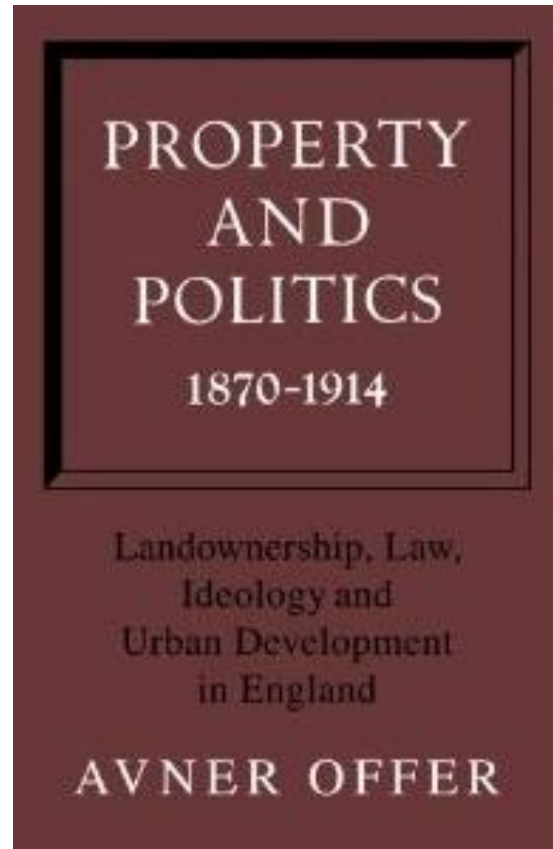


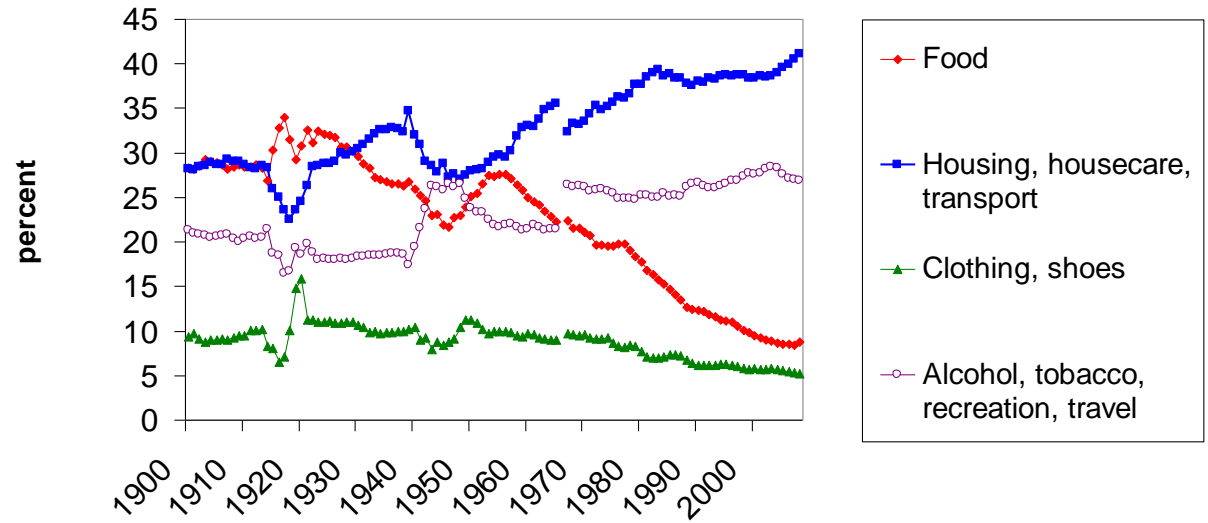
From 'Buy-to-Let' to Rent Control: c. 1870-1920



Avner Offer, University of Oxford
November 2010

**Cost of housing
not reduced by
economic
growth**

Housing & transport as share of private consumption



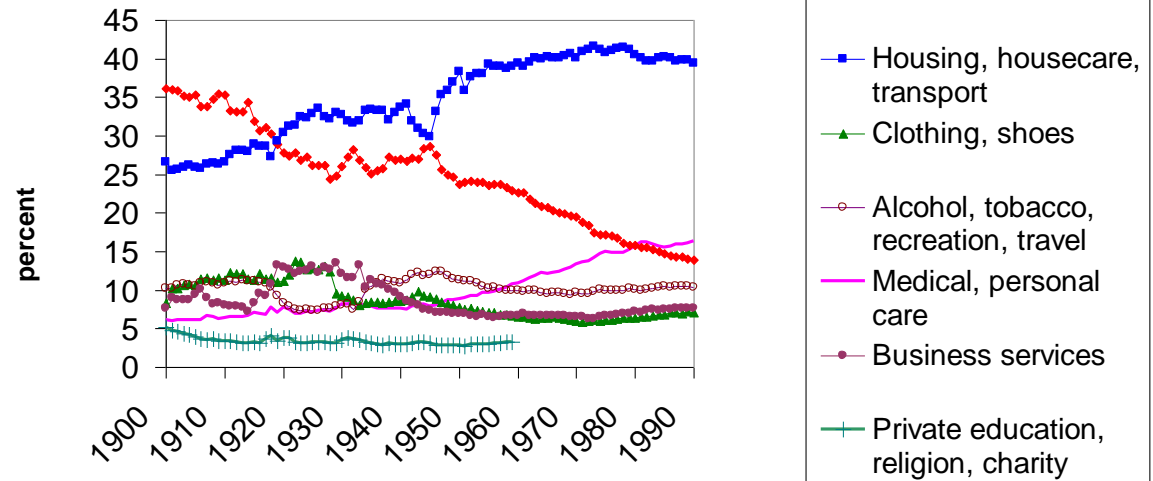
UK

Feinstein, 1972 and ONS

**Incomes rise
x3-4**

**Housing demand
insatiable**

USA



Lebergott, 1993

Edwardian House

Market value in 1900
£1,000

Market value in 2005,
£700,000?



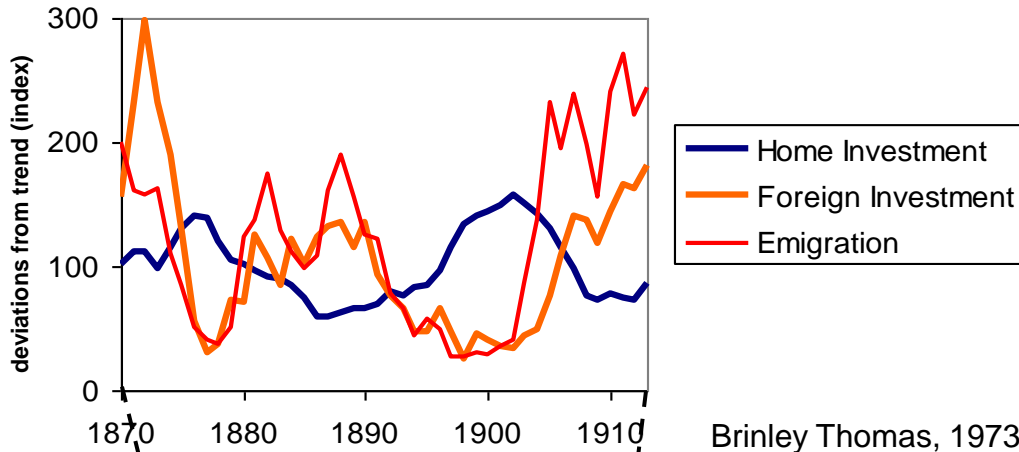
In 2005, the relative worth of **£1000** from 1900 is:

£72,100.00 using the [retail price index](#)
£88,700.00 using the [GDP deflator](#)
£389,000.00 using the [average earnings](#)
£454,000.00 using the [per capita GDP](#)
£665,000.00 using the [share of GDP](#)

Although the house is
100 years older...

Housing Finance: Domestic and Global, c.1856-2001

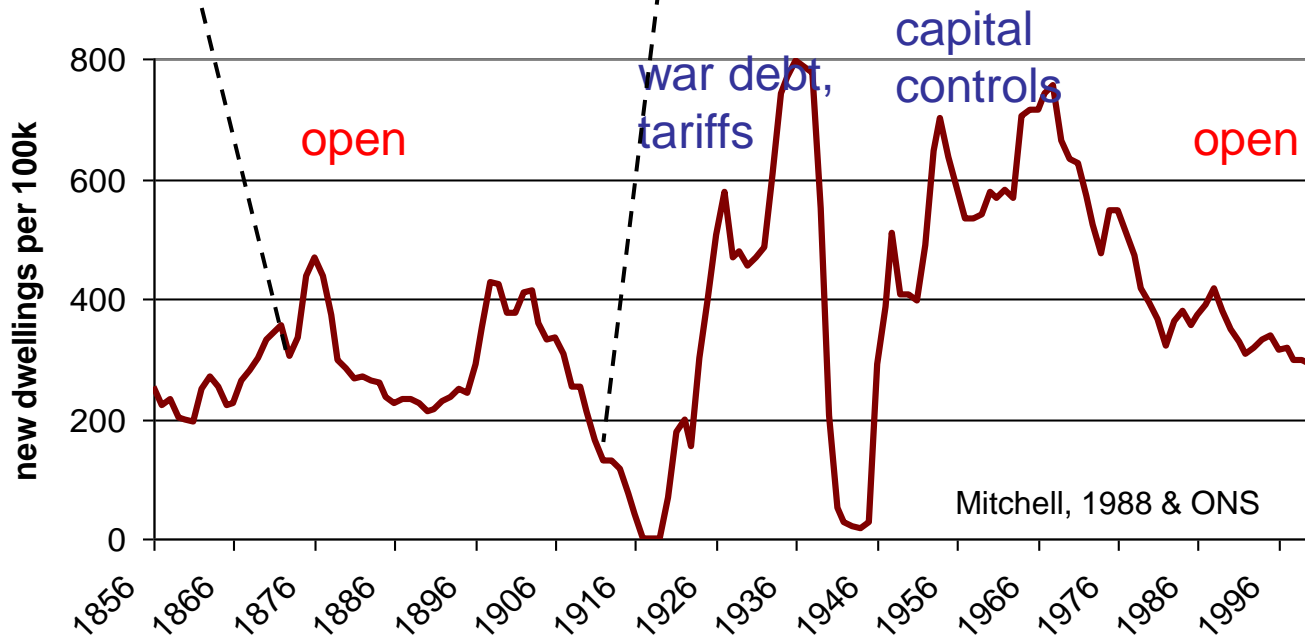
UK Investment & GB Emigration to USA



Brinley Thomas, 1973

- **British Housing finance competes globally**
- **With agricultural & urban development in N. America & Australasia**
- **Inverse cycles of domestic and foreign investment**
- **Affect supply (interest rates) & demand (emigration)**

Great Britain, New Dwellings per per year per 100,000 people, 1856-2001



Mitchell, 1988 & ONS

Periodization

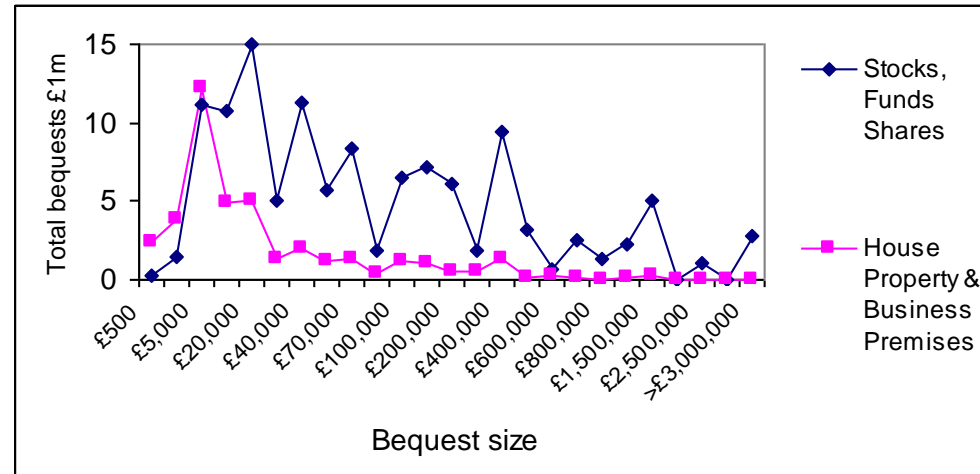
- Open economy, lower investment
- ~ 25-year cycles, each ends in collapse
- new financial regime has to be created for each cycle

Who owns before 1914?

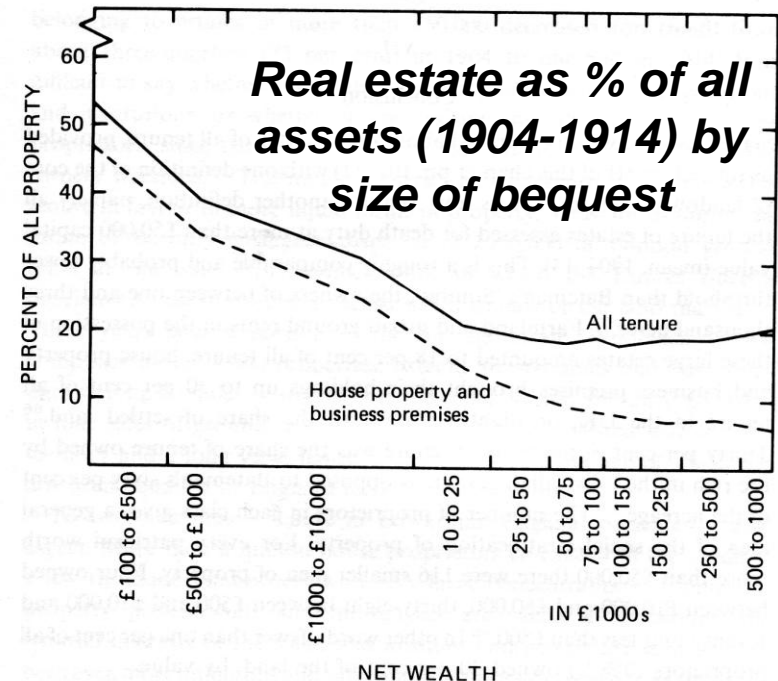
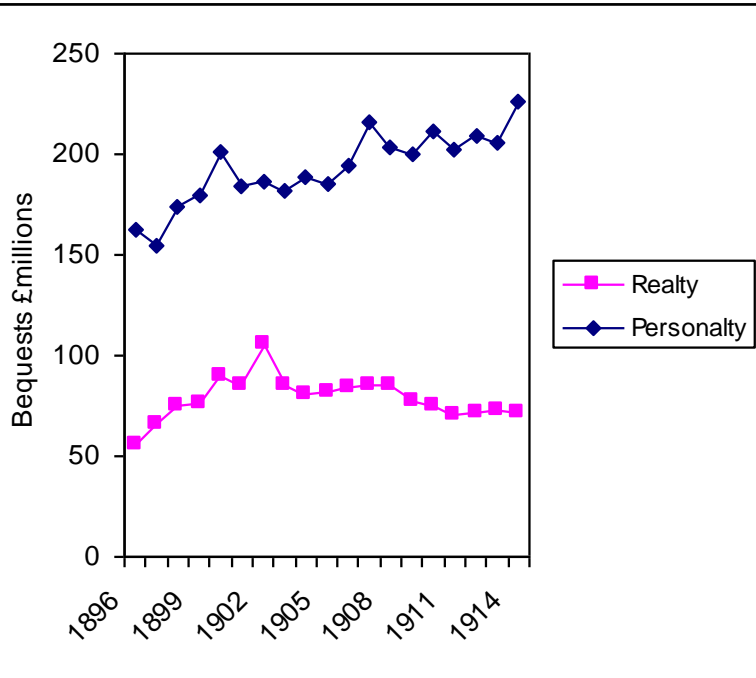
Sources: bequest data,
Inland Revenue Annual Reports

- Bulk of housing held on 'buy-to-let'
- By small & medium owners.
- 60% held in bequests of up to £10,000 (1904-14). [£700k 2005]
- Middle class provision. 2 houses can pay for 10-year annuity
- Rate of return 6-12%. High risk.

Total house property by wealth, 1911

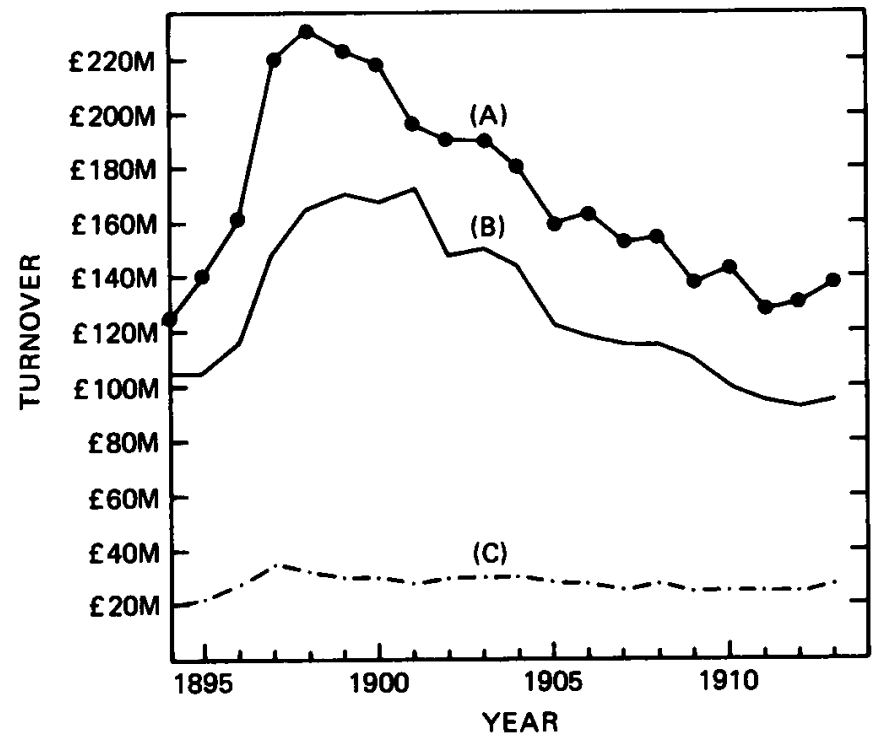


Real estate and all other assets
1896-1914



Who lends?

- Mortgages another middle class saving vehicle. Track sales
- Bulk of lending (c. 75-80%) is by private individuals
- **Well-secured.** Stock of mortgage debt about one-third of asset values
- Loans up to two-thirds of value, six months notice, six years' duration
- Need to be rolled over frequently
- Yield about double that of Consols (c. 6%)



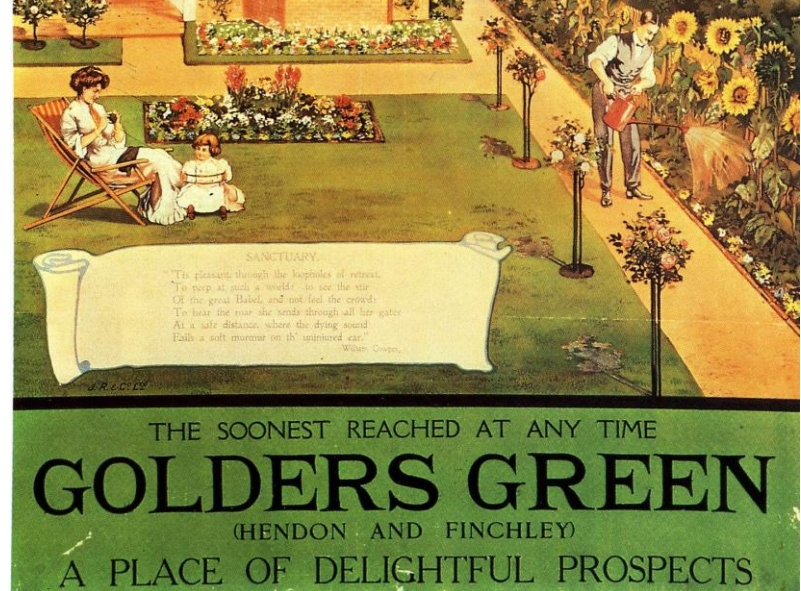
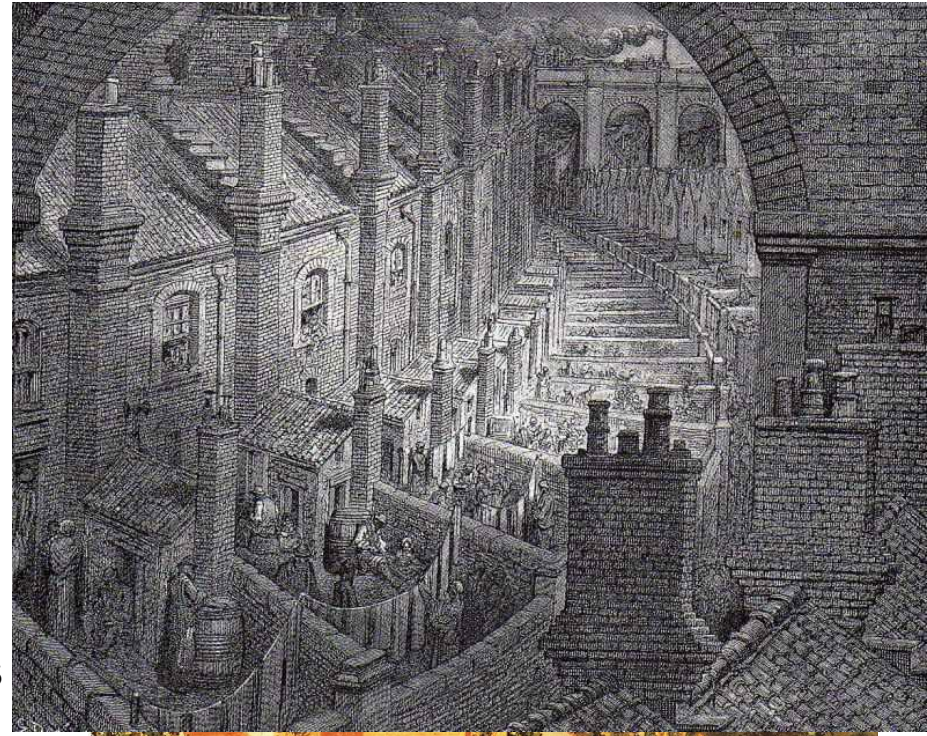
Conveyances (A), Mortgages (B), and Leases (C), England and Wales

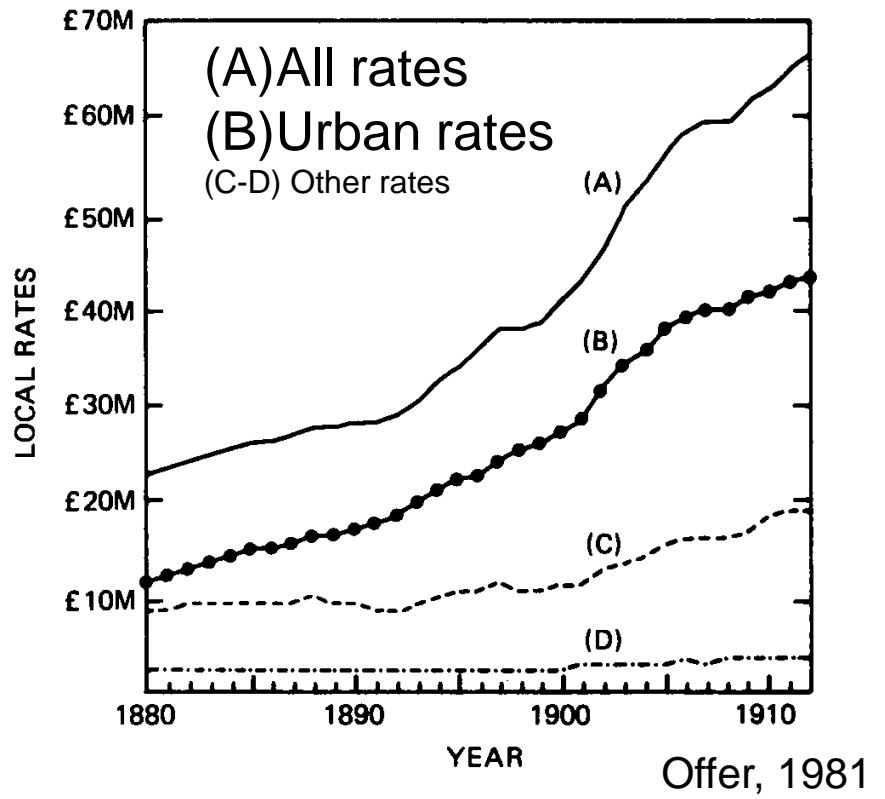
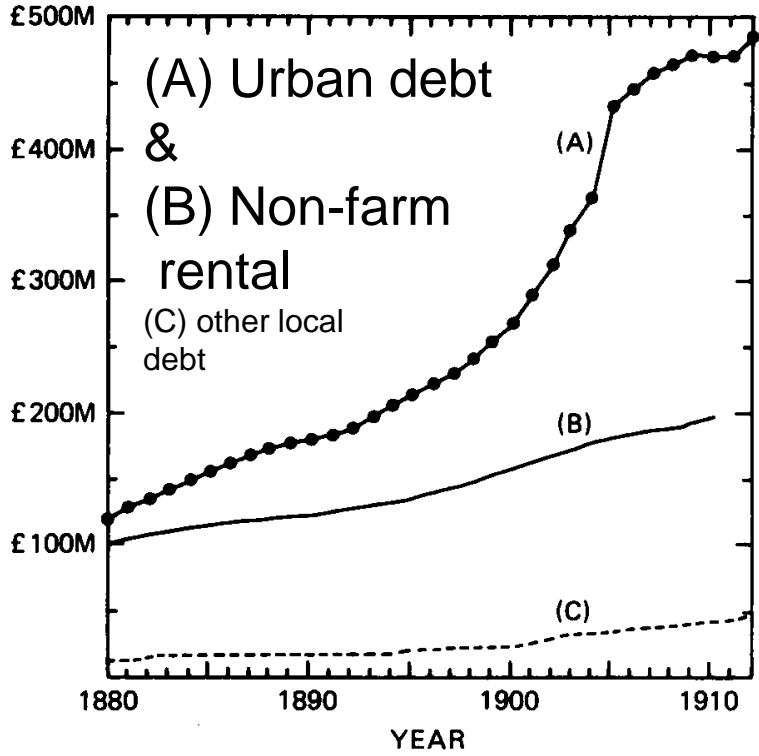
Who doesn't lend?

- Clearing Banks don't issue mortgages
 - **Prudential norms:** high capital ratios (15-20%), high liquidity, very short lending.
 - But do hold title deeds as collateral (about 20% of all real estate lending)
 - **Housing finance insulated from the core payments system.**
 - Payments system not affected by housing market turbulence
- Institutions: building societies, insurance companies (c. 20-25% ex banks)
- Mortgages & buy-to-let a pillar of middle-class thrift and provision for old age.
- **How secure?**

Flexible labour markets incompatible with flexible housing markets

- **Demand:**
 - Weekly/quarterly tenancy
 - For workers: employment/housing insecure. **'The Housing Problem'** – persistence of bad housing
 - Slum housing, doubling-up
 - **Large emigration** in 1880s and 1900s
- **Supply:**
 - Demand cyclical
 - Rising cost of finance
 - Yield on Consols 2.5% (1895-99) ==> 3.3% (1910-14) [32% increase]
 - Transport: Tramways, buses, underground railways. Application of fossil fuels from 1890s.[electric, petrol]





TAX

- Infrastructure loan-financed—rising service costs
- Rising rates – 50% in London boroughs
- People’s Budget. Land value taxation

David Lloyd George

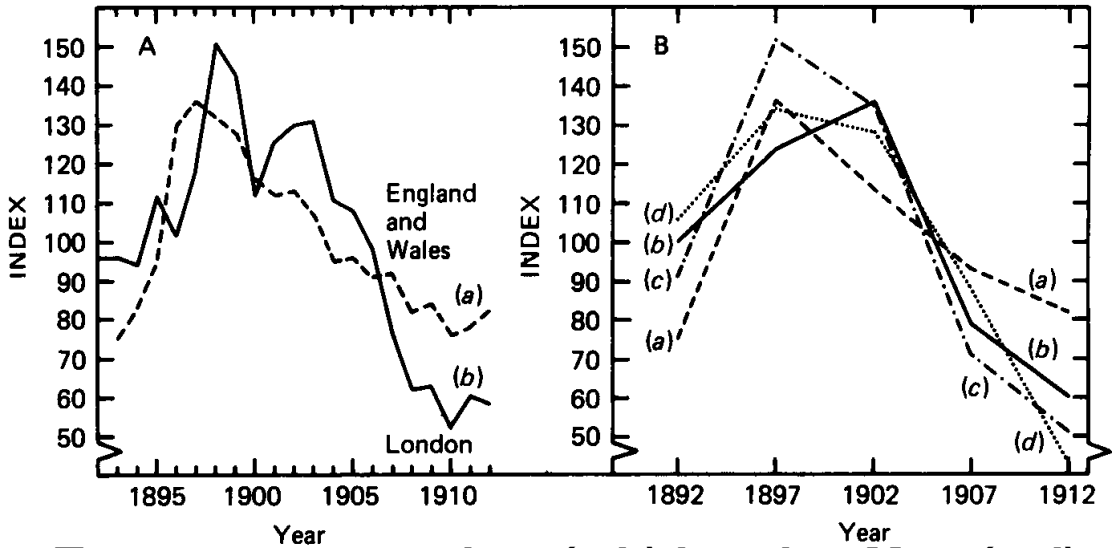
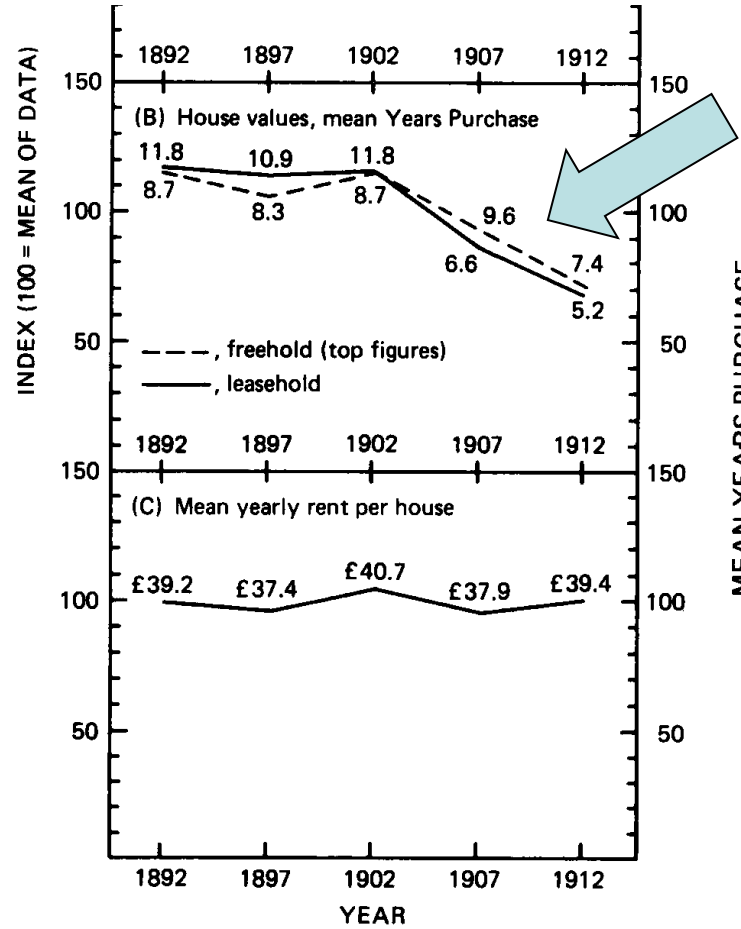


The Edwardian Property Crash

c. 40% loss in ten years

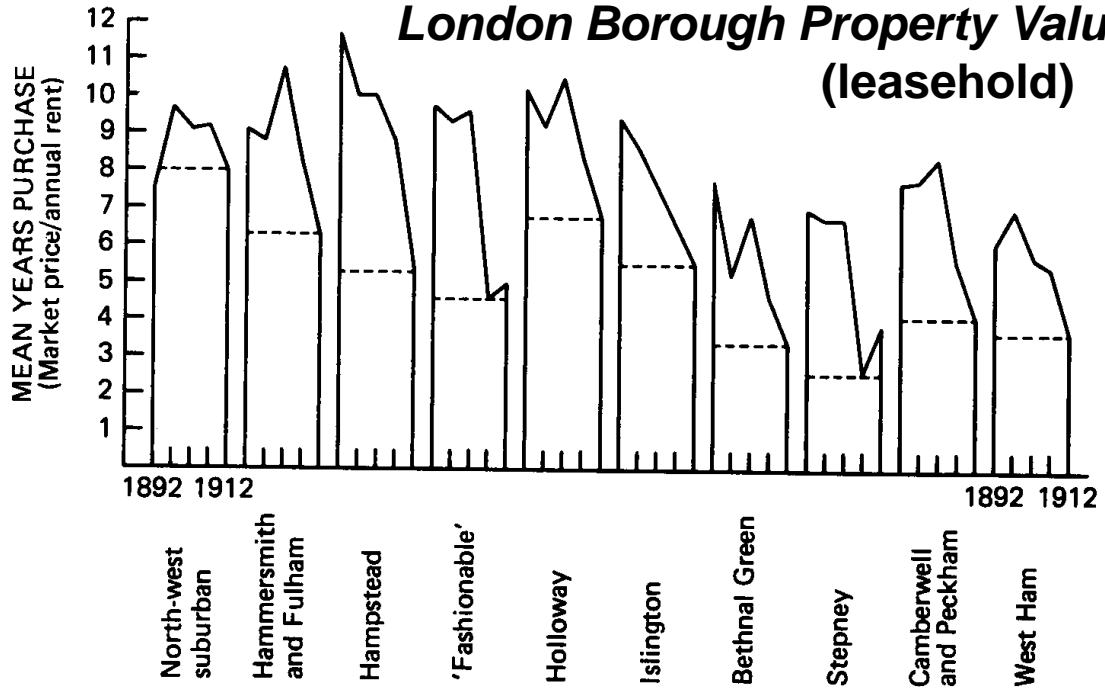
Sources: Auction Mart sales data & stamp duties

House Value Years Purchase



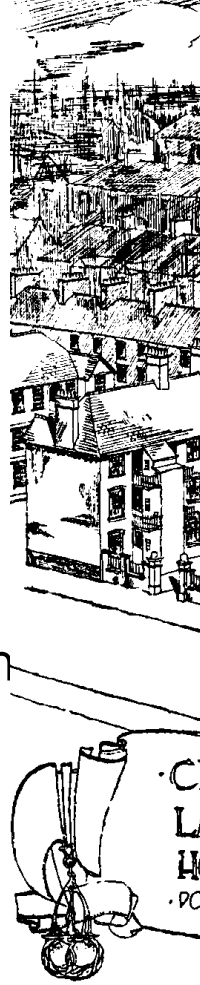
Turnover: stamp duty (a,b) London Mart (c,d)

London Borough Property Values (leasehold)



Solutions:

- Philanthropy
- Social entrepreneurship: 5% philanthropy
- Public Housing: enabling legislation, local govt action
- Buy-to-let in crisis:
 - Property crash
 - Taxation
 - Unemployment/emigration
 - Overseas investment
 - Electric/petrol public transport
- **First World War: Endogenous?**
- Localised housing shortages
 - Soldiers' wives
 - Owners/lenders in weak position
- **Rent control 1915**
- Lasts for sixty-plus years



The First World War: An Agrarian Interpretation

Avner Offer



‘Unsafe as bricks and mortar’

- Collapse of housing system and mortgage lending
- Destroys credibility of buy-to-let asset class.
- Rent control -- No incentives to build.
- Post-war demand : ‘Homes for Heroes’
- New regime:
 - Owner occupation
 - Public housing
- Buy-to-let owners exposed to taxation, regulation, external shocks.
- Then as now.
- But no financial bail-out: core banking safe.

References

- C. H. Feinstein, *National Income, Expenditure and Output of the United Kingdom, 1855-1965* (Cambridge: University Press, 1972).
- Great Britain, Parliamentary Papers. *Commissioners of His Majesty's Inland Revenue*. Annual Report, 1894-1914.
- Land and House Property Year Book* (London: The Auction Mart, 1892-1912).
- Stanley Lebergott, *Pursuing Happiness : American Consumers in the Twentieth Century* (Princeton: Princeton University Press, 1993).
- B. R. Mitchell, *British Historical Statistics* (Cambridge: Cambridge University Press, 1988).
- Avner Offer, *Property and Politics, 1870-1914 : Landownership, Law, Ideology and Urban Development in England* (Cambridge: Cambridge University Press, 1981).
- Brinley Thomas, *Migration and Economic Growth : A Study of Great Britain and the Atlantic Economy*, 2d edn. (Cambridge: University Press, 1973).