UK HOUSE PRICE INFLATION SINCE 1980: SOME CAUSES AND SOME IMPLICATIONS

Peter Ambrose
Health and Social Policy Research Centre
Brighton University
England

Abstract

An analytical critique of what has happened to UK property prices over the past 30 years has been presented to the Prime Minister (*Memorandum to the Prime Minister on Unaffordable Housing,* Z2K 2005). This paper will summarise the analysis and the policy recommendations.

There is firstly an urgent need for greater precision of language in the housing debate – especially in relation to the use of the word 'affordable'. There has been a sharp decline in the affordability of housing in the UK over the past two decades and especially since the early 1990s. The rapid increase in prices has been a factor in the similarly rapid increase the ratio of rent levels to earnings.

The house price inflation has been caused primarily by a flood of house purchase lending since the deregulation of the UK finance sector in the 1980s. Since then the total house purchase debt outstanding has risen to over £800bn. Had the debt reflected general inflation it would have been about £180bn. There has been a very restricted supply of housing for sale so there has been an obvious price effect. The rapid escalation in house prices evident in many EU and other countries may well be driven by similar mechanisms.

The damage is both economic and social. Labour mobility is impeded. Households are forced into heavy lifetime debt and have less to spend on food, recreation and pension provision with obvious adverse implications for health. Mortgage debts are often foreclosed following changes in life situations. Land prices are drawn up as a result of house price rises. And at a macro-economic level there has been a massive opportunity cost of the investment of over £600bn in house prices rather than in more productive investment avenues.

The solution must address the issue of regulating house purchase finance flows and ways of doing this are suggested.