

## House prices: should we welcome a crash?

British governments don't deliberately do things that negatively affect house prices. Instead, the booms that they have bolstered have usually inflated prices. We tend not to think about the long term problem this creates. But we should reflect on it, because government actions that push prices higher make falls (rather than stability) more likely in the long term.

The British public today believes that house price falls are very unlikely. The last time there was a sustained drop in house prices over a period of as long as four years was after September 1989. That is such a long time ago that few people remember it.

Indeed, few adults today know that the average UK house price did not return to its autumn 1989 level until 1998 – almost [nine](#) years later!

The superficial reason for the fall in house prices after 1989 was 'overheating' in the UK, accelerated by a rush among some home-buyers to purchase property before a particular form of tax relief for couples ([MIRAS](#)) was withdrawn by the government. It was a very British house price crash.

In contrast to 1989, the falls that came with the global financial crisis of 2008 are today better known and remembered.

In the UK, prices fell from a high average price of £184,000 in late 2007, to a low of just under £150,000 in early 2009. They did not return to the higher level until mid-2014. Nevertheless, this was a faster 'recovery' than in 1989.

More importantly, the cause of the falls in 2008 was viewed as both external and unlikely to be repeated because – so it was said – the world would 'learn the lessons' of the banking crash.

Why do house prices matter politically? It may be coincidental but both the ending of 18 years of Conservative rule (1979-1997) and of 13 years of New Labour rule (1997-2010) occurred in the aftermath, or midst of, house price falls.

The current UK government and the previous coalition which they dominated have so far been in power for 'only' 11 years (2010-2021). The current government's period in office might come to an end without a fall in house prices; or there could be a fall in house prices and its rule might not end there.

Nevertheless, if there were a drop (which would probably be described as a crash if it were anything but minimal) the **Conservatives** would be in trouble. It might also be foolhardy to ignore the impact of even a slight future fall given how important house prices are now to many people's sense of how well-off they are – and to their sense of wellbeing.

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For a very large and growing number of people, of course, increasingly high prices are the bane of their lives, forcing them to rent privately well into middle age and preventing them from being able to save because rents are so exorbitant.

The very high house price differentials across the UK also hinder geographical mobility, which in turn hinders social mobility.

As I write in 2021, we seem to have forgotten that house prices can fall, and they can fall without an external international trigger. Many people now shrug off the idea of house prices reducing evenly slightly in the UK.

After all (they might say) a global pandemic came and they did not fall: so if even Covid-19 can't dent the rise in the cost of buying a UK home maybe

nothing can?

But at some point (and we can't know when) house prices will eventually stop rising and start falling in real terms. For the UK this could be a very long time in the future. Scenarios can be modelled where they do not fall for decades.

Alternatively, this event could happen in a few months' time. But eventually house prices always do drop after reaching a peak. Furthermore, that fall need not be short-lived or slight; it could be substantial and enduring.

### **How do governments keep house prices high?**

Rising house prices have been seen as [politically advantageous](#) by all governments since the 1980s. Home-owners have seen it as evidence of both good national economic management and of their own individual success.

In contrast, in periods when house prices were falling – 1989-1993 and 2008-2011 – public confidence in government was far lower. John Major never really regained that confidence despite winning the 1992 general election; and the Coalition government that won in 2010 used the memory of the falls from 2008 onwards to successfully paint the Labour party as economically incompetent.

We should not underestimate just how important it has been for UK governments to keep house prices high and, if possible, rising; or at least to try to steady and quickly reverse any fall. The New Labour government did this in 2009-10 by diverting £1 billion from what had been their regional economic programs to support the housing market.

This included 'HomeBuy Direct' – loans of up to 30% on a new-build, interest free for the first five years, for [first time buyers](#). Since then, various versions of 'Help to Buy' have been used to prop up prices at the bottom of the market if they ever look to be in danger of falling.

The Help to Buy schemes we have seen since 2009 have not been intended to make housing costs cheaper for 'the many'. To lower housing costs requires, among much else, two things to happen in the rental sectors.

First, ensuring enough good quality social housing is available to prevent private sector rents rising rapidly: inadequate social housing provision ensures a limited rental supply. This then encourages people with access to a lot of money to buy up family homes and rent them profitably on the private rental market – thereby preventing families from buying those homes.

Second, renting in the private sector must be made secure enough that families do not feel compelled to buy for fear of being evicted from their home should their landlord want to sell or raise the rent. If this has the effect of deterring people from becoming private landlords, then that would also help increase affordability for those who want to buy the home they live in.

When in opposition in 2015, 2017, and 2019 the Labour party talked about some of these options. In particular, Labour suggested introducing better rent regulations. But that party has not yet dared suggest that house prices are too high – and when they were in power they did nothing to help renters.

In contrast to Labour, the Conservatives do not even seriously discuss making renting less precarious and expensive.

Instead, they prefer to talk about how schemes such as ‘shared ownership’ might allow someone to get part of a foot on the lowest rung of a ladder. When it comes to action, apart from the huge financial commitment of introducing ‘Help to Buy’ schemes, their main endeavour has been to tinker in order to raise prices further.

In recent years, stamp duty cuts have increased UK house prices by reducing the costs to buyers – encouraging sellers to increase their asking prices. But what might they do if the current very high prices lead to a loss of sentiment in the market and a slump in buying?

When the 2008 crash hit, the New Labour government introduced the Mortgage Rescue Scheme (MRS) for homeowners with a mortgage who were unable to sell but also unable to keep up payment on their mortgage due to changed personal circumstances.

Mortgagees could ask for help in reducing their repayments to their bank or building society. However, if those repayments were considered by

government to be unsustainable, then a housing association would be permitted to purchase and rent back the property to the borrower on a three-year assured shorthold tenancy at 80% of the market rent (or purchase with shared ownership if there was some equity in the property).

In 2008 the government also introduced Homeowners Mortgage Support (HMS), whereby the state would underwrite up to 80% of the losses of a bank or building society that showed some leniency to a mortgage holder unable to pay their full mortgage due to a fall in income.

At the time, the belief was that MRS could be taken up by up to 6,000 borrowers, while a lender-led assessment estimated that HMS could directly support up to [42,000 borrowers](#).

In the event, the numbers of families resorting to these schemes was much lower, although it is thought that their existence helped deter banks and building societies from repossessing properties at the rates seen after the 1989 crash.

Thus it was New Labour, just before they left office, that first instigated policies to try to ensure that when house prices did fall, they did not fall far. This included pledging government funds to underwrite potential private sector banking losses in the event of any price fall, and so encourage banks to keep on lending.

The intention of New Labour's 2008 and 2009 housing policies may have been partly to help families that might otherwise have found themselves homeless, but it was not only that. It also set a precedent for the UK government to intervene significantly in the private housing market to ensure that prices did not fall, or only ever fell by a small amount.

The first 'Help to Buy' housing loans were issued by the Coalition government in 2013. The previous schemes, HomeBuy Direct, MRS and HRS together helped a modest number of families (around 15,000 across the three schemes).

In contrast, a huge number of people, living in 280,000 households, had had their purchase of a home underwritten with 'Help to Buy' by summer 2020. In

2021 a new scheme was introduced under which the government will lend up to £25 billion directly to home buyers – the [expectation](#) being that this whole sum would be loaned by 2023.

However, even before the UK government began to spend that £25 billion, prices began to rise even more quickly than before in 2020 and 2021. So, too, did sales, rising to nearly [140,000 a month](#) by late spring 2021. Covid-19 has, of course, had [its own impact](#) on the housing market. It is often said that the pandemic has increased the demand for larger properties in more rural areas. However, this is questionable.

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Instead the sad reality is that it may have resulted in an unusually large number of such properties coming onto the market and so altering the mix of those that were sold very recently. The large majority of people who died in the pandemic were elderly, leading to an unusually large number of properties being put on the market when their occupants died.

This in turn altered the balance of what was being bought and sold during late 2020 and early 2021, changing the mix of housing transactions. That then resulted in prices appearing to rise faster as the reported prices were not ‘mix-adjusted’.

And that, in turn, boosted confidence amongst sellers to ask higher and higher prices. The headlines in June 2021 simply suggested a ‘race for space’, not how the space became available (see Table below)

### **Table: The Housing News on Tuesday 1 June 2021**

[Financial Times](#): (Valentina Romei): ‘UK house prices rise at fastest rate since 2014:

Growth in May surpasses expectations driven by stamp duty holiday and demand for larger properties. The average house price grew by 10.9 per cent

compared with May last year...’

*Telegraph* (Rachel Mortimer): ‘UK house prices spike 11pc despite looming tax rise:

Surging value will continue even when stamp duty increases, experts say as properties jump at fastest pace for seven years. House prices rose 10.9pc in the 12 months to May with double-digit increases expected to continue well into the summer...’

*This is Money* (Ed Magnus): ‘House prices will boom before crashing in 2026: We speak to the man who forecast the last two slumps, but will his 18-year property cycle be right again?’

*BBC* (unnamed journalist): ‘House prices jump 10.9% as ‘race for space’ intensifies... England, Northern Ireland and Wales extended relief to the end of June. After that in England and Northern Ireland, the nil rate band will be set at £250,000 – double its standard £125,000 level – until the end of September.’

*The Guardian* (unnamed journalist): ‘...But Guy Harrington, CEO of residential lender Glenhawk, predicts that the pace of growth will slow, especially if a third wave of Covid-19 cases hits the UK. “The disconnect between the UK housing market and economic reality appears as great as ever. Government stimulus has created a false sense of consumer confidence.”’

*Sky News* (Ed Clowes): ‘House prices soar 10.9% to seven-year high in ‘race for space’. A buying frenzy in the wake of the pandemic has driven house prices to a near-seven year high, amid warnings activity could stall.’

*Bloomberg* (David Goodman and Marc Daniel Davies): “‘It is shifting housing preferences which is continuing to drive activity, with people reassessing their needs in the wake of the pandemic,” said Robert Gardner, chief economist for Nationwide. “Given that only around 5% of the housing stock typically changes hands in a given year, it only requires a relatively small proportion of people to follow through on this to have a material impact.”

*The Independent* (Ben Chapman): ‘UK house prices 10.9% higher in May than a year earlier on average... Anna Clare Harper, CEO of asset manager SPI

Capital, said: “Some will see 10.9% annual growth in the year to May as a boom, to be followed shortly by a bust, but what tends to happen in the housing market is different from other purchases and investments..”

*Estate Agent Today* (Graham Norwood): ‘Tidal Wave: some house prices up as much as 48 per cent in a year’

*The Express* (Emily Hodgkin): ‘Property boom: The town where house prices have risen 48 percent in a year... House prices have surged in St Mawes in the South West by 48 percent. The area, in Cornwall, has seen average prices jump to over half a million pounds. The average house prices have jumped from £339,912 to £501,638.’

*Stoke on Trent Live* (Hayley Parker): ‘House prices across Stoke-on-Trent and Staffordshire sky rocket through lockdown... Across the UK, house values have been rising at their fastest pace since August 2008, and Stafford has seen prices rocket by the most locally in the past year.’

## **Who loses when prices tumble?**

So, to come back to the question this piece began with: who really suffers when house prices fall?

Landlords suffer as the value of their assets falls. New first-time buyers benefit, if buying after the fall, which should help some tenants. That in turn should reduce the demand to rent, reducing rents a little. Home-buyers who have just begun a mortgage lose out, as they might end up with negative equity. The government also loses out, as it has underwritten so many loans. Home-buyers who own outright or who have paid off a significant part of their mortgage do not suffer directly; but those looking to inherit from them might.

In April 2020, the Institute for Fiscal Studies produced a report estimating the expected variation in lifetime inherited income of households.

Someone born in the 1980s into the best-off fifth of households can expect to boost their total household lifetime income by 30% from inheritances, mainly from parents and grandparents. These anticipated inheritances are larger than for previous generations and mainly the result of housing gains. It is hardly

surprising that so many people are obsessed by house prices given what this figure shows.

But just as governments appear to give many people money when house prices rise, so it will appear to many that that money has been taken away if prices are allowed to fall to the detriment of those expected inheritances.

**Figure 2: Median inheritance as a percentage of lifetime (excluding inheritance) net income, by parental wealth quintile and decade of birth**

Source: <https://www.ifs.org.uk/publications/15407> Pascale Bourquin, Robert Joyce and David Sturrock

It is very hard to predict what the wider reaction to a fall in prices might be because, until recently, inheritances from housing were so much smaller.

Many people born in the 1960s are yet to inherit. Those born in earlier decades on average inherited far less as a proportion of their lifetime income. The implication is that the future effect on political sentiment of any house price falls could be much higher than in the past because many more people are now banking on it holding or increasing its value.

Politicians are very much alive to these issues. Government ministers and MPs often own more than one home, partly because of the necessity to have a base in London. A high proportion are also landlords. They will not be unaware of the importance of housing for their own and their children's plans.

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Politicians cannot say that they are content with the *status quo*, so they most often talk about house building as the solution to the affordability crisis. However, as long as the social distribution of home ownership remains so

uneven; as long as an ever-growing proportion of property is owned by landlords and by people who have second homes; and as long as a significant and growing proportion of property is at least partially unoccupied, then it does not matter how much more is built.

Prices do not fall when more is built – especially when they are propped up by so much government policy to prevent them from falling. All of this racks up the stakes, making housing more and more unaffordable to the majority who have to live somewhere. Increasingly this is in their parents' homes because younger adults can only afford to leave the family nest later in life.

### **The political implications of house price falls**

When house prices in the UK eventually fall, we are likely to ascribe that to a particular event, such as a fall in demand from the young adult population as a result of [migration patterns](#) altered by Brexit; or a change in demand away from city locations as a result of Covid-19.

Whatever the reason, we should remember that governments were actively forcing prices higher and higher in the first place. So when the fall comes, remember it was always going to happen and the trigger of the moment will not be crucial but coincidental. What though will happen politically when the fall happens?

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In the 1992 general election, the Conservative vote fell more in areas where home-buyers were experiencing negative equity than [anywhere else](#). This was not enough to ensure that the Conservative party lost that election. But the damage done to the confidence of Conservative voters contributed to some degree to the huge defeat the party suffered in 1997.

UK governments, and most obviously Conservative governments, try to prop up house prices because they are scared of the political implications of allowing them to fall.

For ordinary people 'the economy' means jobs, wages, the consumer price index and especially house prices. In the 2019 general election, 86% of Conservative seats had above average home ownership, compared to 82% of Liberal Democrat seats and only 26% of Labour seats.

It is likely that there will come a moment when prices will fall regardless of what a government does. In September 1989 it was the ending of that tax loophole called 'MIRAS for couples'. But it could be anything that does it.

For example, any government increasing social protection for tenants of private landlords could risk introducing the measure that triggers this fall – which might partly explain why the current government does not implement better rights for tenants.

Another possible trigger could be the effect of Brexit reducing inward migration, having other harmful economic consequences and reducing housing demand.

Once prices start to drop, confidence in the market can fall even faster. People might hold off from buying a house. Banks may become very wary of lending to landlords to buy more property and begin to worry about their balance sheets. At the extreme, a fire-sale may begin. That occurred in Japan in the early 1990s. In 2005 house prices in some parts of Tokyo were still only half what they had been in 1991!

What happens next, is extremely uncertain, even if the price falls are only small. Peoples' dreams begin to be dashed. Affluent couples dream of trying to buy a home only to find that sellers are not willing to accept the new, lower, market value. Tenants dream that their child does not have to move school only to find that their landlord is suddenly forced to evict them in order to reduce their property portfolio.

But the largest disappointment will be for people who thought that the property their parents owned, or that they had only recently bought, would be worth a given sum.

We only have a few examples of falling prices in the past, and each scenario is unique. But the big difference next time will be that the dashing of future inheritance gains for many individuals will be far greater.

A future government might seek to blame pessimists in opposition parties for the fall; or if there has been a recent change in government, it could blame the previous administration and its policies.

One recent commentator [suggested](#) that interest rate rises in future might slow price rises concluding that '[m]aybe rates will rise slightly over that time, but not by enough to trigger a housing crash. That cannot be allowed to happen: the economy and Tory politics say so.' However, that assumes that the market can be managed.

At times the market has a mind of its own.

## Conclusion

The social divisions of Britain, with the widest [income inequalities](#) in all of Europe (apart occasionally from Bulgaria!), are most clearly defined by housing.

Countries in Europe with much more equal income distributions tend to have far better housing policies and better housing outcomes. In an odd way, it may not be the banking crash of 2008, or Brexit, or Covid-19, that will have the most enduring impact on Britain this century. It may yet be the house price falls to come.

What else could drastically reduce our regional [economic divides](#), which are also amongst the widest in Europe? The current government's 'levelling up' [agenda](#) is little more than a cosmetic exercise with hints of pork-barrel politics.

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Finally, consider again the graph this article began with, but now re-drawn using a logarithmic scale. That scale ensures that equal percentage changes are represented equally on the vertical axis of the graph. The peaks and troughs are identical to the first graph shown above, of course, but the slope of the price curve is different to that previous graph.

On a log scale, a doubling of prices appears as an identical increase regardless of the actual prices. Looked at in this way, rises in housing prices have been slowing down over the entire 1973-2021 period.

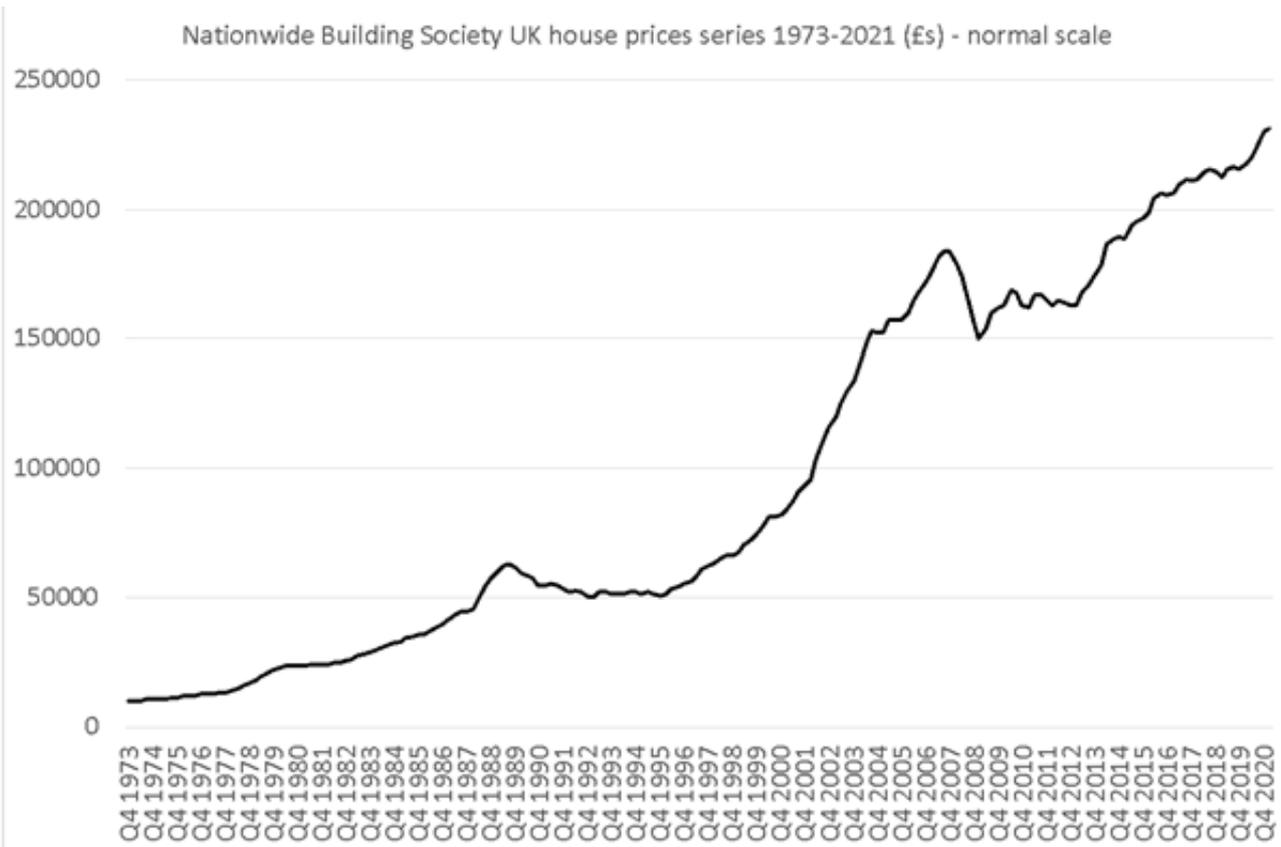
The graph is steepest in the late 1970s, when general inflation was also very high. Then again in the 10 years from 1980 to 1990, when prices increased by 150% in that decade. It took the 15 years to 2005 for prices to increase by 150% again. In the 16 years between 2005 and 2021 prices have 'only' risen by 50%, from £153,000 to £232,000.

What does this final graph portend? When house prices next stutter, or fall, or crash, the political implications may be even greater than they were in the years before the 1997 election and in the years before the 2010 election.

What may well be different next time is that they then never recover fully, and possibly (at some point) might even not keep up with general inflation. Who would then buy property as a speculative short or medium term investment, rather than as a home?

What a different country the UK might become. Perhaps a better one.

**By [Danny Dorling](#), Professor of Geography at the University of Oxford.**

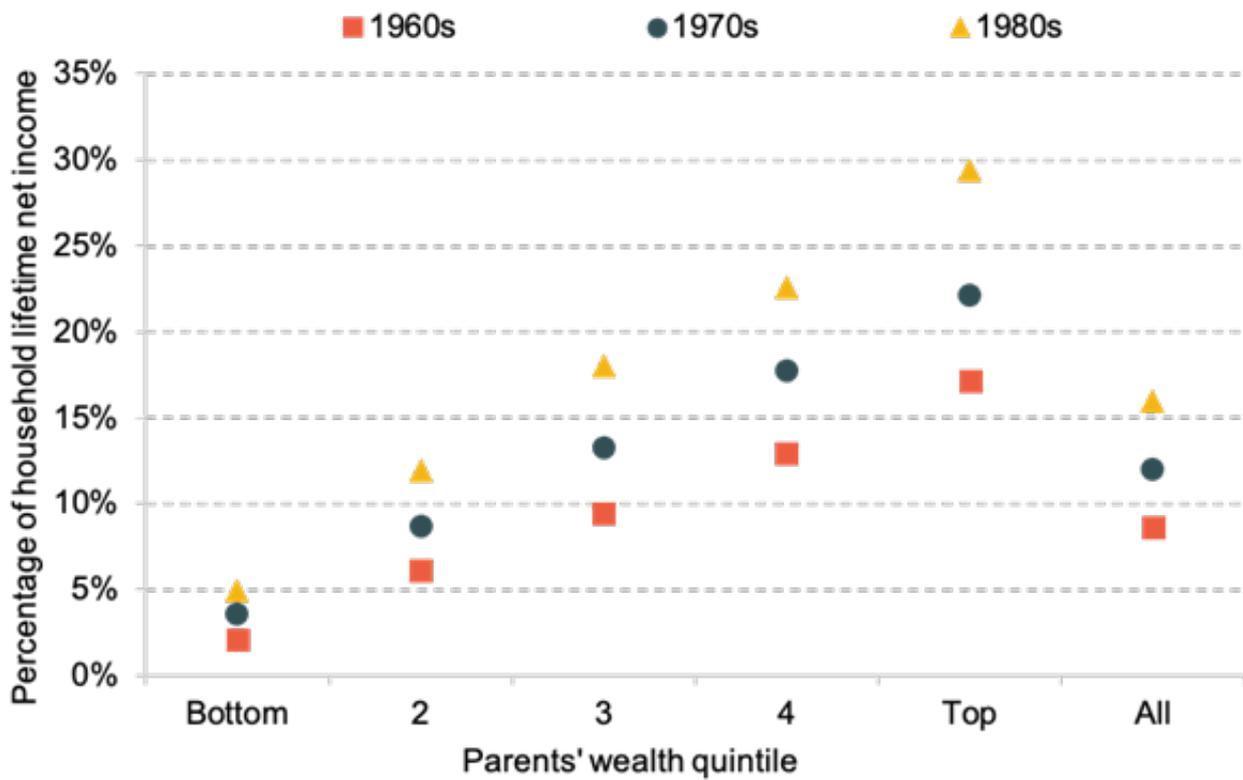


# Britain's Future





Credit: Carl Court / Staff / Getty Images





Credit: Nathan Stirk / Contributor / Getty Images

Nationwide Building Society UK house prices series 1973-2021 (£s) - log scale

