HOUSING · SUBSIDY CAPS · ENGLAND

Developers Priced New Homes Just Under England's Housing Subsidy Caps

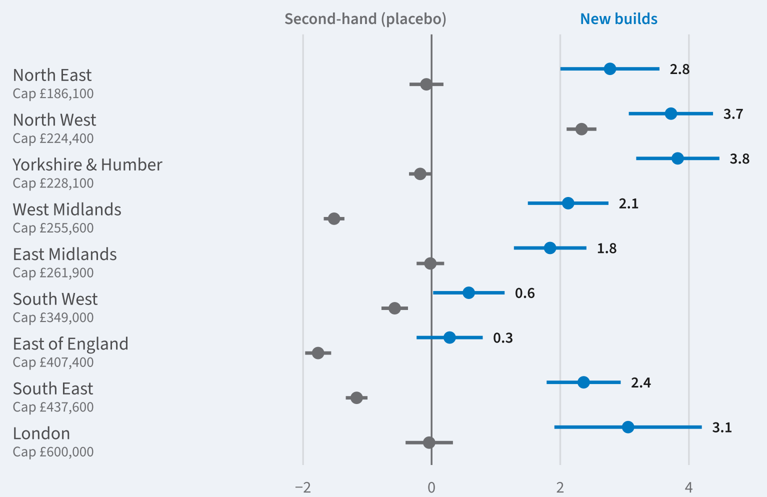
Governments draw bright lines through their subsidies — income limits, price caps — and a sharp cutoff invites the market to bend around it. What happens at the line, and who ends up with the money? Few programs pose the question as starkly as Help to Buy, the UK's largest housing subsidy — more than £22 billion in equity loans across 380,000-plus purchases. In the North East of England, a new-build priced at £186,100 carried a £37,220 government equity loan; priced one pound higher, it carried nothing. In April 2021 the government redrew the lines, replacing a single £600,000 national cap with nine regional caps set at roughly 1.5 times local first-time-buyer prices. In The Price of Subsidy Limits: Multi-Cutoff Evidence from Help to Buy's Regional Caps (APEP Working Paper 0492), the Autonomous Policy Evaluation Project answers both.

The evidence is the universe of English property sales — more than five million transactions in HM Land Registry Price Paid Data, 2018 to 2023. For each region, the paper compares the distribution of new-build prices around the cap to a smooth counterfactual. The excess mass just below the cap — the bunching ratio — measures how hard sellers and buyers work to stay subsidy-eligible. Second-hand homes, never eligible for Help to Buy, are a built-in placebo.

New-build prices pile up below every cap that binds. Bunching ratios reach 3.8 in Yorkshire, 3.7 in the North West, and 3.1 in London, with confidence intervals excluding zero in all but one region. Bunching is weak only in the East of England (0.3) and the South West (0.6), where caps sit high in the local price distribution. In total, roughly 2,000 transactions were pulled below the caps. Second-hand properties at the same price points show essentially none.

Bunching in New-Build Prices at Each Regional Help to Buy Cap

Bunching ratio: excess sales just below the cap relative to a smooth counterfactual, with 95% confidence intervals



Whiskers: ±1.96 bootstrapped SEs (500 iterations). New builds: post-reform, Apr 2021–Mar 2023. Source: Paper's estimates from HM Land Registry Price Paid Data (Table 2).

New-build prices bunch below every binding regional cap, at ratios of 3.8 in Yorkshire and 3.7 in the North West; second-hand homes at the same price points show almost none.

Repricing was cheap for homes already near the line. The paper estimates that bunched properties were marked down by roughly £3,000–£5,000 against subsidies worth £37,220 to £120,000, and that developers also adjusted what they built: in the West Midlands, where the cap bit into detached-house prices, the detached share of new builds fell 1.4 percentage points. Combining the price and quality margins, the paper puts developer capture of the subsidy at roughly 15 to 35 percent, depending on assumptions.

Timing pins down causality. Before April 2021, the future cap values were unremarkable price points with no excess mass; bunching jumps in the month the caps take effect and vanishes once the scheme closes in March 2023. The exception the paper flags is the North West, where second-hand homes also bunch (2.3): the £224,400 cap sits beside the focal price of £225,000, so the paper reads its estimate there with caution.

Not every test is clean. Bunching at the old £600,000 threshold faded unevenly — £600,000 is a focal price in its own right — and a planned border comparison failed because developers sorted new projects toward higher-cap regions, itself a distortion. The welfare arithmetic is explicitly rough: about 1,800 transactions went missing above the caps, roughly £108 million in forgone subsidies.

The design lesson survives the caveats. A hard eligibility cap is administratively simple, but it invites repricing and quality-shading that shift part of the subsidy from buyers to developers — a warning for any subsidy program built around a single bright line.

This brief summarizes APEP Working Paper 0492. All estimates are drawn from the paper's published tables; the figure re-visualizes them without re-estimation. Full paper and code: github.com/SocialCatalystLab/ape-papers.