

Banking on property: What is driving the housing affordability crisis and how to solve it

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Key points

Shortages of supply fail to explain the rapid house price growth of recent decades. In the period where prices have increased most rapidly, the housing stock has grown more than the number of households. The government's own house price model suggests that even if the number of homes had grown by 300,000 a year since 1996, the average house today would only be 7% cheaper, doing little to reverse the 120% increase in real house prices over the past 30 years.

House price inflation is rooted in a series of policy changes that have created a structural bias towards property in the UK economy, and transformed housing into vehicles for accumulating wealth. A loosening of financial regulation and monetary policy has also significantly increased demand for housing.

New YouGov polling indicates that the British public - including a majority of homeowners - are in favour of bold reform:

- A majority (54%) of British homeowners would be happy if their own home did not rise in value in the next ten years if it meant houses were more affordable for those who don't own property
- Two-thirds (66%) of Britons support the Bank of England being given a target to keep house price inflation low and stable in the same way it does consumer price inflation

In each case, there is popular support across all regions of Britain, and among voters of all the main political parties.

Recommendations

The government should launch a new long-term housing affordability strategy to tackle the systemic causes of unsustainable house price inflation, which includes:

- **Macroeconomic policy reforms**, such as updating the mandate of the Bank of England so that it helps keep house prices stable with macroprudential tools and other forms of credit guidance, as well as improved monetary-fiscal coordination.
- **Market shaping reforms**, such as progressive changes to the property and land tax system which would dampen investor demand for housing as a financial asset and help fund more social and affordable housing, as well as a more diverse banking system which lends more towards productive activities which increase incomes, rather than unproductive assets like mortgages.
- **Providing decent and secure alternatives to homeownership**, with policies such as rent controls, security of tenure for private sector tenants, as well as scaling up non-market alternatives to offer affordable alternatives to homeownership.

For further reading, see ['Banking on Property: What is driving the housing affordability crisis and how to solve it'](#), by Danisha Kazi and Laurie Macfarlane

Positive Money is a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

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