

# Why are house prices so high?

The government wants more houses to be affordable. There is a particular shortage of affordable homes to buy in popular areas. The government has developed policies to help people save a deposit for their first house and to raise the mortgage finance necessary to purchase. This has now helped a lot of first time buyers. Its critics say it is a further self defeating boost to the prices of the properties people want to buy, though this is an unfair exaggeration.

House prices have been driven higher by the interplay of four main forces. First, the pursuit of easy money policies through QE and ultra low interest rates has allowed people to borrow much more relative to their income, allowing higher prices.

Second, the big boost to demand, as the country finds housing for a large number of new arrivals in the recent years of high net inward migration.

Third, the relatively low level of new building as a result of the crash at the end of the last decade and the cautious recovery from the slump by house builders concerned not to overcommit again.

Fourth, the concentration of demand for rent and for ownership in London, the south east and a few other locations of fast job growth.

A slower rate of advance in house prices, maybe encompassing a slow reduction in real prices, might help. A sudden house price fall would be bad for confidence and would set back building more homes.

In order to bring potential supply and demand into better balance the government does need to make progress with a new migration policy, and with its initiatives to get more homes built. There is some progress with more factory based manufacture and assembly of systems and parts of homes. The more that can be done in the factory, the less the time needed on site. It can raise quality, reduce weather interruptions and speed total construction time.

Slower money growth and higher interest rates could curb prices but would also prevent more people buying a home at all. Spreading new jobs and prosperity more equally around the country would help, as there are more affordable homes in the less pressurised parts of the UK.

In many locations there is plenty of scope to adapt old retail and commercial property to residential. It can be done by demolition and rebuild, or by adaptation and improvement. Many places need to change the shape and size of their shopping and business areas given the changing face of retail and business in the age of the internet.