The hidden man in fixing the housing crisis

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All eyes are on No. 11 Downing Street's newest resident, Rishi Sunak, after his shock takeover as chancellor – just a month away from the Budget – and yet another new housing minister. But there is another senior official the property industry should be watching closely this March: the new governor of the Bank of England.

Andrew Bailey, the former head of the Financial Conduct Authority, takes over at Threadneedle Street on 16th March – the week after the Budget (and MIPIM).

No doubt his primary focus will be on the City of London's future post-Brexit. Yet sooner or later, the new central banking chief will have to grapple with the legacy of ultra-low interest rates, the unintentional consequence of which has been to push up house prices, making housing unaffordable for many – as the bank's own research admits.

Risky business

A recent paper by the BoE put the blame for house price inflation squarely at the feet of decades of falling interest rates.

As interest rates have been slashed across the globe, money has poured into real estate, especially residential, in cities worldwide. Nowhere is this clearer than London.

Taking advantage of cheaper credit, investors have been snapping up property in search of assets that are secure and either offer higher or more predictable returns than other investments such as bonds and equities.

In theory, ordinary Brits should have benefited from cheaper mortgages too. But a decade of weak wage growth has made saving for a deposit impossible for many, while low interest rates have also undermined people's ability to save by eating away at their returns.

However, the answer isn't as simple as hiking interest rates. Although the BoE research estimates a one percentage point increase sustained over several years could cut prices by a fifth, for families used to low interest mortgage payments an increase in rates could put many in financial difficulty.

Then there is global macroeconomic climate. Trade wars, pandemics like the coronavirus and political uncertainty have already weighed down on world growth, and they could yet tip it over the edge into recession. To tighten monetary policy now would be risky.

New normal

The reality is that low rates are the new norm and the way we provide housing must shift to reflect this.

Fundamentally, we must deliver more housing across the board. Part of housing's attractiveness as an asset class – especially in places like London – is the promise of capital growth driven by demand outstripping supply, with more buyers than available properties. For cities particularly this is an acute problem as they typically have the best job opportunities, so people will always want to flock to them.

Increasing supply isn't simply a case of slashing red tape, however. We need to ensure planning authorities are properly funded and a more long-term strategic approach to housing delivery is taken while avoiding the pitfalls that have faced HS2, Crossrail and the third runway at Heathrow.

We need more genuinely affordable rental homes too, to take pressure off the private rented sector where high rents combined with low wage growth have limited people's ability to save.

Despite some criticism, the government should also continue to come up with solutions to get people on the housing ladder, such as public sector housebuilding programmes, shared ownership and also First Homes. Homeownership remains the aspiration of the majority, and it is right the government should try to meet that.

This isn't to say the Bank of England has no role to play. But if we are to fix this crisis, Downing Street and Threadneedle Street need to work together.

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