own figures show a reduction of 47 people. Perhaps Santec's figure **was intended to be -10?**

I do not delve – in much detail – into the impact of internal migration patterns. I do wonder if the ONS figures are in fact wrong? I believe it is prudent that the present housing availability be considered in this instance.

Much of Santec's report is centred on migration patterns. It suggests that migration is stifled by the fact that insufficient new homes are available in the Braintree District. Santec draws the conclusion that other Districts have benefited from migration by allowing more development. The report however does not consider whether those locations are in fact more desirable areas to live in and offer better employment opportunities.

It would perhaps be unreasonable to explore the need for new housing without having considered the existing housing market. If applying basic principles, one would expect an acute shortage of housing for sale and/or rent to exist if demand exceeded availability. A search through Rightmove on the 1/8/2020 indicated the following position:

Radius from Braintree	Open Market	Rent
10 Miles	3,795	321
20 Miles	12,317	1,505

The above does not suggest any significant under supply of housing within Braintree District. It does not show any constraint on migration through lack of housing available for sale.

The latest East of England Forecasting Model (EEFM) for Braintree shows that a reduction of 96 dwellings would not be unreasonable. Experian data in 2014 comes up with a much lower figure for employment opportunities. It is perhaps questionable that given the present economic climate we will see much improvement in employment opportunities. Any employment opportunities will surely be taken up by existing households who have lost their jobs in recent times due to the current Covid-19 pandemic.

Internal migration patterns aside, it seems that on the evidence before you at least 200 dwellings per annum (Job Forecasts, Mortality Rates and International Migration) could be removed from Braintree's allocation.

Opinion by Bank of England researchers John Lewis (BoE's Research Hub) and Fergus Cumming (BoE's Monetary Policy Outlook Division) is worthy of attention. Their research is published privately in blog form and referenced in other financial online discussion publications. Lewis and Cumming suggest that the popular view that shortage of supply relative to demand has led to an affordability crisis is incorrect (see attached).

They argue that shortage of supply is a relatively insignificant factor when considering the reasons for the rise in house prices - to a point where they are unaffordable – for many trying to enter the housing market.

Lewis and Cumming argue that a far greater driver of house price rises - before and since the 2008 financial crisis – has been historically low interest rates. This makes property ownership for rent an attractive investment. A lowering of interest rates combined with a succession of quantitative easing measures and deregulation enables/encourages the banking sector to extend finance to private individuals for property purchases. This branch of lending over recent years, continues to outstrip investment in other 'productive' areas of the economy.

Building beyond demonstrable need is not sustainable development by any definition of the word.

As I understand it, your task is to consider whether the housing target for Braintree is sound. This presumably should lead to neither great under supply nor conversely to great over supply.

When originally presenting Section 1 of the Local Plan it was clearly the vision and aspiration of Braintree District Council to meet their housing need - in part - through the new Garden Communities. You found as unsound the proposed Garden Community earmarked for Braintree District.

The strategy was to allocate housing in the new Garden Communities thus meeting the housing need based on 716 dwellings per annum. Matters have however, since moved on. Latest data

indicates that there can justifiably be a significant reduction in the Objectively Assessed Housing Need figure for Braintree.

It is baffling why Braintree District Council's view on the matter is that there has been no material change. The reduction in housing need – as per reasons explained above - represents a minimum 30% reduction (200/716).

In my humble opinion and based on the most up to date information available:

Braintree District Council's allocation of 716 dwellings per annum is not **justified** and should not be considered sound.

(b) Implications

Without revision downwards further harm to our existing communities will arise. Planning permissions will be granted because of a lack of countable planning permissions for the 5 Year Housing Land Supply which presently hinges on a baseline figure of 716. This simply flies in the face of rationale, when given the evidence above.

A meaningful reduction for Braintree would spare our villages from further urban sprawl, thus preserving the Environment, Character and Heritage of these settlements. Many of these villages have already seen planning permissions granted leading to housing growth in excess of 26% and in some cases 100%.

Tendring and Colchester have the benefit of your approval to the new Garden Communities. It would seem logical to review the housing allocations for each District in light of the new and most up to date evidence.

A reduction for Braintree would put the district back into a position of being a plan led system rather than being open to widespread speculative development.

The general public could once again regard the planning system with renewed confidence – one that is fair and justified.

Yours sincerely

Mark East

My Profile

I was a Chartered Insurance Practitioner and qualified Lead Assessor (ISO9001). I held the title of Group Quality Director, Jardine Lloyd Thompson with a small team of International auditors reporting to me. Over a 15-year period our mission was to mitigate the Group exposure to Error & Omission. During my 15 years at the helm more than 20,000 individual audits were conducted.

Bank Underground

Houses are assets not goods: taking the theory to the UK data

BankUnderground Financial Markets, Macroeconomics 06 September 2019 6 Minutes

John Lewis and Fergus Cumming

In yesterday's post we argued that housing is an asset, whose value should be determined by the expected future value of rents, rather than a textbook demand and supply for physical dwellings. In this post we develop a simple asset-pricing model, and combine it with data for England and Wales. We find that the rise in real house prices since 2000 can be explained almost entirely by lower interest rates. Increasing scarcity of housing, evidenced by real rental prices and their expected growth, has played a negligible role at the national level.

To infinity and beyond…

A standard framework for pricing assets is the "Dividend Discount Model". Just as the equilibrium value of a tulip bulb should be the (net present discounted) value of the future flowers it produces, for a houses the value is given by rents. More formally:

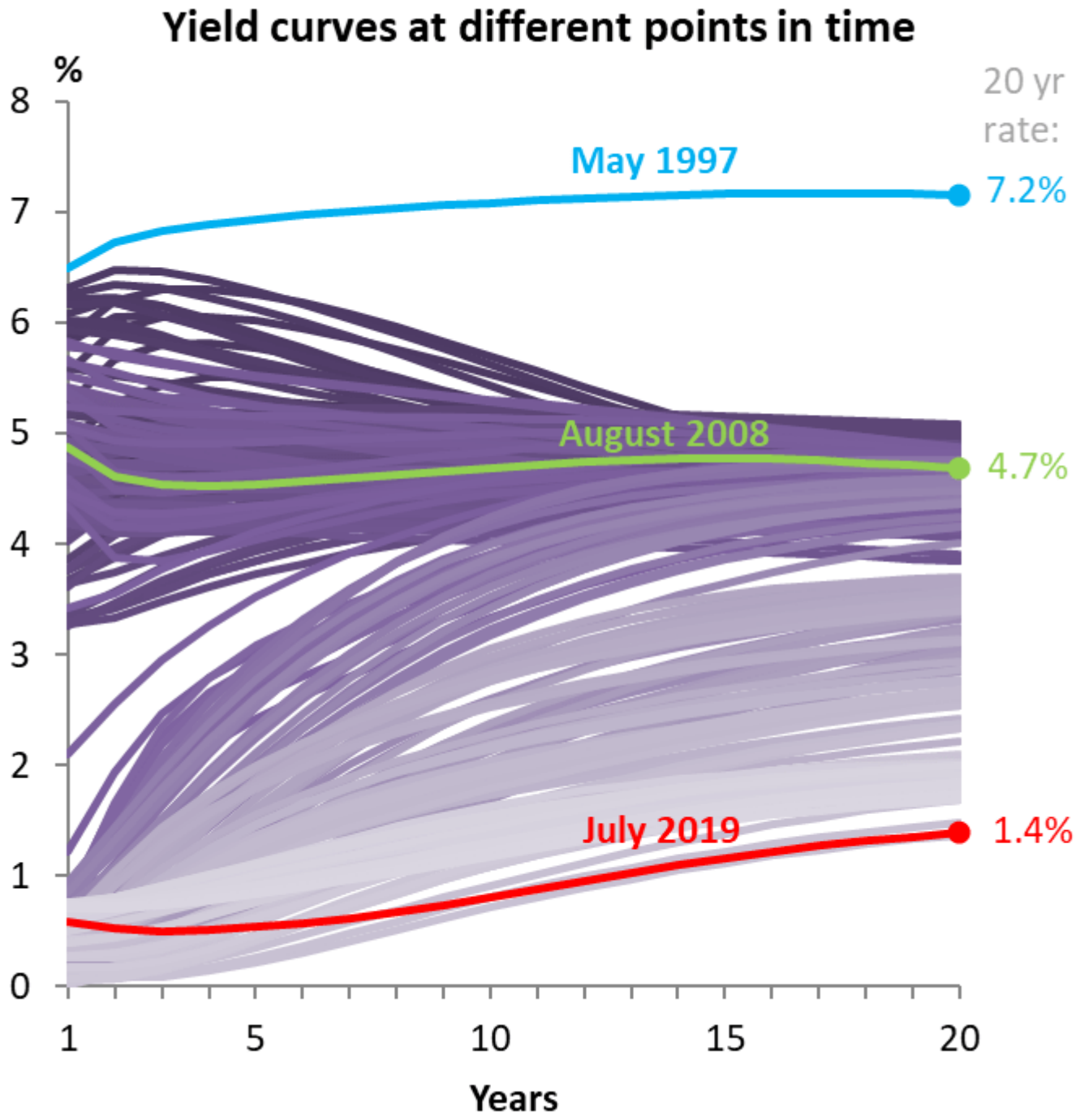
$$P_t = R_t + \sum_{\tau=1}^{\infty} \frac{E_t(R_{t+\tau})}{\prod_{T=t+1}^{t+\tau}(1+\rho_T)}$$

We observe current rents (the first term on the right-hand side) and the path of expected rents (the numerator). For the denominator, the discount rate is the expected future interest rate (observed from yield curves) plus an estimated constant risk premium. Given all this, we can compute what the model says prices should be. Sure, this misses many other things (credit constraints, tax changes etc), but it's just meant to be a simple model to illustrate the magnitudes of some of these channels rather than a definitive assessment of over/under valuation, or capturing all relevant factors. And it isn't a forecasting tool.

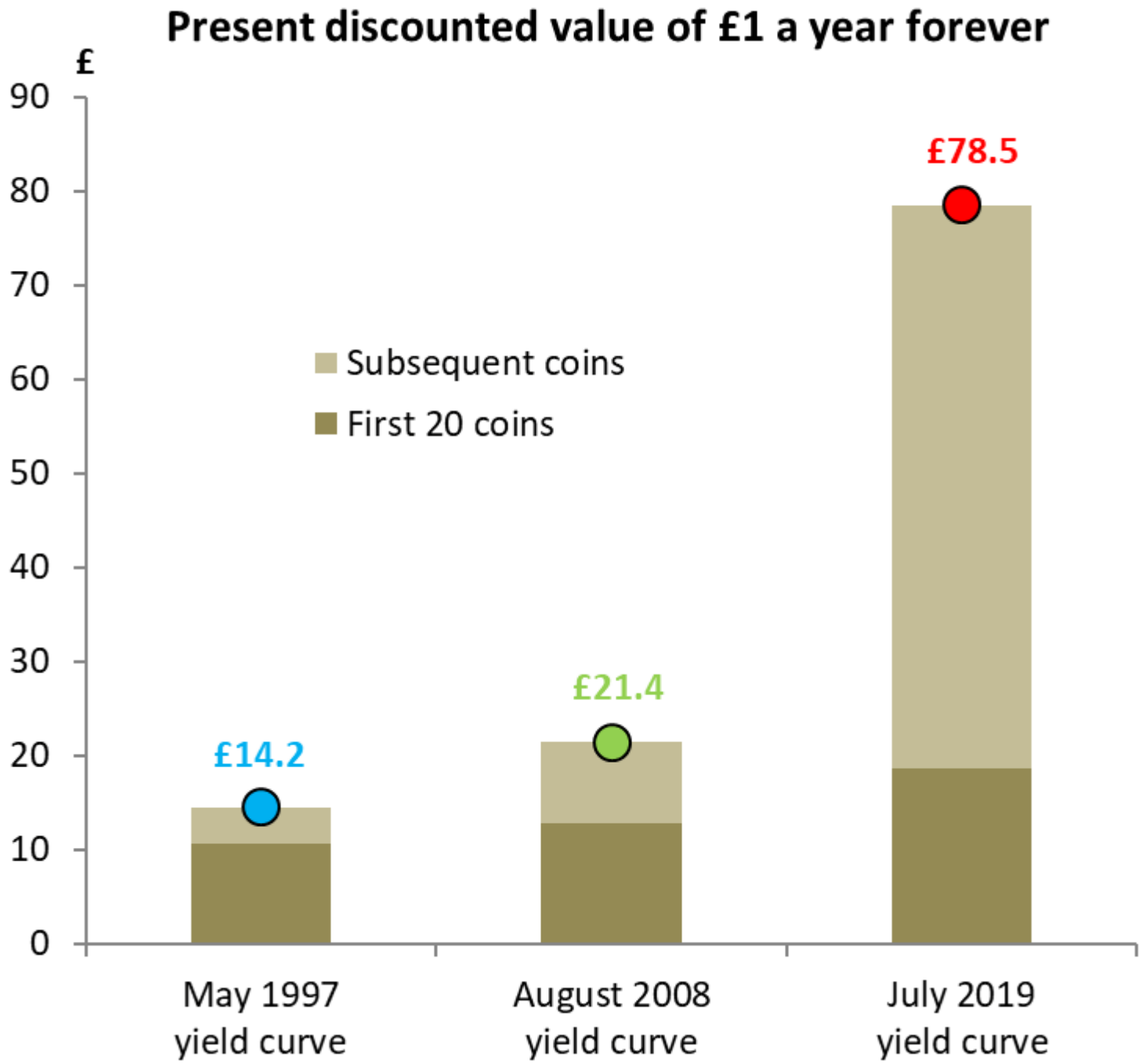
Lower interest rates raise asset prices by increasing the present value of future cash flows. These effects can be powerful, especially when interest rates are already very low. To see this, suppose a contract pays you a pound coin every year forever. The first 20 pound coins are discounted by the prevailing expectations of future interest rates at the appropriate points on the yield curve, and then assume the discount rate is constant at some other value after that. How much would this contract be worth at different points in time?

The powerful role of discounting rates….

The purple lines on the chart below show the UK forward yield curve each month from January 1999 (darkest) to the present (lightest). Loosely, each curve is the expected annual rate of return on benchmark assets over each of the next 20 years. July 2019's is red; August 2008's is in green and May 1997, the beginning of the inflation-targeting era, is in blue.

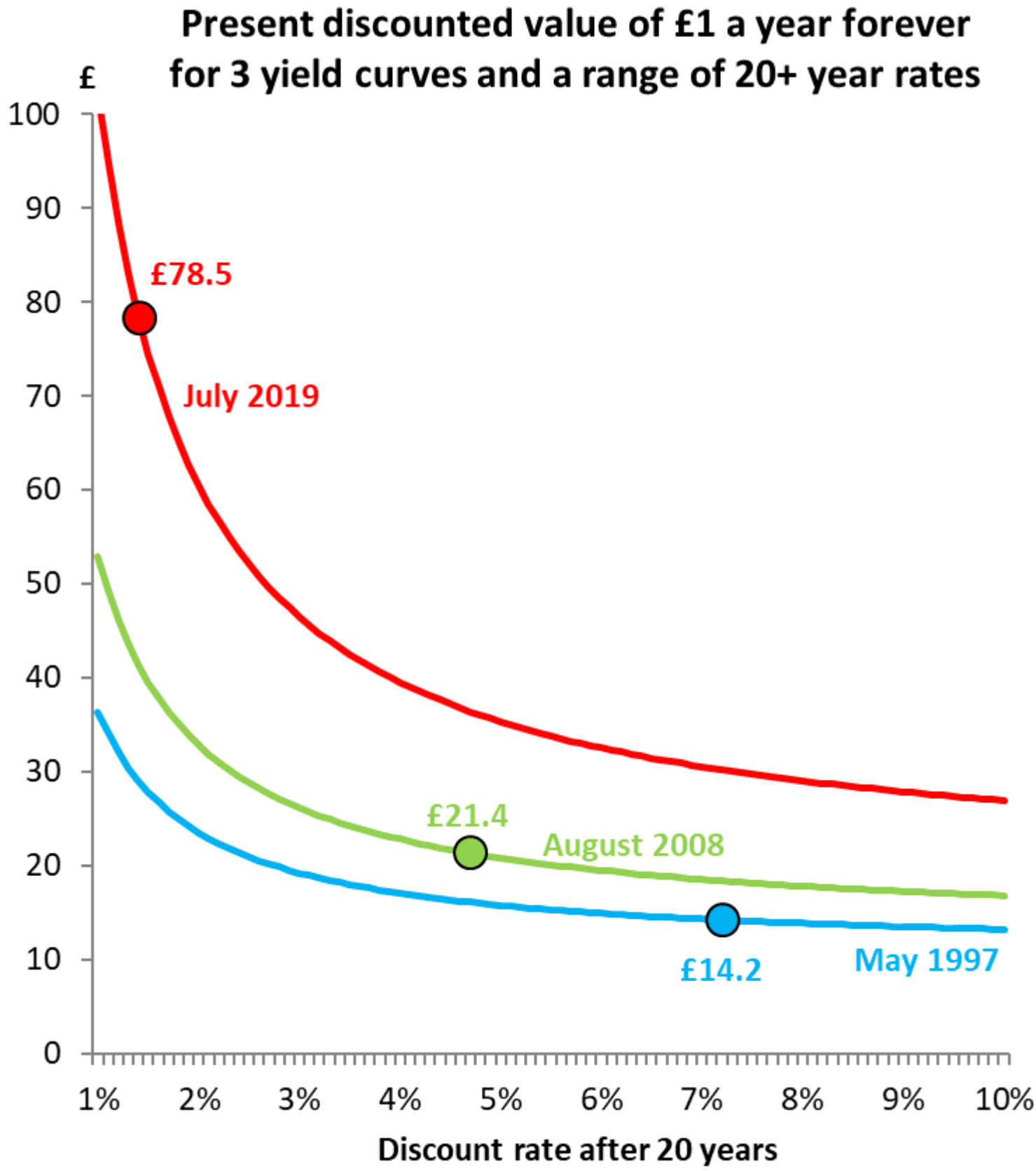


The dots on the charts below decompose the valuations of the coins using these three yield curves, assuming the interest rate in year 20 persists for all future years, and no risk premium. The darker bars show the value contributed by the first 20 coins, the lighter ones the value of the rest.



As rates fall, the value of the coin stream increases from £14.20 in May 1997 to £21.40 in August 2008. The subsequent fall in interest rates to the July 2019 yield curve generates a further near-quadrupling in value to almost £80. The bulk of this rise occurs via dramatic increases in the value of the coins that arrive in more than 20 years' time.

The chart below explores that sensitivity further. Each line shows the value of the coins assuming a given yield curve for the first 20 years, and then a range of values for the rate after that. The actual value of the 20-year rate at each point is shown by the dots (i.e. the rate used for the light bars above).



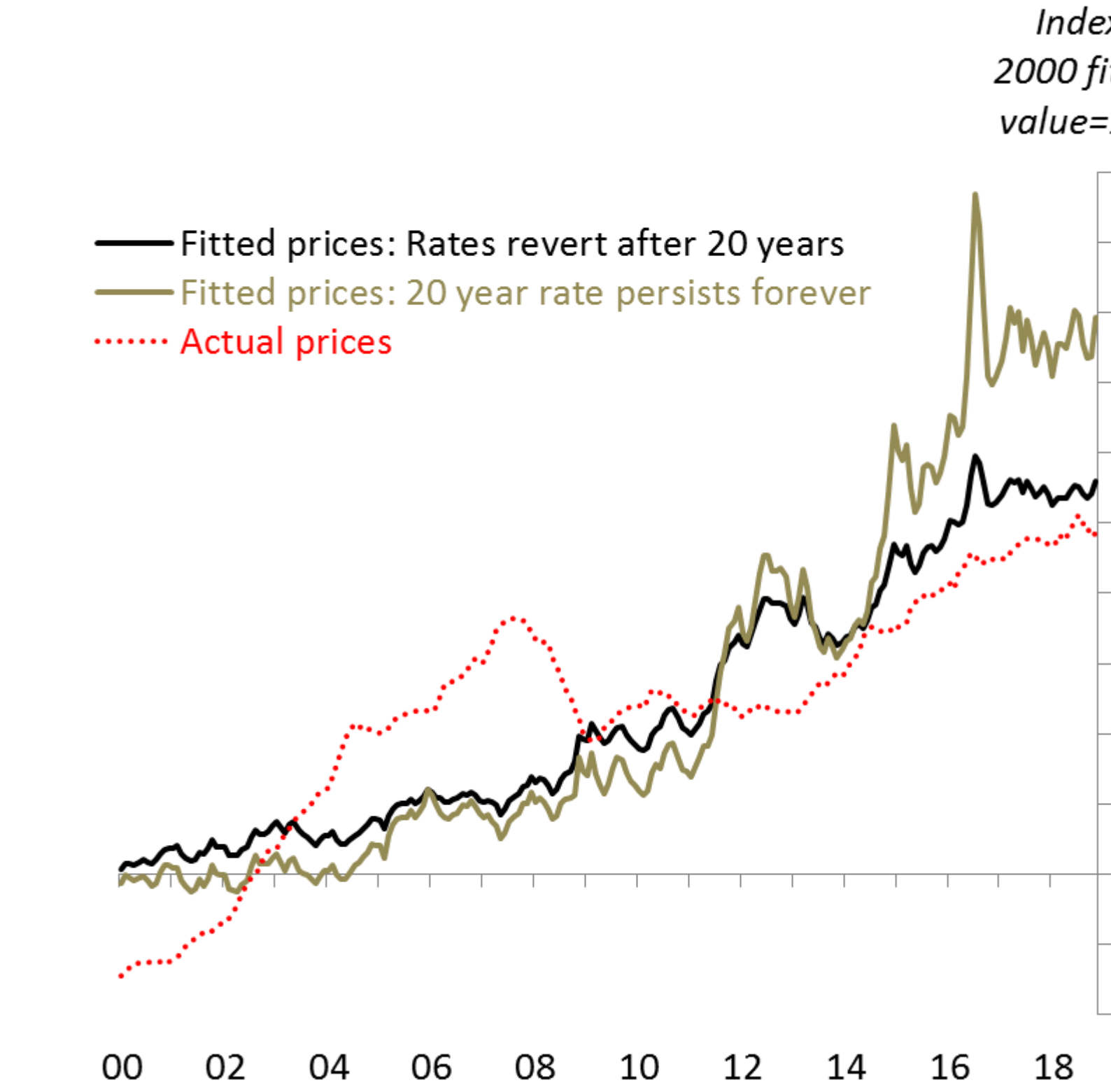
In May 1997, coins arriving in the far future are not worth very much because 20+ years of discounting at 7% erodes most of their value. So the blue line is fairly flat: shift your assumption about long rates and the value of the coin flow is virtually unchanged.

In August 2008, it's a similar story. But fast forward to the July 2019 yield curve and a 1pp change in discount rates beyond 20 years can make an enormous difference to prices.

This is a problem because ultra-long run interest rate expectations are difficult to measure and not easily captured by financial market instruments. And over the decades very long yields can move around a lot. So in our model below, we switch off the ultra-long run interest rate channel completely by fixing the long-run discount rate to a constant rate of 3.8% (the 2000-2018 sample average) beyond 20 years. That means changes in expected future interest rates up to 20 years ahead (but no further out than that) can affect prices. It's simple, but captures the belief that investors don't make large revisions to their ultra-long run interest rate expectations.

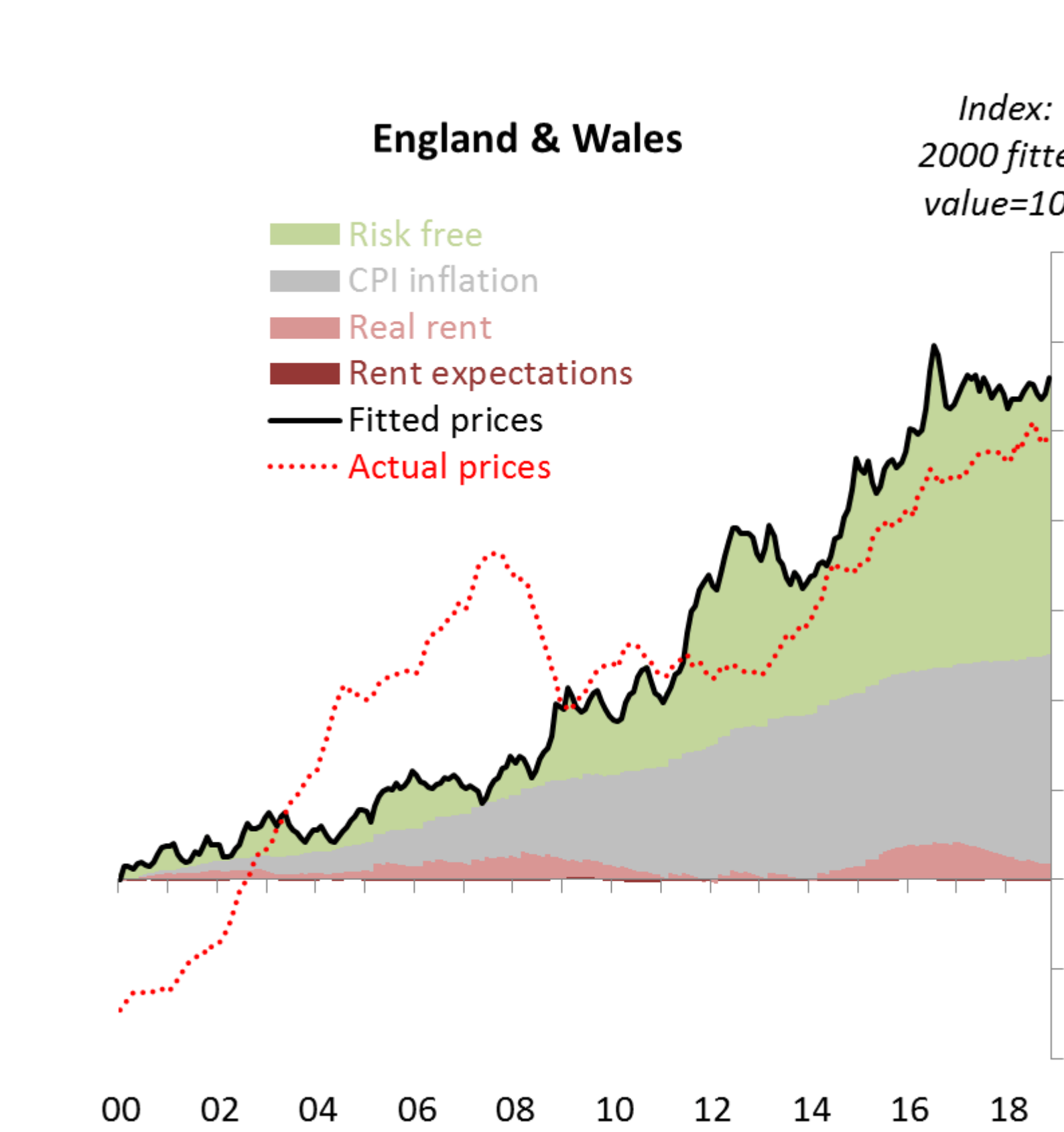
What does the model say about house prices in England & Wales?

The black line is the model's estimated value of average house prices assuming the annual discount rate reverts to its sample average after 20 years. For comparison, the gold line shows the case if the prevailing 20-year rate is extrapolated forward for the rest of time. The gap between the two is fairly small until 2014, when 10+ year rates really started to fall. The red line shows how actual prices evolved, re-based to the same units as the other lines. The red line is 70 at the start, indicating that actual prices were about 30% lower than the model's benchmark in January 2000. Overall, the cumulative price growth between 2000 and 2018 matches the model quite closely. Though in individual years actual prices do sometimes diverge significantly from the model.



The drivers of change

The coloured bars below decompose the predicted nominal growth of the black line above into the different components (details in the appendix).



First up, the grey bars show the role of CPI inflation. If house prices rose at the same rate as goods in general, they'd have risen by 50% since 2000. So what explains the remaining 60pp of *real* house price growth?

Rising real rents (pink bars) only account for a very small amount. Yesterday's post argued that scarcity of housing should show up in rising rents, so this suggests lack of supply has had very little role to play (similar to Ian Mulheirn's recent paper). That doesn't say anything about scarcity relative to other

countries, but it does imply that housing hasn't really got significantly scarcer over the past two decades.

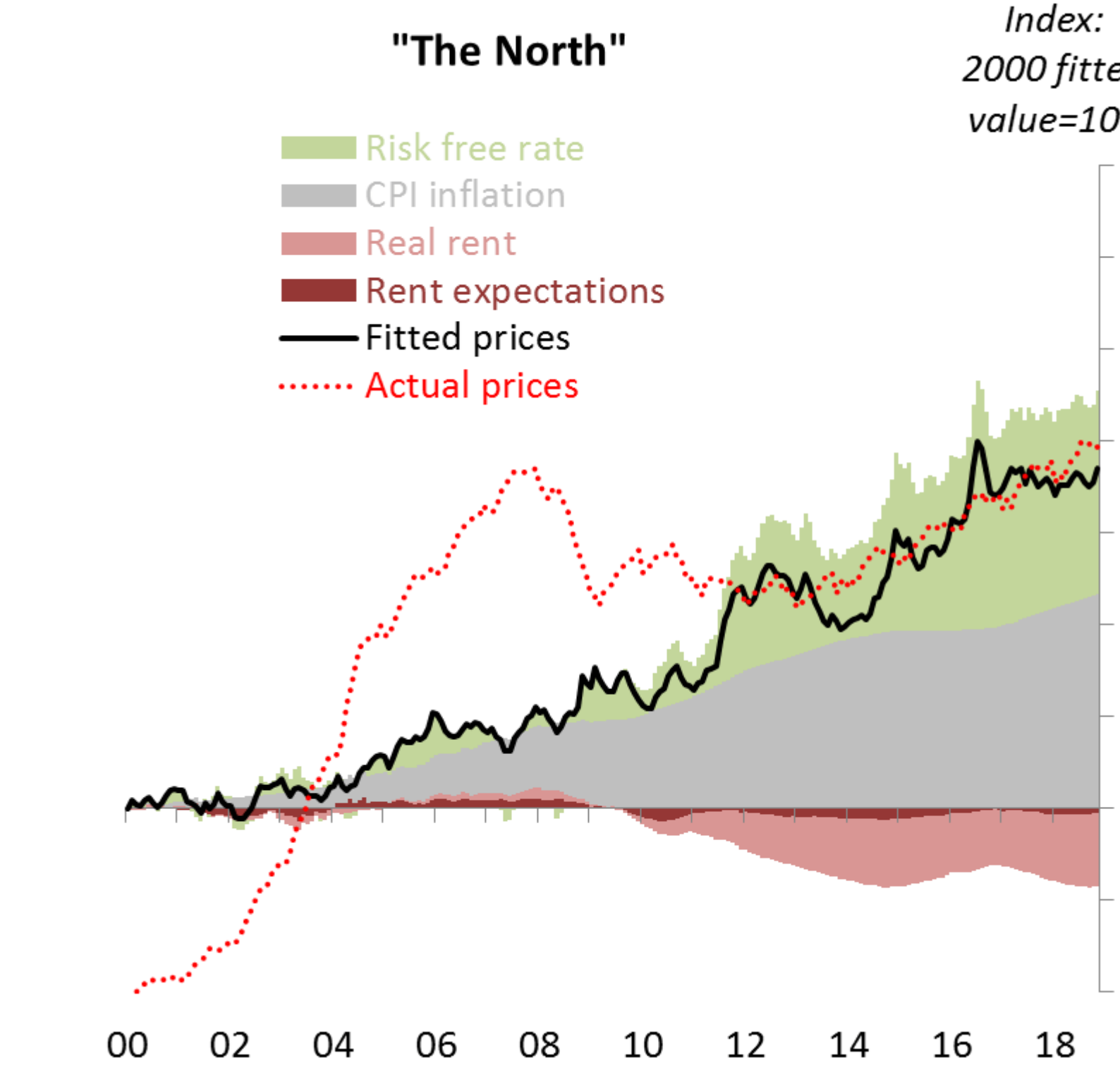
The tiny maroon bars show that the role of expected future rental growth has been negligible. Admittedly, our model takes survey expectations rental growth 6 months ahead and then assumes it reverts to long-run averages after two years, so it's hard for this channel to show up much. But we can also cross-check this against actual rents – if rising prices were driven by the belief that rental growth would be permanently stronger than in the past, those expectations weren't borne out over the sample period.

By far the largest contributor is the lower discount rate (green bars), which accounts for almost all *real* house price rises since 2000. We completely shut down any role of interest rates beyond 20 years. That's probably an overly harsh assumption(it's probably unrealistic to think rates suddenly ping back to our 3.8% constant), but even with this crude way shutting down discounting effects at long horizons, you can still generate effects that match the observed 60% rise in real house prices.

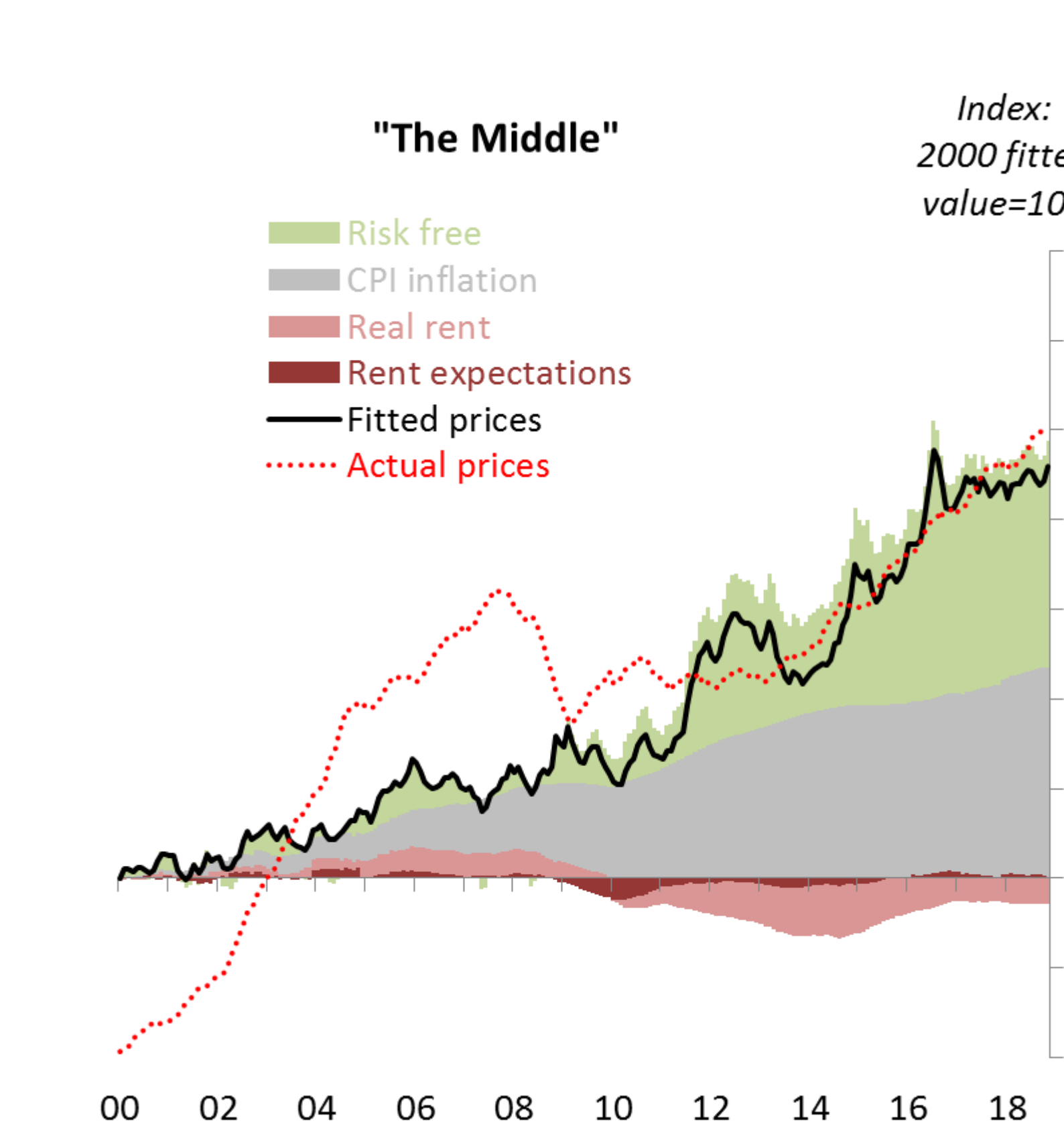
What about geographical differences?

Even if the aggregate model suggests it's mainly about lower interest rates, this cannot explain any geographical variation: risk-free rates are the same across the whole country. But all the other variables in our model are available at regional level. So we did the same exercise for the nine English regions and Wales. We group them into four geographical blocs based on similarity of results.

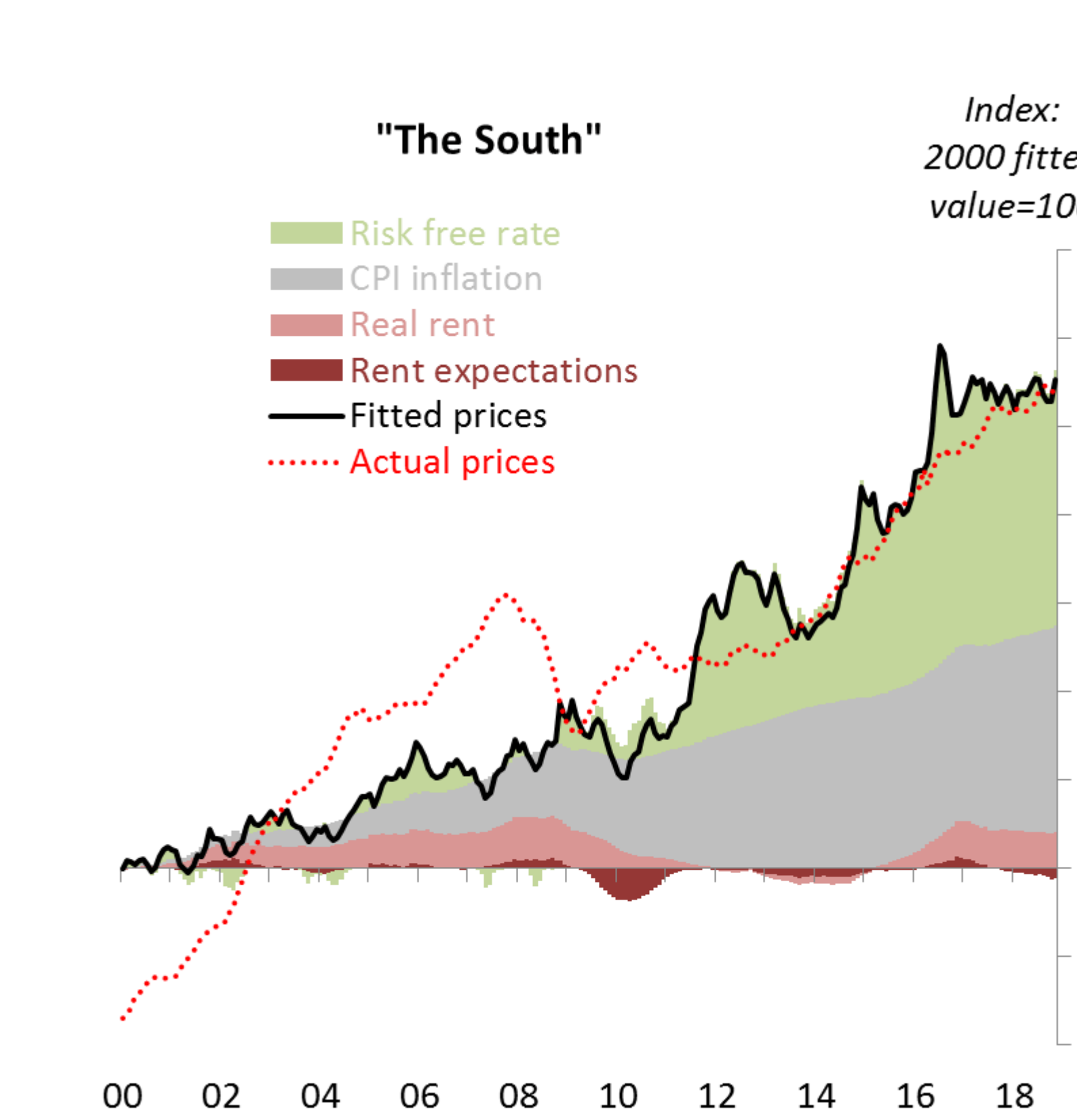
In "The North" (North East + North West + Yorkshire and the Humber), real rents have been declining, pulling down on house prices by about 20% over the sample period.



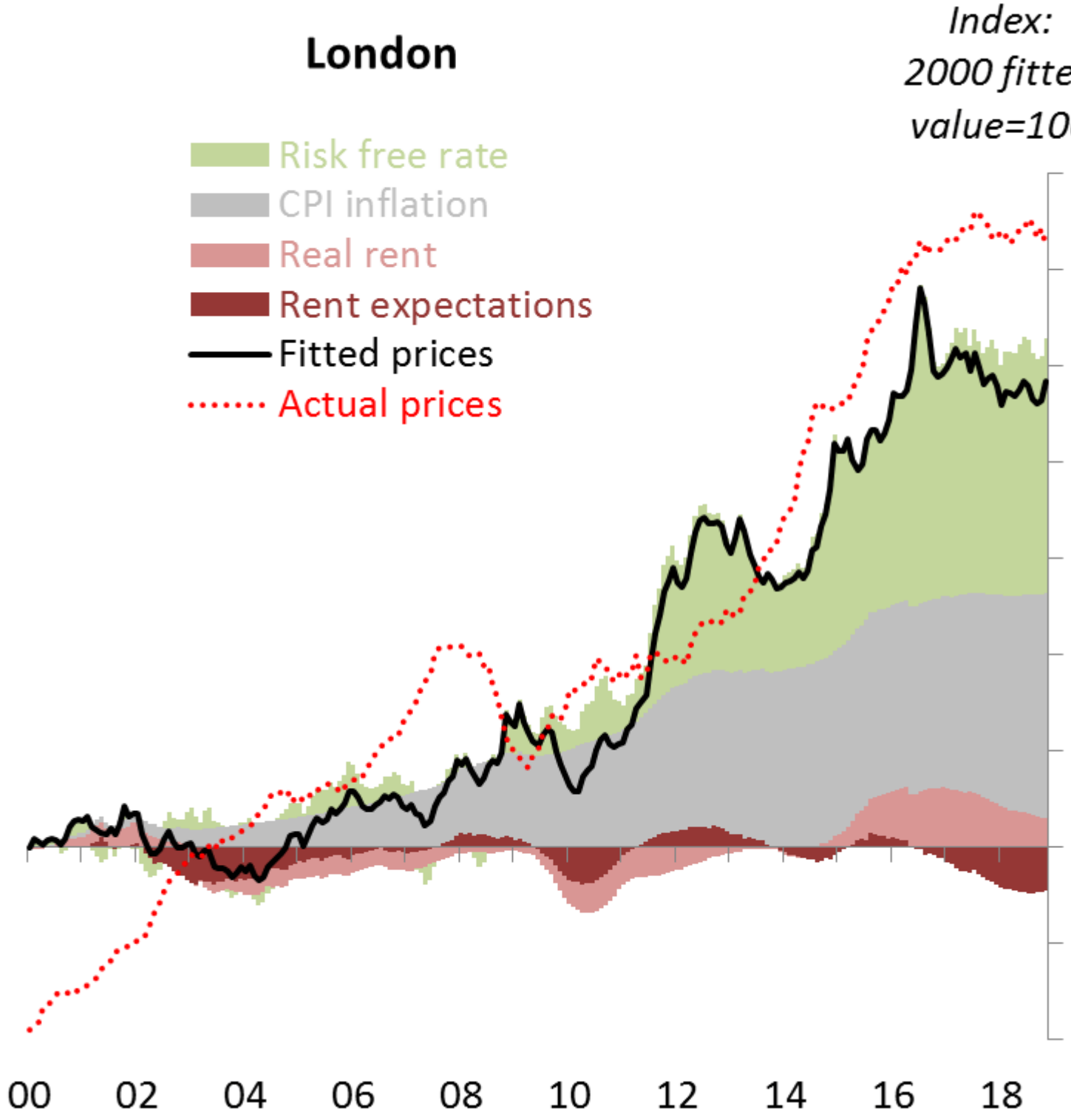
In “The Middle” (East Midlands + West Midlands + East of England + Wales), real rents have exerted less a smaller pull, tapering to near zero by the end.



By contrast, in “The South” (South East + South West), real rents have pushed up on prices, by around 8pp by 2018.



And in London has seen a similar but smaller contribution from real rents, though the overall magnitude of actual prices rises is higher.



So the role of rents in explaining house prices is relatively small in all regions, and the apparent greater scarcity in the “South” has in aggregate terms been offset by less scarcity elsewhere, with little effect on aggregate prices.

Conclusions

In levels terms, house prices are about in line with our model’s estimates, as is the overall rise seen since 2000. It attributes this primarily to CPI inflation and lower interest rates, even though our approach shuts this channel down after

20 years. The model says that relative scarcity of housing has played almost no role at the national level since 2000, though it has pushed in opposite directions in different regions.

***John Lewis** works in the Bank's Research Hub and **Fergus Cumming** works in the Bank's Monetary Policy Outlook Division.*

If you want to get in touch, please email us at bankunderground@bankofengland.co.uk or leave a comment below.

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Houses are assets not goods: What the difference between bulbs and flowers tells us about the housing market

05 September 2019

In "Financial Markets"

What's been driving long-run house price growth in the UK?

13 January 2020

In "Financial Stability"

There's more to house prices than interest rates

03 June 2020

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Published06 September 2019

8 thoughts on "Houses are assets not goods: taking the theory to the UK data"

1. **John Myers**

06 September 2019 at 9:31 am

I am puzzled by the omission of any discussion of the lack of a healthy supply response in high priced areas.

The OECD has shown that the UK has the most inelastic housing supply of any large country in the developed world.

Prices of homes in the South East on average exceed the cost to build more homes by a factor of three or more.

In jurisdictions with higher price elasticities of supply, a supply response kicks in to reduce rents and reduce the relationship between prices and interest rates, as Ed Glaeser, Paul Cheshire and others have shown.

Failing to focus on adequate supply response to mitigate the impact of interest rates on house prices has led to a situation where the mortgage assets of UK banks would be

highly affected by interest rate rises because the prices of the underlying assets are far above replacement cost and affordability is so stretched.

I would suggest awareness of the healthy long-run effect of better supply elasticities in other jurisdictions should be an indispensable part of all Bank analysis on housing if the Bank is to mitigate macroeconomic risks from interest rate fluctuations.

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2.  **Antonio Foglia**

06 September 2019 at 10:01 am
The relationship between interest rates and asset prices is ignored by many economists who complain about the increasing asset to income ratio. See https://www.project-syndicate.org/commentary/piketty-wrong-on-income-inequality-by-antonio-foglia-2016-01

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3.  **Lars Larsson**

06 September 2019 at 1:28 pm
It would be really helpful if you published these posts in the form of jupyter notebooks or the like so the interested reader can follow along at a deeper level.

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4.  **Andrew Poulton**

06 September 2019 at 2:53 pm
I think there are so many ways of assessing and analysing our housing market. One thing you simply can not/should not do is assess the market on a single national basis because of the local and regional variations that exist where the housing market is completely different from one area to the next. The other is to make broad statements like “supply is not an issue” when it may not be overall, but may very well me in some areas.

In my role as an analyst looking at markets in specific district areas, it's very clear to see that in areas where HPI is highest, a NUMBER of factors are always present. One of which IS limited supply growth. Others are rapid labour market change presaging employment and wage growth. In other comparable areas where housing supply has been higher, HPI is less – although still evident. What areas with high HPI show is that housing need is clearly in evident. Even if some increase in supply might mean little change in prices, it would still mean more houses for more people and the increase in supply of, effectively, a social good. For these reasons I'm always extremely cautious of research headlines that make sweeping statements like "housing supply not an issue". Almost universally the research in question rarely says supply is not an issue but the headlines invariably give this impression which isn't helpful or accurate.

We have become conditioned to accept rampant HPI in the south to be "the norm" or expected. Local authorities in home counties and outer London certainly think this way. It's utterly wrong. HPI simply does not happen unless demand is outstripping supply in SOME SENSE. Even if that sense is related to the availability and accessibility of capital to purchase a housing asset, the supply of that asset is always a FACTOR and is show to be in the analysis of local markets.

5.  **Daniele finarelli**

14 September 2019 at 8:12 am
Interesting model. It seems great 2008-2018 but something big is missing in 2000-2008. Is there any hint about it?

6.  **Martin Wolf**

18 September 2019 at 5:56 pm
This is unconvincing to me.

The analysis looks only at the UK housing market. But the collapse in interest rates (both real and nominal) to ultra-low levels has occurred across the developed world. So, if the hypothesis were plausible, one would expect similar house price performance everywhere. But this is not at all what one sees: there are massive divergences in house price increases between 2000 and 2019 and in the patterns of those increases over time. This very strongly suggests that national conditions, other than interest rates, have played an enormous role in determining price behaviour.

I have charts I could post, but I seem unable to do it here.

Martin Wolf

7. **Martin Wolf**

[18 September 2019 at 6:05 pm]
I should also support Mr Myers. If the marginal cost of creating a capital asset is £100,000 and its price rises to £250,000, because interest rates have collapsed, why aren't people busily building the asset in question? The lack of supply response obviously suggests supply is tightly constrained.

8. **Andrew Poulton**

[19 September 2019 at 2:58 pm]
Absolutely agree – the most constrained supply response has been in the London Green Belt districts (for obvious reason) and this is where HP inflation is highest. There are also very high levels of labour market growth (esp in last decade) in these districts, as well as wage growth, absent of an appropriate supply response. It's Econ101, no mystery.

As regards UK increase Martin, it's absolutely about labour markets and wages supported by population/migration growth. The so called "jobs miracle". It is real. Regardless of job quality arguments, zero hours, self empt etc which are valid but different arguments that don't deny the growth that has occurred. Seventeen quarters of labour market expansion from mid 2013 to 2017 and another seven from 2018 to now, although things are clearly starting to stall now. No other European nation can match this. And the link between jobs and house prices is indisputable. I have the graphs too that I also can't show here!

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HOW HAS BANK LENDING FARED SINCE THE CRISIS?

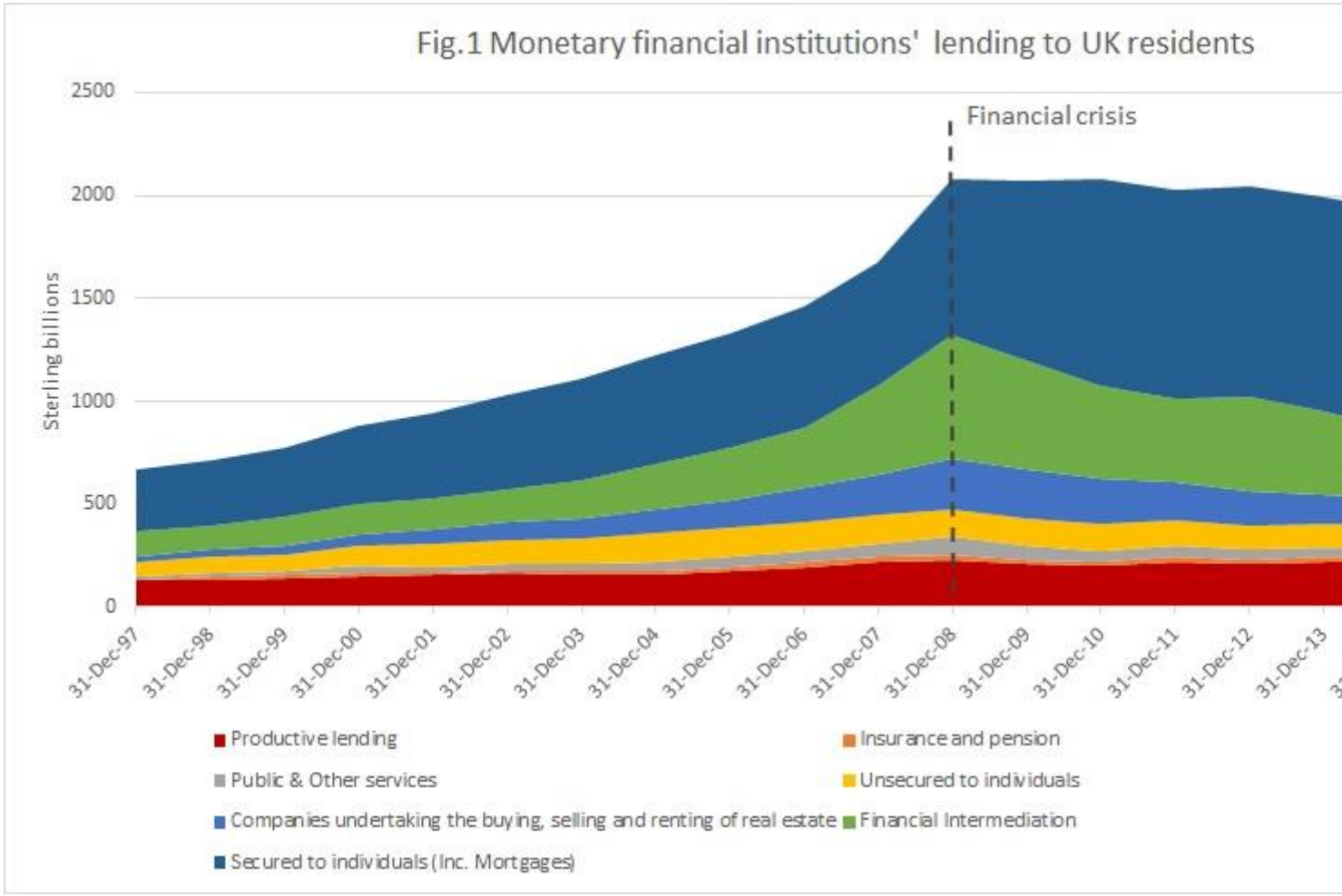
by Konstantin Bikas

Under the current monetary system, bank lending is the main way in which new money is created. Banks' lending decisions determine which sectors money is directed to which in turn has vast implications for the shape and stability of our economy.

A decade after the last crisis, caused by excessive lending to property and financial markets, it is interesting to see that the problems of the past still haunt us to this day. Most lending is still directed to property and financial markets, with lending to the productive sector lagging significantly behind.

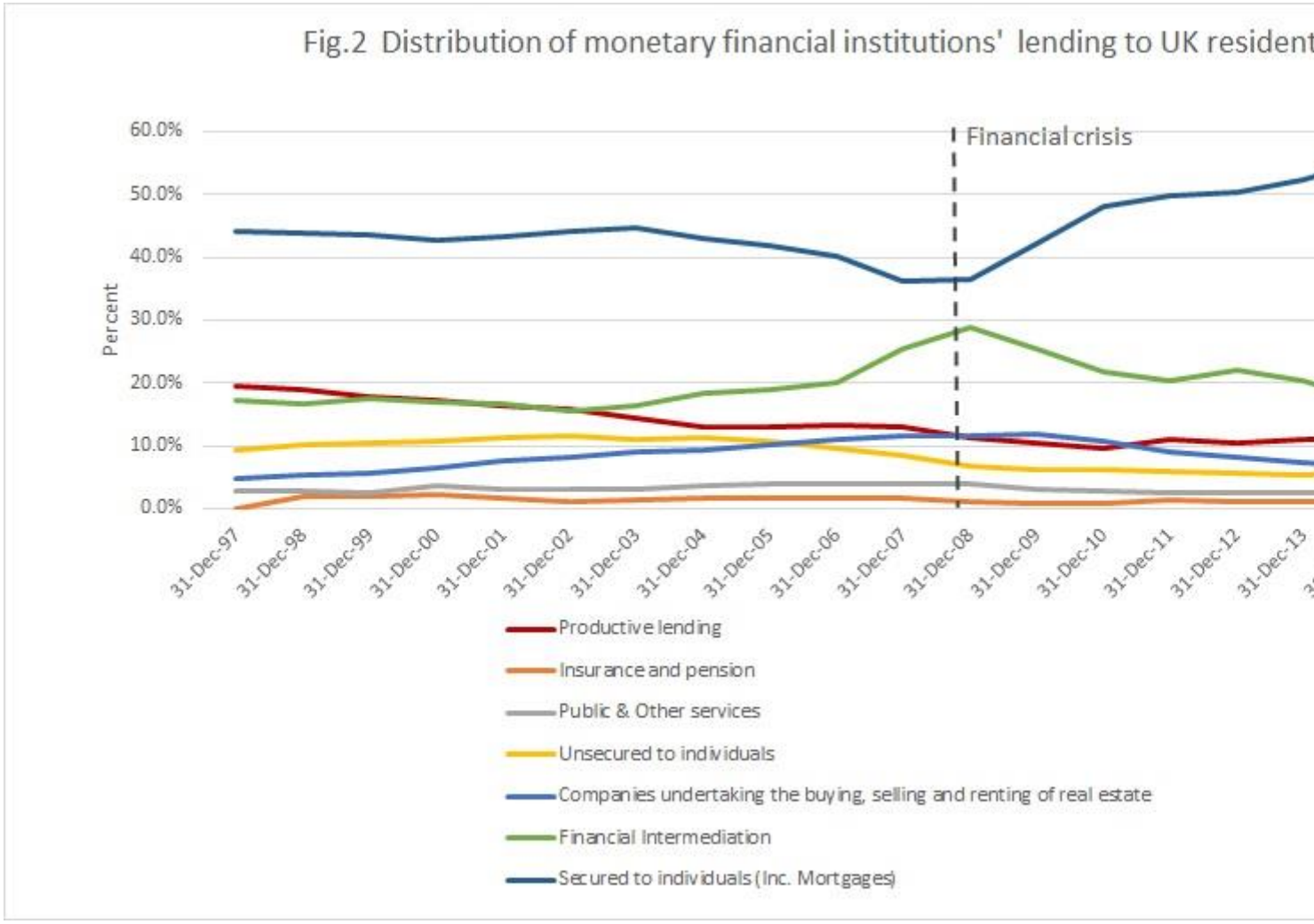
The chart below shows the total sterling amounts of outstanding lending by monetary financial institutions to UK residents. Since 2008 overall lending to the economy has increased by 5% from £2.07tn to £2.2 tn. The largest growth in proportional terms has been in secured loans to individuals (predominantly mortgages), which have increased by 58.7% form £755.5 bn to £1.2tn (seen in dark blue below), and to insurance companies and pension funds, which increased by almost 30% to £33.2 billion (in orange).

On the other hand, the largest decreases since the crisis are seen in lending to public and other services (which decreased by 42% to £47bn – grey bar), to companies undertaking the buying, selling and renting of real estate (which fell by 44.4% to £134.5bn – blue bar) and to the financial sector, which has seen a decrease of 32% from £601.3bn to £408bn (green bar). **Productive lending – i.e. loans to sectors which contribute to GDP (Gross Domestic Product) – has stayed pretty much the same (red bar below) and decreased by just under 3% to £226.5bn.**



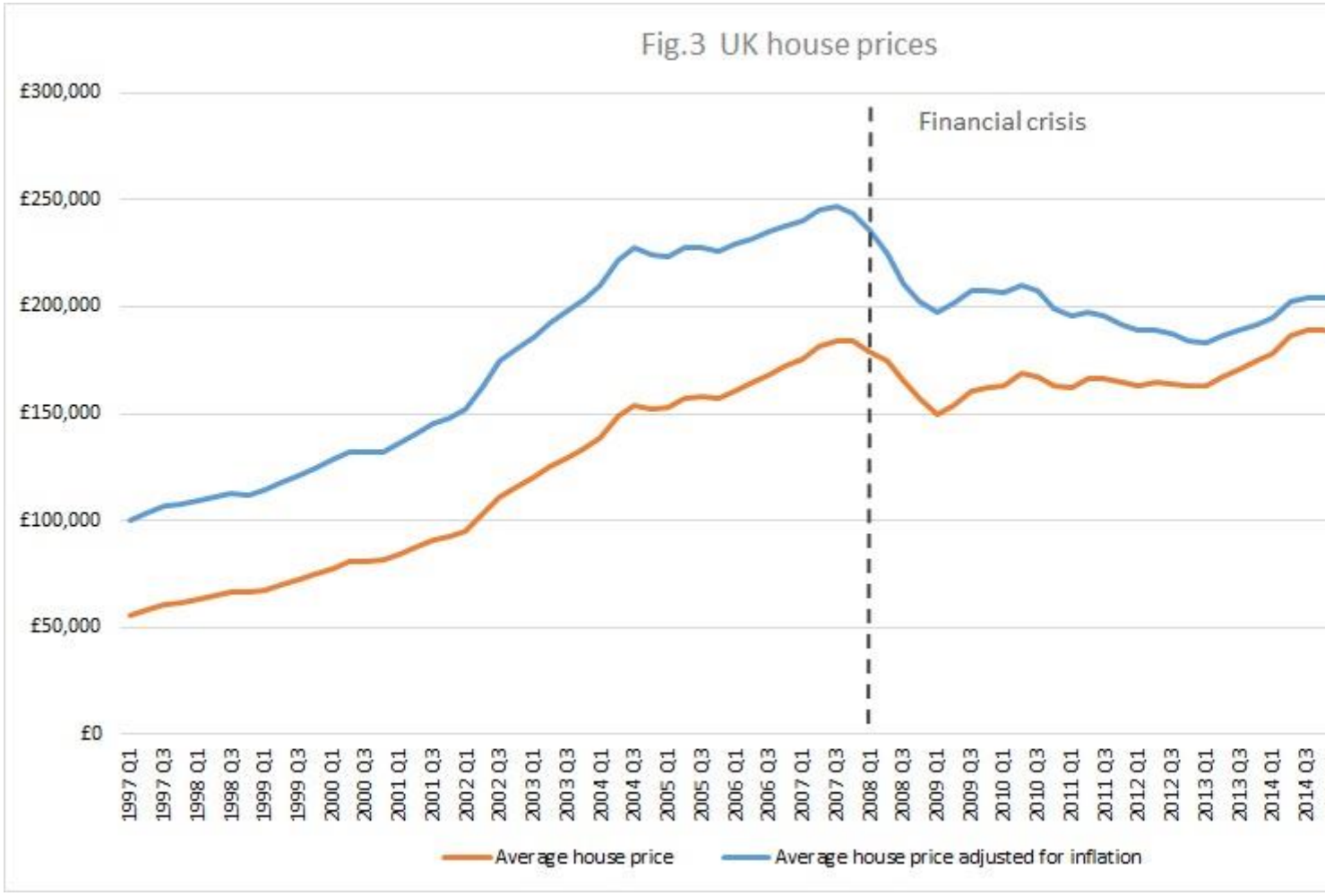
Source: Table C1.2 Bank of England statistics

Nevertheless, **productive lending, which constitutes the most economically beneficial type of lending, accounts for only 10.4% of total loans (red line below) – a decrease of around 1 percentage point since 2008**, as seen in the chart below depicting the relative magnitudes of lending going to each sector. The drawn-out struggle to raise productivity in the UK is reflected in these figures.



Source: Table C1.2 Bank of England statistics

By far the greatest proportion (55%, the dark blue line above) is lending secured to individuals, which is predominantly directed to the property market in the form of mortgages, and has helped sustain an increase in house prices (seen below). Following the financial crisis, house prices took some time to recover but soon resumed an upward trend, interrupted only by recent uncertainty following the Brexit referendum.



Source: Nationwide

Commentators are watching mortgages closely. Policymakers at the Bank of England have hesitated over raising the base interest rate, but higher costs of borrowing for homeowners will be on the way soon. Regulation since the financial crisis has trimmed back some of the worst excesses of the housing market. The percentage of new loans with a loan-to-value ratio (i.e. the proportion of the home's value represented by the mortgage loan) over 90% has fallen. **However, the percentage of mortgages with a value several times the individual's income (whether single or joint income – seen below) has been creeping upwards.** The Bank of England has warned that mortgage lenders are taking increasing risks.

Fig.4 Value of mortgage as multiple of buyer's income (single buyer)

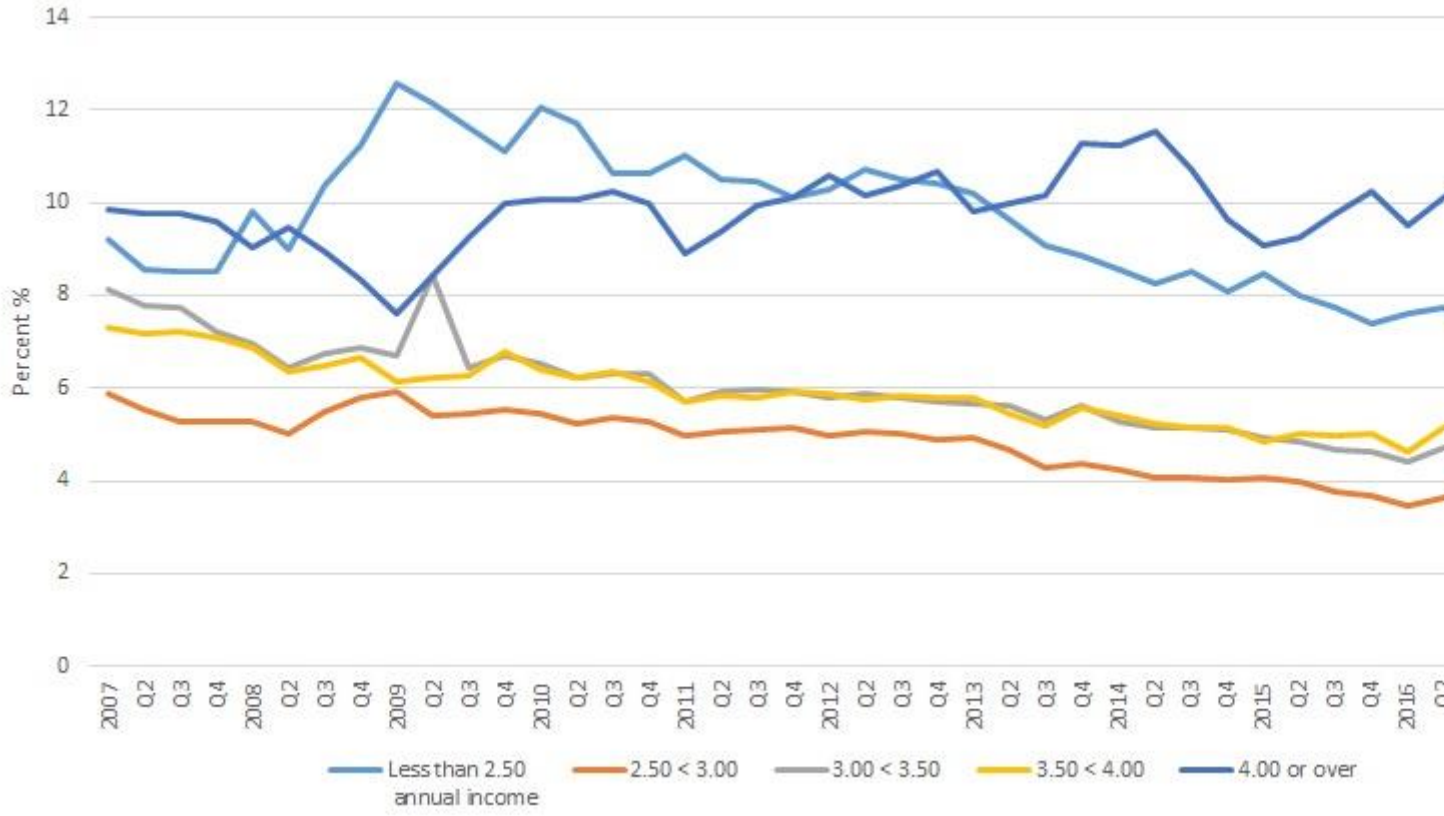
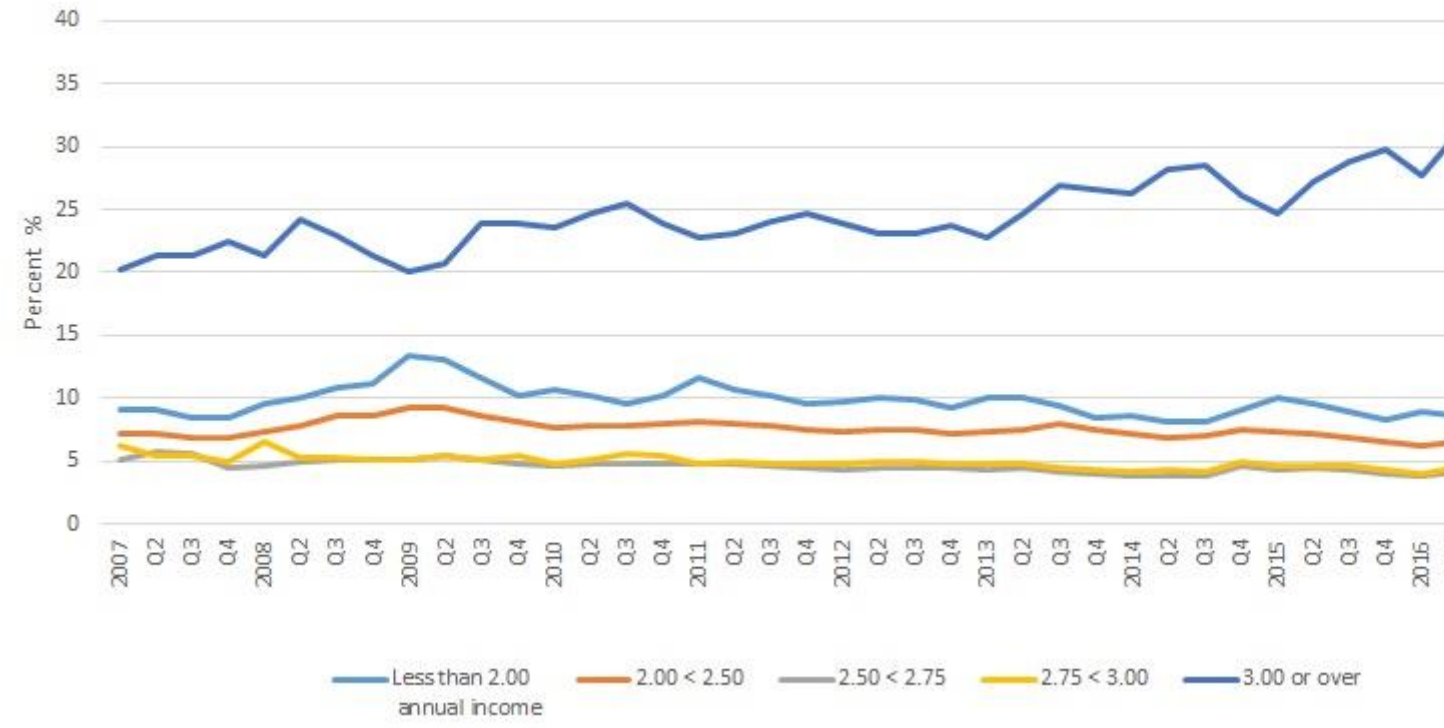


Fig.5 Value of mortgage as multiple of buyer's income (joint buyer)



Source: Bank of England, Mortgage Lenders and Administrators' Statistics Q4 2017

It is encouraging that lending directed to the financial sector has not only decreased in absolute terms but also in relative terms, as it now accounts for 18.7% of all lending versus 29% in 2008 (green line in figure 2 above). Unsecured lending to individuals accounts for 6.1% of total lending (yellow line figure 2), and lending to companies buying, selling and renting real estate for 6.2% (orange line figure 2), both showing a decrease (of 0.6 and 5.5 percentage points respectively).

Overall, it seems that since the financial crisis nothing has significantly changed. The decline in lending to the financial sector is definitely a positive sign. However, the proportion of lending going to the productive sector of our economy remains small. This indicates lower levels of real investment, a fact that has important implications for productivity. In addition, the significant increase in mortgage lending is a sign of danger, especially with interest rate rises on the horizon that will increase the burden of debt repayments for a number of households.

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Bank of England & QE, Economic Analysis, Theory, Financial Crisis, Global Situation, Others, Parliament & Legislation

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Bank of England finally admits high house prices are determined by finance, not supply and demand

by Simon Youel

The Bank of England confirms Positive Money analysis of housing affordability

In a duo of fascinating blog posts this month, Bank of England researchers John Lewis and Fergus Cumming confirmed what we've been arguing for a long time: that houses are assets, the price of which is not determined so much by simple textbook supply and demand as with typical consumer goods, but by the role of finance.

The mainstream narrative on Britain's housing crisis is that housing is so expensive because there are simply not enough homes to go around. As I have argued elsewhere, not only is this narrative misleading, but it serves the pockets of property developers, and lets the real culprits – bankers and landlords – off the hook.

Unfortunately, even the Bank of England has fallen into this habit at times, with governor Mark Carney repeating statements such as "The underlying dynamic reflects a chronic shortage of housing supply, which the Bank can't tackle directly."

But research from the Bank of England's own staff suggests Carney should have known better – and perhaps that the Bank itself has been complicit in pushing house prices out of reach. In 'Houses are assets not goods: taking the theory to the UK data', Lewis and Cumming construct a twenty year model which shows that "relative scarcity of housing has played almost no role at the national level since 2000" in rocketing prices.

Rather, the Bank's researchers confirm our view that high house prices are driven by the role of finance. In particular, they identify the role of the central bank's own monetary policy (i.e. historically low interest rates) in driving up house prices.

As Lewis and Cumming explain, lower interest rates increase the value of future income flows from an asset and thus the amount people are willing to pay to own it (or more accurately in the case of housing, how much banks are willing to lend), as well as borrowers' ability to take on more debt. This incentivises banks to lend more and more people to borrow. They suggest that lower interest rates, which have been pushed onto a downward trajectory by the Bank of England since the early 1990s, account "for almost all *real* house price rises since 2000."

The price rises are striking. In the 1930s a typical three bed house was just 1 and a half times the average annual salary. By 1997 the average house price was 3.6 times the average salary. But in just twenty years that has more than doubled to nearly 8 times, and in London an 'affordable' home is 13 times first-time buyers' salaries.

But there is another crucial element which is somewhat absent from Lewis and Cumming's blogs – the role of banks in driving demand for housing as an asset.

As Positive Money has raised awareness of, banks do not simply lend out existing savings. Rather banks create new money when they make loans, which means they aren't constrained in how much they're able to lend by depositors' existing savings. Banks then use this ability to create money to bid up the price of profitable assets like property. With over half of new money in the UK going towards mortgage lending, it's no surprise that house prices have ballooned out of step with the rest of the economy.

If we look at the data, the shortage myth becomes clear. Housing stock levels have consistently risen at a higher rate than population growth even in the past couple of decades, and even in London. So, according to the laws of supply and demand, if houses were a simple consumer good, prices should have fallen – obviously not the case.

The key relationship to look at is not the one between housing stock and house prices, but rather between lending towards mortgages and house prices, as the below graph illustrates.

Source: Positive Money (using Nationwide housing survey and Bank of England data).

This phenomenon was covered by founding Positive Money researchers Andrew Jackson and Ben Dyson in Modernising Money back in 2012 as well as elsewhere on our website. It's great to see the Bank of England catching up!

The laissez-faire approach from policymakers since 1971 – dismantling credit controls, letting more lenders get involved in mortgages and changing the role of building societies, to name a few deregulations – has helped to create a booming market for housing speculation, which has been great for the asset-wealthy few, but not so much for the rest of us. And as Lewis and Cummings make clear, the Bank of England has played a central role in this, by continually cutting interest rates to keep the asset price party going, making property seem a one way bet.

We're glad the Bank of England is finally acknowledging the impact of its policies. But the fact that central bankers were able to neglect these considerations for so long reflects the need to reconsider the Bank of England's targets and tools, so that such impacts on larger, asset poor parts, of the population can no longer be overlooked.