

The Economic Impacts of Help to Buy

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Abstract

We exploit spatial and price discontinuities in the Equity Loan Scheme of Help to Buy (HtB) as well as differences in the timing of implementation across UK countries to explore the impact of the scheme on housing construction and prices. The English version of the scheme was first introduced in April 2013 and provides an equity loan for up to 20% of the house value for properties outside of London. It is available to both first-time buyers and home-movers but is restricted to new-build homes with prices under £600,000. We use this cutoff, as well as the higher equity loan-threshold in London (40%) and later implementation in Wales (January 2014) to estimate the effect of the scheme on construction volumes and prices. Our preliminary results indicate that the implementation of the scheme led to a significant shift in housing construction away from larger properties above the price threshold—suitable for larger families—towards smaller units. The price of newly built homes increased by between 2.3% and 3.9% depending on the discontinuity exploited. Our findings suggest that the main beneficiaries of HtB are existing homeowners rather than first-time buyers. Would-be buyer families with large demand for space may be the main losers of the policy.